REPUBLIC OF KOSOVO
MINISTRY OF INDUSTRY,
ENTREPRENEURSHIP AND TRADE

KOSOVO FOOD AND BEVERAGES PROCESSING VALUE CHAIN STUDY

October 2023

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The report represents a value chain study, it has been drafted through in-depth interviews with sector SMEs along value chain functions. The viewpoint of the authors has been based on the collected data. The sample may be representative for capturing the dynamics of the market trends and the value chain; however, it might not represent a correct quantitative overview of the sector industry. The authors of the study cannot be accountable for any consequence that can arise from using the information in this report by a third party. There is no claim that the information presented in the report is entirely correct.

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List of Abbreviations

BiH	Bosnia and Herzegovina
BMO	Business Member Organizations
CEI	Council of European Investors
CEFTA	Central European Free Trade Agreement
CNC	Computer Numerical Control
ECIKS	Economic Initiative for Kosovo
EA	European Accreditation
ERP	Enterprise Resource Planning
EU	European Union
FDI	Foreign Direct Investments (FDI)
FVA	Food and Veterinary Agency
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
HS	Harmonized Commodity Description and Coding Systems
ECK	Economic Chamber of Kosovo
GAWB	Green Agenda for the Western Balkans
IADK	Initiative for Agriculture Development in Kosovo
ICMM	Independent Commission for Mines and Minerals
IPA	Industrial Property Agency
KAS	Kosovo Agency of Statistics
KBRA	Kosovo Business Registry Agency
KCC	Kosovo Chamber of Commerce
KIESA	Kosovo Investment and Enterprise Support Agency
KMA	Kosovo Metrology Agency
KMC	Kosovo Manufacturing Club
KSA	Kosovo Standardization Agency
MESPI	Ministry of Environment, Spatial Planning, and Infrastructure

MFLT	Ministry of Finance, Labor and Transfer
MFAD	Ministry of Foreign Affairs and Diaspora
MIGA	Multilateral Investment Guarantee Agency
MIET	Ministry of Industry, Entrepreneurship, and Trade
MSME	Micro, Small and Medium Enterprises
NACE	Nomenclature Statistique des Activités économiques dans la Communauté Européenne
NCEI	National Council for Economy and Investment
OECD	Organisation for Economic Co-operation and Development
OEM	Originally Equipment Manufacturers
R&D	Research and Development
SAA	Stabilisation and Association Agreements
SDC	Swiss Agency for Development and Cooperation
SME	Small and Medium Enterprises
TAK	Tax Administration of Kosovo
VTC	Vocation Training Centres
USAID	United States Agency for International Development

Executive Summary

The present report is one of several cluster mapping reports that take a closer look at selected key sectors in the Republic of Kosovo. The food and beverage sector are undergoing significant change due to the currently supply challenges as a result of Covid-19 or the Ukraine crises. Other drivers for this type of sector changes are the current food and beverage related market- and consumer trends as well as the ongoing industrial transformation.

The current industrial and economic snapshot reveals that the Kosovar food and beverage sector developed comparable well in the recent past. The main driver was the export. Between 2017 – 2021 high export growth rates of over 100% were achieved for beverages and processed food. The demand for Kosovar products from regional and European buyers remains high. As a result, the number of active companies has increased in the recent years (almost 1.500 companies) as well as the number of employees (almost 10.000). Based on interviews with 53 selected companies, the current production utilization significantly varies between the businesses with an average of 66%. Given the fact that such values are comparable low compared to other domestic key sector (e. g. the metal manufacturing sector revealed values of over 80% in 2021), it becomes clear that there is still an unused growth potential.

The lack of raw materials and skilled work forces, as well as the increasing cost of raw materials are short-term trends that are raising major concerns regarding the Kosovar future food and beverage industry. The study identified further barriers that might hamper the domestic food and beverage manufacturing sector from developing as promisingly as in the past:

- The food and beverage manufacturing sector is dominated by micro and small enterprises
- There is a significant shortage of knowledge about production technologies and related topics
- Despite the importance of exports, most businesses have very limited know-how about foreign markets and related consumer trends
- The food and beverage sector is challenged by unfair competition mainly form the informal sector
- There is a significant shortage of skilled workers available
- The institutional support landscape in the food and beverage sector is embryonic
- Food safety related policies and the market surveillance are not fully developed, which makes export activities more challenging and encourages unfair competition

Consequently, the value chain mapping report deducted the following recommendations, which are further specified in chapter 8.

Recommendation 1: Introduction of skills development support schemes

Recommendation 2: Development of a food and beverage cluster

Recommendation 3: Setting-up a voucher system to stimulate firm-level innovation and digitalization

Recommendation 4: Streamline the export promotion support landscape

Recommendation 5: Setting-up and implementation of an innovation fund

Recommendation 6: Stimulation innovation and entrepreneurship through support of start-ups

Recommendation 7: Setting-up an investment fund to production renewal and production increase

Recommendation 8: Reduction of dependency of raw-material from abroad

Recommendation 9: Improvement of trade and food safety related policies

In case the recommendations are consequently turned into practice, the domestic food and beverage sector will significantly increase its long-term competitiveness and be well prepared for the upcoming challenges connected with the industrial transformation processes as well as the supply chain disturbances, which will likely last for the next years.

Introduction

The food and beverage industry are an extremely relevant sector for Kosovo. The value mapping study counted around 1.500 companies with almost 10.000 employees. Most relevant parts of the value chain of the food and beverage industry are covered by the purchase of private sector representatives from Kosovo. It is not a surprise that domestic raw material supply plays an important role since a significant share of local food and beverage producers buy locally.

Nevertheless, the global food and beverage sector is significantly under transformation due

- to currently supply challenges as a results of Covid-19 or the Ukraine crises
- to significant current food and beverage related market- and consumer trends, and
- due to ongoing industrial transformation.

The Kosovar food and beverage industry is highly exposed to the challenges mentioned above. But there is also a high potential to turn these challenges into a competitive advantage. The current Ukraine crisis as well as the clear trend towards shortening existing value chains provide a good growth prospective for this sector. European buyers are becoming more interested to source from West-Balkan than from over-seas, where possible. High quality and smaller producers also matter, when it comes to organic production, which is also increasingly requested by international buyers.

The present value chain mapping report is an important part of interventions from the Ministry of Industry, Entrepreneurship and Trade of the Republic of Kosovo (MIET) and Deutsche Gesellschaft für International Zusammenarbeit (GIZ) GmbH in order to support the competitiveness of selected industrial sectors. The food and beverage sector is of major concern, and not only because of the importance of the sector. The integration of Kosovo's food and beverage producers into the European Union (EU) or global supply chain will offer a great opportunity for growth, innovation, and increased competitiveness. The Kosovar food and beverage industry needs to be aware of this if it intends to stay competitive and remain an important partner in global value chains.

Within the scope of the study 53 businesses have been selected for the survey's interviews. The sample has been selected based on the structure of the local food and beverage industry.

The findings and conclusions of this report identify missing links, main gaps, and constraints along the selected value chain. The report also provides observations and considerations that should be taken into account in the upcoming policy interventions.

1. Methodology

The value chain mapping report explores the critical success factors of the respective value chains to gain insight into the related gaps and to understand the primary drivers of value chain development. To provide an in-depth value chain analysis of the food and beverage processing industry, the research team has applied a structured methodology. The analysis is conducted in the stages elaborated below.

Firstly, the research team has analysed secondary data, by examining published reports/studies relevant to the sectors and the context, and studies and reports covering global economies. This step has allowed the team to portray a respective map of each sector. The value chain map provides a graphical structure depicting how a product in an industry moves from raw material through aggregation, processing, and other steps until the product/service eventually reaches the final consumer. The map highlights the range of activities that occur within the value chain.

Secondly, the research team has analysed the trade data of the respective sectors, to better understand market dynamics, domestic demand and growth trends and competitiveness of domestic micro, small and medium enterprises (MSMEs) in the export markets. Data from the Kosovo Agency of Statistics (KAS) and Kosovo Customs data represent the main sources.

Thirdly, the research team has developed a sample of food and beverage processing firms for the survey's interviews, and 53 companies have been sampled in this way. The sample has been selected based on the structure of the sector MSMEs. The sample of food and beverage sector enterprises is not comprehensive of all related sectors. The research team, in close coordination with the representatives of MIET and GIZ, have narrowed the list of food and beverage-related sectors, where large industries such as dairy, meat and bakeries have been left out intentionally. This has been done primarily due to the limitations presented by the sample size to understand these large sectors. Therefore, the findings of primary research provide an overview of dynamics and trends for an exhaustive list of related sectors as follows:

Table 1: List of targeted food sectors through primary research

Production of soft drinks and bottled water
Production of grapes wine
Distillation, refining and combination of beverages
Processing of spices and sauces
Manufacture of pasta, spaghetti and similar flour products
Production of biscuits and biscuits, production of canned pastries and cakes
Processing and other canning of fruits and vegetables

Fruit and vegetable juice processing
Potato processing and canning
Processing of other food products

The sample provided the required threshold for conducting the required empirical analysis, as it provided a minimum number of observations for the sample distribution to tend to approximate normal distribution.

Fourthly, the research team has implemented interviews with 53 firms that well represent the entire sector. Compilation of a structured dataset, such as data cleaning, double-checking in case of errors, and value chain analysis based on the analysis of data has been conducted afterwards.

Finally, to triangulate information, the research team has conducted a validation workshop with stakeholders in August 2022 representing relevant institutions, including sector associations, relevant national institutions, and other relevant actors. As value chain studies are based on qualitative and quantitative data analysis, the methodology is robust for providing valid market trends and value chain analysis.

2. Global Trends in Food and Beverage Industry

This chapter is presenting global food and beverage trends. Some of them are more short-term, others will likely become relevant in the future. Despite that fact that not all of them become relevant for the Kosovar society, they will likely become relevant in Europe. Due to the fact that the food and beverage sector is very export oriented, being aware of these trends is relevant for Kosovar companies doing export.

In general, there are twelve megatrends, known as "the great drivers of change"[1], which have a more or less pronounced relationship to the food and beverage industry. They can be divided into four groups based on the following sub-trends:

- Consumer-oriented megatrends: individualization, health and knowledge culture
- Production-oriented megatrends: globalization, neo-ecology, urbanization and mobility
- Security-oriented megatrends: security and connectivity
- Overarching megatrends: New Work, Gender Shift and Silver Society

In the following, the most relevant sub-trends and their expected impact on the food and beverage industry are described. Some of the sub-trends impact the industry already, others are expected to be relevant during the next years. These sub-trends will also have a different impact on the domestic demand and related consumers in Kosovo, but since the Kosovar food and beverage industry is looking for new export markets, all these sub-trends are of related relevance.

2.1 Consumer-oriented Megatrends

Individualization

Individual lifestyles have multiple effects on the food and beverage industry in general. A more conscious lifestyle increases the demand for personalized food and drinks, such as protein-rich foods for athletes, and age-appropriate products for children, older people, or pregnant women. The rejection of mass products, such as frozen pizzas or canned ready meals, affects traditional food segments and leads to their transformation. A few years ago, convenience food was still associated with ready-made meals and an unhealthy diet. An image change can now be seen here. New convenience products are partly also seen as fresh and healthy, and the product range has already expanded and diversified considerably in this field[2]. Above all, small manufactories with regionally and seasonally assembled products are more in demand.

1 https://www.zukunftsinstitut.de/dossier/megatrends/

2 B. Nitsche, A. Fiegel, 2018, Future trends in food logistics – challenges and strategies, Technical University Berlin, https://depositonce.tu-berlin.de/handle/11303/5451

Individualization is also changing food production and trade. Workplaces and working hours demand flexible solutions. At the same time, individual products require more small-scale manufacturing processes and flexible small-scale production, which master craftsmen and small, specialized companies can serve better than food factories geared towards mass production. This opens up new markets for niche products from start-ups.

Food and beverage manufacturers in Europe are currently faced with the challenge of meeting consumer demand for individualized, high-quality products[3]. Instead of competing in the low-price segment, many manufacturers are paying attention to meeting consumer demands for better product quality and individualized food products, thus developing unique selling points. Nevertheless, price pressure remains high. At the same time, many consumers are struggling with the conflict between the willingness to pay prices on the one hand and the demands for sustainable products.

Health

Health is an important topic in society and is reflected in nutrition. The change processes initiated by the health megatrend - in particular, the move away from classic meat products towards vegan and vegetarian alternatives - are changing the market and are perceived as disruptions to the food and beverage industry. New players developing novel foods and beverages represent competition for established companies, which will intensify as new production methods are developed. After the meat and dairy substitutes, similar disruptions will affect the cheese, whole egg, fish and animal feed markets in the future. These are driven on the one hand by consumer demand and are often justified by sustainability aspects. At the same time, there is corresponding pressure to adapt on the producer side, which is driven by demand and the associated sales market in the reduction of costs - the production of vegetarian meat substitutes is much more cost-efficient than that of classic products - and, together with active climate protection in production, also offers opportunities.

The composition of the new and novel foods and beverages is problematic. Currently, they often contain a large number of ingredients to be able to compete with established products in terms of taste. The trend is therefore towards clean and functional food and drinks, i.e. the use of only a few ingredients with the simultaneous addition of vitamins and minerals to compensate for the lack of natural ingredients[4].

Knowledge Culture

This trend is not yet very pronounced in nutrition and is partly contrary. With the increasing industrialisation of food and beverage production and the wide range of ready-made products in supermarkets and online shops, knowledge about food and beverages and their preparation is being lost; especially in urban areas, many consumers have lost touch with food production. Even though there has been a recent trend towards cooking at home, this is not the case among the poorer and less educated sections of the population. The variety of self-prepared dishes is decreasing, and the knowledge about them is no longer being passed on to future generations[5].

3 G. Meier zu Köcker et al, 2022, Food Cluster Study Hamburg, https://www.hamburg.de/contentblob/16204992/9ecaeac45dc-da45121d98a6f5ff8b895/data/studie-food-cluster-hamburg.pdf

4 Austria Juice, 2022, https://www.austriajuice.com/news-blog/the-top-trends-on-the-beverage-market

5 Robert Koch Institut: Health Monitoring, https://www.rki.de/DE/Content/ Gesundheitsmonitoring/Themen/Uebergewicht_Adipositas/Uebergewicht_Adipositas_node.html#:~:text=Zwei%20 Drittel%20der%20M%C3%A4nner%20(67,ist%20stark%20 %C3%BCbergewichtig%20(adip%C3%B6s)

2.2 Production-oriented Megatrends

The production-oriented megatrends of globalisation, urbanisation, neo-ecology and mobility have a strong impact on corporate development and firm-level strategies. They address the changes in the sourcing of raw materials on the one hand and the importance of local brands on the other.

Globalisation

The increase in global interdependencies in the areas of economy, politics, culture, environment and communication, between individuals, societies, institutions and states, has also increasingly affected agricultural markets in recent decades. Multinational companies, but also medium-sized agribusiness enterprises, invest directly in other countries or enter into various forms of participation. Globalisation and regionalisation are thus not contradictory[6].

Globalisation and localisation influence and promote each other, and at the same time, population growth leads to the reorganisation of processes, spaces and offers. As a result, regional food and beverage culture is increasingly influenced by global developments and traditions of other food cultures. Snacking, for example, is an expression of modern food culture and has its roots in the Spanish tapas culture and Levantine mezze - in other words, in food cultures where small, varied dishes and snacks have a long tradition.

Short, direct and transparent supply chains go beyond the already established "fair trade". Company locations close to the market and production sites are taking the place of "Made in China"[7]. The concept of "local food and beverage" connects food and beverage producers with consumers in the same geographical region, enabling supply chains independent of the supermarket system and resilient networks. Innovative players go even further and focus on new proximity to nature by using seasonally available source products as well as local recipes and by daring to experiment with non-agricultural products (wild food).

Urbanisation

According to United Nations projections, the world population is expected to reach 8.5 billion in 2030 and almost 10 billion in 2050[8]. By then, 70% of people will also live in cities, and the number of megacities with more than 10 million inhabitants will also have increased. The desire to bring nature into the city can also be observed in the private sphere and is already expressed in community urban gardening initiatives, among others[9]. These include all gardening activities that take place on the balcony or in free urban spaces. Other indoor farming concepts reduce the size so much that they can work directly in the supermarket (e.g. the Berlin start-up Infarm or the supermarket that has a greenhouse for growing herbs on the roof)[10].

The global market for vertical farming is currently estimated at over €2.7 billion[11]. It has a projected annual growth rate of 25% and is expected to reach around €10 billion as early as 2026. Of the global key players for vertical farming, one is located in Holland (Signify), two in the US (Freight Farms and AeroFarms) and

6 G. Meier zu Köcker et al, 2022, Food Cluster Study Hamburg, https://www.hamburg.de/contentblob/16204992/9ecaeac45dc-da45121d98a6f5ff8b895/data/studie-food-cluster-hamburg.pdf

7 S. Kapadia, 2021, After years of 'Made in China,' supply chains consider alternatives | Supply Chain Dive,

8 https://de.statista.com/statistik/daten/studie/1717/umfrage/prognose-zur-entwicklung-der-weltbevoelkerung/

9 https://www.pflanzenforschung.de/de/pflanzenwissen/lexikon-a-z/urban-gardening-10111

10 see www.infarm.com

11 for further information about vertical farming, see https://netled.fi/

one in Singapore (Sky Greens). Together with vertical densification, cities are developing into political, cultural and economic centres in which urban manufacturing is (once again) becoming attractive as a business model, which in the long term counteracts the desolation of city centres. The demand for high-quality handicraft products for daily needs is increasing, and at the same time, in addition to the trend towards online retailing, a pronounced trend towards small shops for daily needs in the direct vicinity of the customers is also developing[12].

Neo-ecology

The megatrend neo-ecology describes the major social change process towards a resource-efficient, sustainable economy and thus combines ecology with economy. With "Fridays for Future", a global environmental movement has put the issues of climate protection and sustainability at the top of the political, economic and also overall social agenda in recent years. In the coming years, these demands must be put into practice.

In these processes of change, the food and beverage industry is a kind of indicator industry for social change processes and trends, because it is primarily here that new lifestyles and their new products, services and business models can be observed via consumers and their success measured. Resource scarcity affects many factors. Limited availability of land, for example, and rising costs per unit of land affect both the production of raw materials and their processing into food and drinks. Sustainable production requires certainty regarding the production location and is a prerequisite for high investments in sustainable production. Other significant factors are the rising cost of energy and the increasing scarcity of water worldwide[13].

When buying food and beverages, consumers are increasingly paying attention to their origin. Sustainability aspects are also playing an increasing role in the transport of food and raw materials by ship and can be positively influenced by technical innovations. Not only due to demand, but the method of production is also coming into focus. Raw materials, the production of which requires the clearing of forests that are vital to the earth, are avoided, as are energy sources that are not sustainable. Technological innovations make an important contribution to increasing efficiency and minimising resource consumption. As far as possible, "residual materials" are reintegrated into production cycles within the framework of the circular economy[14].

2.3 Society-oriented Megatrends

The society-oriented megatrends Gender Shift and Silver Society can be regarded as overriding in the context considered here because they do not affect the food sector, explicitly different from all other economic sectors. Specific characteristics can only be identified to a limited extent.

12 B. Nitsche, A. Fiegel, 2018, Future trends in food logistics – challenges and strategies, Technical University Berlin, https://depositonce.tu-berlin.de/handle/11303/5451

13 Markets and Markets, Vertical Market Farming, 2021, https://www.marketsandmarkets.com/Market-Reports/verticalfarming-market-221795343.html?gclid=CObdtYPc1tYCFYE4GwodmZkDUw

14 T. Cigut, M. McManus, M. Dermastia, 2022, Impacts and Potentials of the Ukraine Crisis on Supply Chains Development for the Danube Region, Danube Alliance, DOI: 10.13140/RG.2.2.17378.20161

Gender Shift

The megatrend gender shift describes a change in traditional gender roles and family structures towards more diversity. New forms of part-time, parental and care leave that go hand in hand with this are having an impact on the labour market[15]. For companies, gender-insensitive marketing is becoming a challenge and harbours opportunities and risks in equal measure. At the same time, entire lifestyles are changing due to the shift in roles in families and the professional environment. In addition to changing cooking, eating and shopping habits, the preparation and eating itself are taking on a new significance and are perceived as a family, cultural and social event.

Silver Society

The megatrend Silver Society picks up on demographic change. People are not only getting older and productive for longer, but they also do not want to give up working life prematurely. Thus, the situation of older people in the labour market has changed considerably in recent years. The labour force participation of 60-64-year-olds has increased more than in any other age group: it has risen from 41% (2010) to 61% (2020) in the last ten years. But even beyond retirement age, the proportion of people in employment has almost doubled in a short time. In 2010, only 9% of 65-69 year-olds were still working. In 2020, the share was 17 %.[16]

Companies, including those in the food and beverage industry, are faced with the challenge of qualifying long-serving employees in such a way that they do justice to their role and are not inferior to young graduates. At the same time, the food industry is also struggling with a lack of skilled workers as well as a lack of young talent, especially in the trades. For the food industry, this means approaching potential employees accordingly and increasing efforts to make it more attractive.

2.4 Security-oriented Megatrends

The security-oriented megatrends of connectivity and security describe the digital disruption that permeates all areas of life and industries equally[17]. For production, trade and logistics, these are currently the security and transparency of supply chains. Both sub-trends are strongly interwoven, whereby connectivity through block chain technology as a decentralised storage option for transactions within a network represents a solution to the challenges mentioned in the security megatrend, as it enables the desired transparency with simultaneous anonymity.

15 https://www.zukunftsinstitut.de/dossier/megatrends/

16 Federal Statistical Office (Destatis 2022)

17 https://www.zukunftsinstitut.de/dossier/megatrends/

Connectivity

Digital disruption is currently taking place in the food sector, which was further accelerated by the lockdown during the Covid-19 pandemic[18]. Platform-based economy for the exchange and provision of goods and services as well as sharing economy represent a leitmotif of consumers and do not only affect online retail and delivery services, but also wholesale is experiencing changes related to online and direct sales. This process began even before the Covid- 19 pandemic and was accelerated by it. Digitalisation has established new business models that further intensify the already fierce competition in the food industry. In online retailing, food and beverage manufacturers are already well entrenched: Almost two-thirds (63%) have online sales and 66% intend to expand them in the next three years. Although only 32% of all manufacturers have their online shop, 59% are planning to expand it or set it up[19].

For the relationship between companies and end consumers as well as for wholesale and food production customers, many digital solutions exist for networking with a range of ordering apps that (can) make every day work more efficient and cost-effective. A recent study pointed out that the food industry in Germany assesses digitalisation as an opportunity to establish a direct line with consumers[20]. With its help, direct orders become efficiently possible, bringing producers and consumers closer together. Networked production creates the technological basis for producing increasingly individualised food and beverages at reasonable costs.

Security

Taste is the most important criterion for food purchases for 45% of EU consumers, closely followed by food safety with 42%. The origin of the food is important to 34% of consumers, and personal ethics and beliefs guide 16% in their choice of food products.

The customer desire for more transparency across the entire supply chain and the associated increase in demand for regional and seasonal foods represent important trends in the view of many companies[21]. Responsibility and ethics are recognised as important purchasing arguments. The transparency of the product composition and the underlying supply chains builds trust with the customer. Appropriate marketing with credible arguments gives companies the chance to differentiate themselves from others. At the same time, supply chain transparency brings with it extensive requirements for the value chains of food production and logistics networks and presents manufacturers with enormous challenges. These can be increasingly better served or solved through digitalisation, especially through the use of identification and information technologies (tracking and tracing, ERP and monitoring systems)[22]. According to the DLG Trendmonitor Europe 2021, the focal points “traceability and transparency” have been implemented most strongly by the companies in the context of digitalisation (60 %) or implementation is planned in the next three years (39 %)[23].

Other aspects of the safety megatrend address food safety, which is served by a wide range of legal requirements and regulations in the European Union[24]. Safety needs on the part of companies about location and workers about income have a strong connection to the megatrends neo-ecology and new work.

18 Megatrend Connectivity, https://www.zukunftsinstitut.de/dossier/megatrend-konnektivitaet/

19 DLG Competence Center Food 2021; https://www.dlg.org/en/food/topics/dlg-expert-reports/food-technology/extrusion

20 SB-System AG, 2018, Digitalization: Opportunity or Challenge for the international food and beverage industry, CSB-System AG. Geilenkirchen.

21 B. Nitsche, A. Fiegel, 2018, Future trends in food logistics – challenges and strategies, Technical University Berlin, https://depositonce.tu-berlin.de/handle/11303/5451

22 ibid

23 DLG Competence Center Food 2021; https://www.dlg.org/en/food/topics/dlg-expert-reports/food-technology/extrusion

24 https://www.bmel.de/DE/themen/verbraucherschutz/ansprechpartner-unternehmerfragen.html

3. Kosovo Industry Snapshot

Collecting accurate data and estimating performance on Kosovo's manufacturing sectors is challenging, particularly due to the lack of availability of official statistics, disaggregated per specific industries. This is valid both for output and employment data. This study has been based on both primary and secondary research, where besides the survey with sector companies, existing studies have been examined and official data have been collected in order to assess the trends estimate the size and performance of the food and beverages sector in Kosovo. Among the main sources used by this study are MIET and KAS.

The data provided by KAS and MIET reveal that the food and beverages sector continuously grew over the past years. The total number of active businesses was 1,443 in 2020 while the sector's turnover in the formal market in that year reached almost €440 million which is an increase of 97% compared to the year 2018 (Table 2). In addition, the number of active firms has also increased over time; the number of firms increased by 8% during this period (2018 – 2020). Moreover, the data also show that the level of employment broadly followed the output trend. This suggests an improvement of the sector at an intensive rather than extensive margin; employment in 2020 increased by 59% compared to 2018.

Table 2. Size of the Food and Beverages sector in Kosovo (2018-2020)

Year Indicator	2020	2019	2018
Number of active firms	1.443	1.234	1.333
Number of employees	9.905	8.548	6.234
Total turnover (€)	438.190.004	380.436.837	223.632.981

Source: KAS, MIET (2021)

Profile of Sector Companies

The aggregate data published by relevant authorities presented in Table 3 show the upward trend of active firms in the food and beverages sector. According to the data published by MIET and KAS, the number of active firms is smaller than those already registered and have the "active" status in the business registry.[25] Based on the Kosovo Business Registry Agency (KBRA) evidence, around 180 firms have been closed or temporarily exited the market.

25 Data obtained by the business registry published by the Kosovo Business Registry Agency https://arbk.rks-gov.net/page.aspx?id=1,42

Table 3. The industrial structure of firms in the Food and Beverages sector

Division (Sector)	Group (Industry)	Class (Industrial sub-sector)
Manufacture of food products	Processing and preserving of meat and production of meat products	Processing and preserving of meat
		Processing and preserving of poultry meat
		Production of meat and poultry meat products
	Processing and preserving of fruit and vegetables	Processing and preserving of potatoes
		Manufacture of fruit and vegetable juice
		Other processing and preserving of fruit and vegetables
	Manufacture of vegetable and animal oils and fats	Manufacture of oils and fats
	Manufacture of dairy products	Operation of dairies and cheese making
		Manufacture of ice cream
	Manufacture of grain mill products, starches and starch products	Manufacture of grain mill products
		Manufacture of starches and starch products
	Manufacture of bakery and farinaceous products	Manufacture of bread; manufacture of fresh pastry goods and cakes
		Manufacture of rusks and biscuits; manufacture of preserved pastry goods and cakes
	Manufacture of other food products	Manufacture of cocoa, chocolate and sugar confectionery
		Processing of tea and coffee
		Manufacture of condiments and seasonings
Manufacture of beverages	Manufacture of beverages	Distilling, rectifying and blending of spirit
		Manufacture of wine from grape
		Manufacture of cider and other fruit wines
		Manufacture of other non-distilled fermented beverages
		Manufacture of beer
		Manufacture of soft drinks; production of mineral waters and other bottled waters

Source: Kosovo Business Registry Agency (KBRA, 2022)

The Food and Beverages sector in Kosovo is organised into eight main sub-sectors (industries) that stem from two main divisions in the NACE nomenclature ('Nomenclature statistique des Activités économiques dans la Communauté Européenne'), namely manufacture of food products, and manufacture of beverages (Table 2). The first category, processing and preserving of meat and production of meat products, mainly includes firms (94 active firms as of 2020) in the production of meat products primarily for the domestic market since exports in the EU and most of the Western Balkans countries are not allowed due to complex phytosanitary requirements. In the second category, processing and preserving of fruits and vegetables, there are 51 active firms mainly engaged in the production and processing of different jams and juices. There are only 5 companies engaged in manufacture of oils and fats. The largest industry (sub-sector) in this classification is the manufacturing of grain mill and starch products, with around 900 active firms.

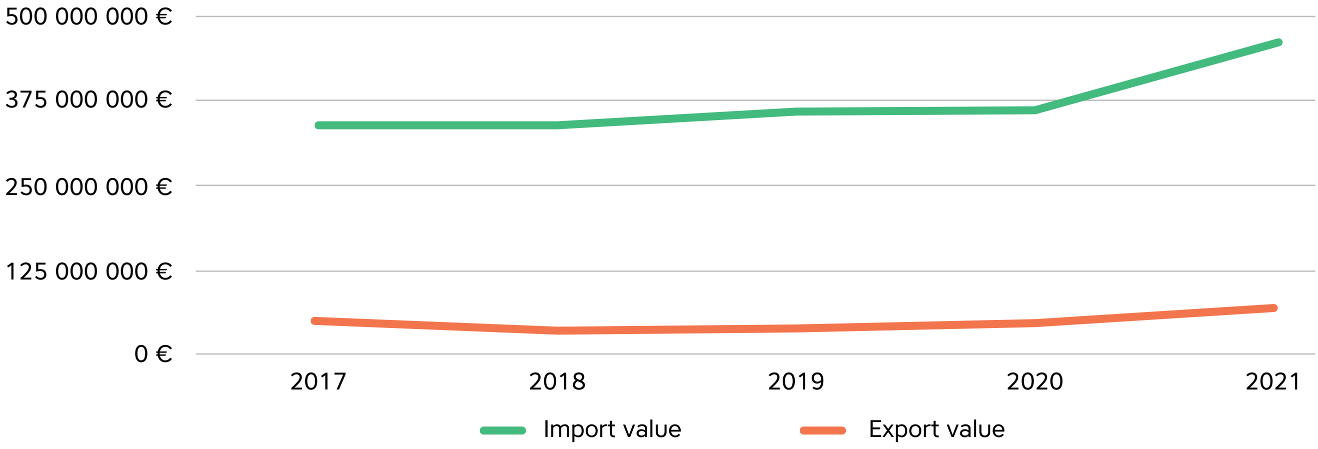
The second division of firms in the Food and Beverages sector, includes only manufacturing firms of beverages and is more exposed to the export markets. There are around 74 active firms (as of 2020) although 385 firms were registered in this division. Assuming that the data from MIET and KAS accurately reflects the sector, it can be assumed that the majority of these firms are either closed, inactive, or currently operate in informal markets. Manufacture of soft drinks, production of mineral waters and other bottled waters, is the largest sub-sector with 36 active firms out of 195 registered firms followed by distilling, rectifying and blending of spirit and manufacture of wine from grape, with 17 respectively 13 active firms.

3.1 Kosovo Food and Beverage Sector Trade Trends

This section analyses the Kosovar Food and Beverage sector trade trends. It has to be noted that statistical data available in Kosovo are partly inconsistent. The data used in this study are coming from two different sources. While data shown in Figure 1 - 4 in this section are based on the Kosovo Customs Data, value chain analysis are based on the survey data.

Export levels in the food and beverages sector have grown constantly during the past five years. This trend was marked by a particularly higher growth during last year, with over 26% growth in the real value of exports (net-weight). As presented in Figure 1, from around €43 million in 2017, overall food and beverages related exports have reached around €56 million in 2021 (an increase of around 23%). Imports of food and beverages have also shown a similar growth trend, from around €335 million in 2017 to around €465 million in 2021, or around 28%). As observed by the exports and imports trends shown in Figure 1, both in terms of value and net-weight, it is obvious that import prices have an increasing tendency compared to export prices. This indicates for increased price competitiveness of Kosovar food and beverages in the export market.

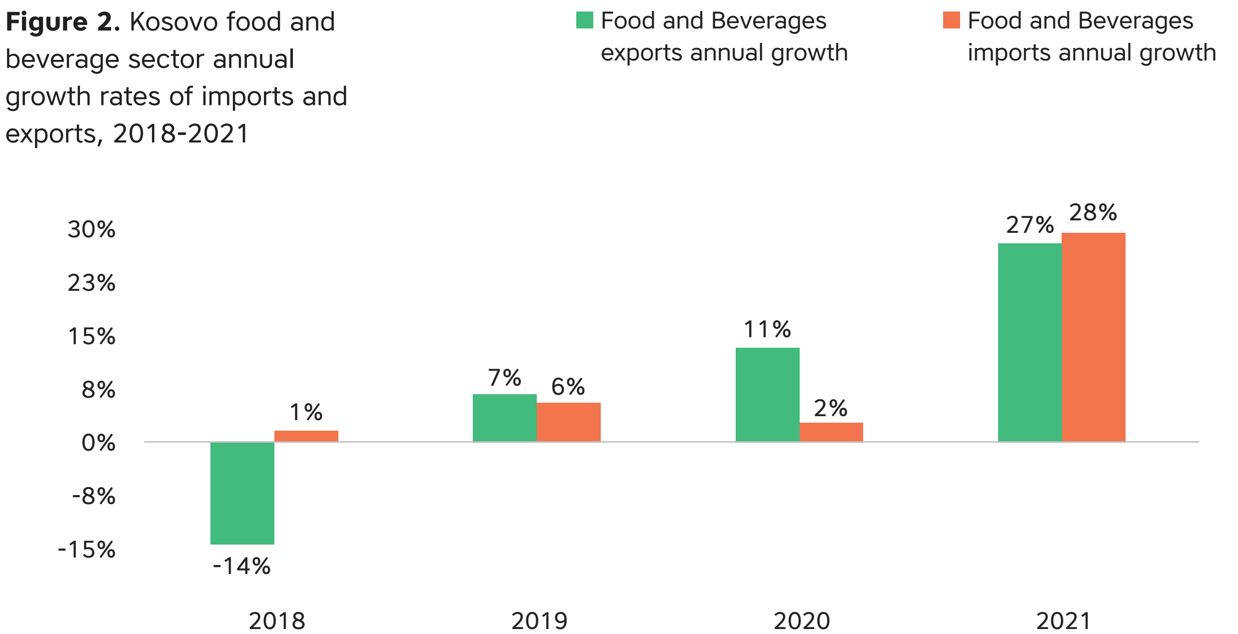
Figure 1. Kosovo food and beverage sector annual value and net weight of imports and exports, 2017-2021



Source: Author’s calculation, Kosovo Customs Data

The growth trend (Figure 2), food and beverages exports show a promising outlook, with a continuous increase in export growth rate, with an average of 15% over the last three years. A similar trend is observed in the growth of imports, but with a relatively lower growth rate of around 12%. A sharper growth is recorded in 2021 for both exports and imports, but with a significantly higher real growth in exports (Figure 1). These changes are mainly affected by the changes in the global supply chain due to the effects of the Covid-19 pandemics and the war in Ukraine[26].

Figure 2. Kosovo food and beverage sector annual growth rates of imports and exports, 2018-2021



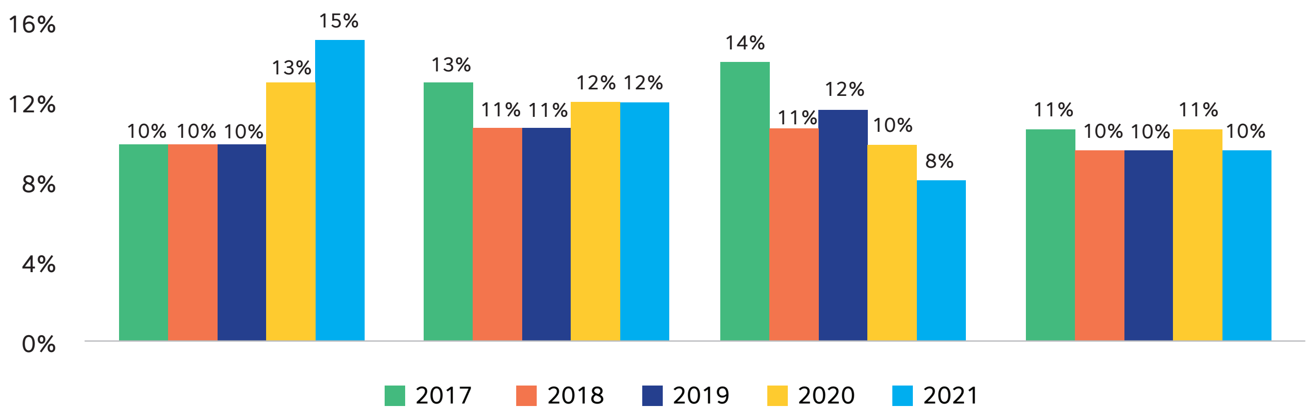
Source: Author’s calculation, Kosovo Customs Data

26 OECD, 2021, Multi-dimensional Review of the Western Balkans Assessing Opportunities and Constraints, OECD, https://doi.org/10.1787/4d5cbc2a-en

The ratio of food and beverages exports to imports has varied between 12% and 14% in the last five years, but with a growth trend between 2018 and 2021 (Figure 3). The food and beverages sector exports are catching up with imports but at a slower pace, showing a significantly slower trade balance improvement compared to the overall country trade trend, as total Kosovo exports to imports rose from around 10% in 2017 to only around 15% in 2021.

Despite the growing exports of food and beverages in the last five years, trade data show a declining share in overall exports, declining from around 14% in 2017 to 8% in 2021. This indicates for a higher relative growth trend in exports of other sectors. On the other hand, the share of food and beverages imports in total imports is stable throughout the years, accounting for around 10% - 11% of overall Kosovar imports.

Figure 3. Kosovo food and beverage sector, market trends, 2017-2021



Source: Author's calculation, Kosovo Customs Data

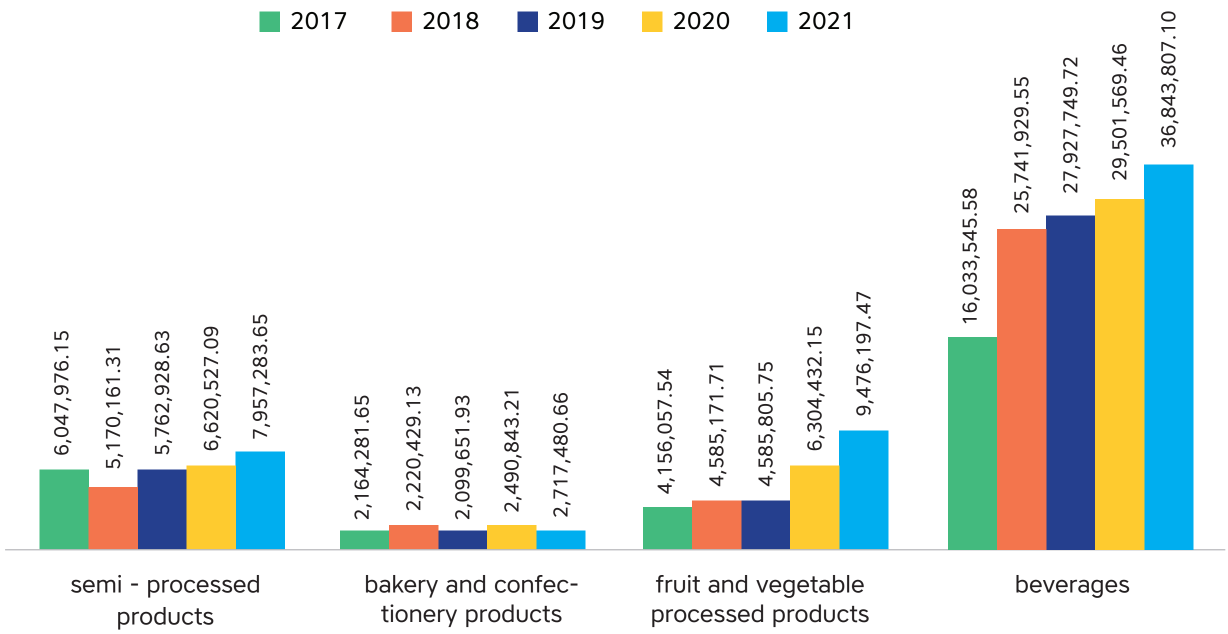
For a more detailed analysis of the food and beverages trade dynamics, the main subsectors are examined. The subsectors are defined and analysed following the product codes used by the Kosovo Customs, which are harmonised with the United Nations International Trade Statistics, the Harmonized Commodity Description and Coding Systems (HS). As per the HS coding system of Kosovo Customs, the following groups were analysed;

1. Semi-processed products of:
The milling industry; malt; starches; inulin; wheat gluten
Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder
Lac; gums, resins and other vegetable saps and extracts
Vegetable plaiting materials; vegetable products not elsewhere specified or included
Vegetable fats and oils and their cleavage products; prepared edible fats;

2.Bakery and confectionary products:
Sugars and sugar confectionery
Cocoa and cocoa preparations
Fruit and vegetable processed products:
Preparations of vegetables, fruit, nuts or other parts of plants
Miscellaneous edible preparations
3. Beverages:
Beverages, spirits and vinegar

Figure 4 below shows export trends by subsectors, between 2017-2021. Continuous growth is clearly indicated by two product categories, namely beverages and fruit and vegetable processed products.

Figure 4. Kosovo food and beverage sector exports, by subsector, 2017-2021



Source: Author's calculations, Kosovo Customs Dataset

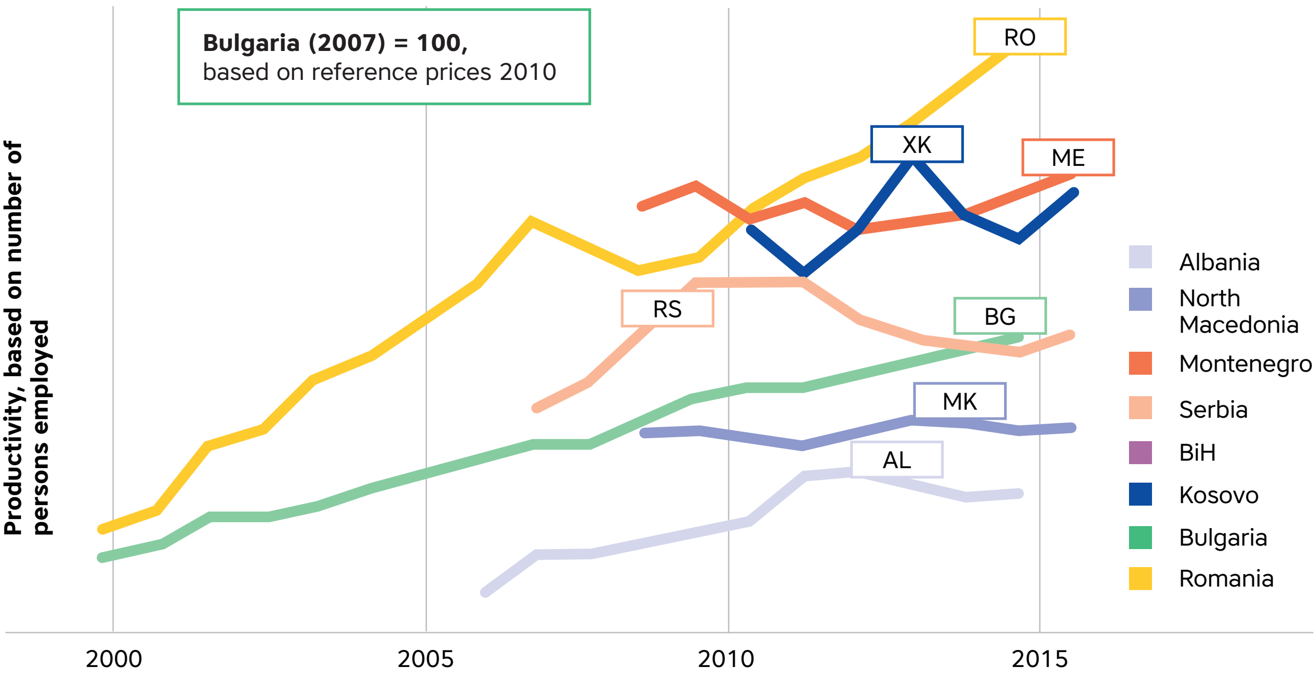
Beverages have recorded a positive net exports growth trend, from around €16 million in 2017 reaching to around €37 million in 2021 (+125%). A similar growth trend is observed in processed fruits and vegetables, growing from around €4 million in 2017 to around €9 million in 2021 (+131%). Semi-processed products represent a subsector with a slightly lower rate of growth in exports, reaching around €8 million in 2021 from a lower base of around €6 million in 2017. Similarly, Bakery and Confectionary related products have reached around €2.7 million in exports in 2021 from around €2.1 million in 2017. These observations reveal that value added food and beverage products manufactured in Kosovo meet the international demand and are requested by various clients.

A growth trend is observed also in imports in all subsectors, but with a relatively lower growth rate, with bakery and confectionary products and beverages accounting for around 60% of all imported food and beverages in Kosovo.

3.2 Productivity and Competitiveness Analysis with Selected Peers

The competitiveness of Kosovo producers depends on the productivity of quality offered by their competitors in the region and beyond. Looking at the region in particular, our findings suggest that food and beverages producers are mainly competing with producers from Albania, North Macedonia and Serbia.

Figure 5. Productivity levels, total economy



Source: wiiw Western Balkan Productivity Database, EU KLEMS Release 2019

Looking at the productivity indicators, it appears that the value-added per capita growth rate of Kosovo between 2009-2017 is similar to most of the countries in the Western Balkan (around 3%), and standing better than few countries that showed even lower rates (Serbia and North Macedonia).[27] When looking at the productivity rates, as shown in Figure 5, Kosovo stands better in terms of national productivity than most of the countries in the region, including Albania, North Macedonia, Serbia, Bulgaria, with a similar trend with the neighbouring Montenegro, while much lower productivity than Romania[28]. However, despite a positive productivity trend, the unemployment rate in Kosovo is higher in the West-Balkan countries, or around 25.7%.[29]

27 The Vienna Institute for International Economic Studies (wiiw)

28 O. Reiter, M. Schwarzhappel, R. Stehrer, 2020, Productivity and competitiveness of the Western Balkan countries: An analysis based on the wiiw Western Balkan Productivity Database, Policy Notes and Reports, No. 37, The Vienna Institute for International Economic Studies (wiiw), Vienna

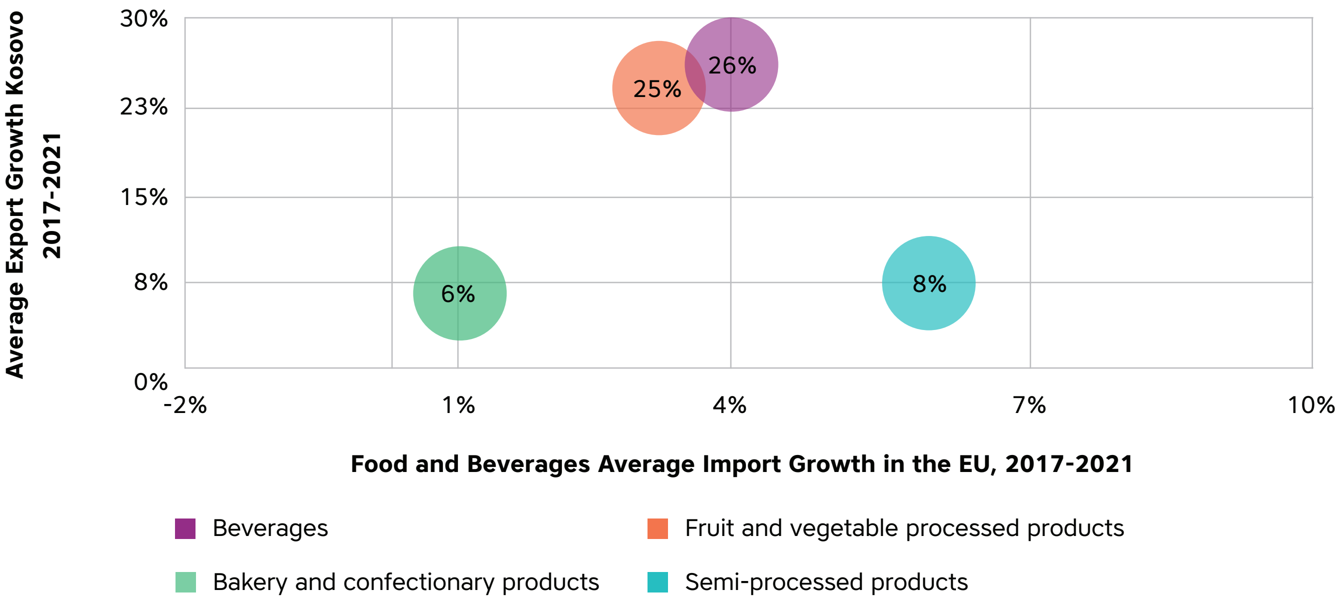
29 OECD, 2021, Competitiveness in South East Europe, 2021, A Policy Outlook, https://www.oecd-ilibrary.org/sites/66c185f2-en/index.html?itemId=/content/component/66c185f2-en

Competitiveness of the Kosovar food and beverages in the European and regional markets is based on the quality of the products that is reflected through the application of quality standards to meet requirements in the respective markets[30]. In addition, the recent The Organisation for Economic Co-operation and Development (OECD) Study "Competitiveness in South East Europe 2021", confirmed the high competitiveness of the Kosovar agricultural and food processing sectors[31]. These findings were supported by a recent Sector Assessment Report from 2021[32].

Competitiveness of the food and beverage sector is assessed also against the EU market trends. The diagram in Figure 6 shows how the average rate of growth of Kosovo food and beverages exports between 2017 to 2021 (vertical axis) performs as compared to the average rate of growth of food and beverages imports in the EU market between 2017 to 2021 (horizontal axis) for the main subsectors, portrayed by a bubble. As illustrated in Figure 6, the EU imports of semi-processed products show to have the highest rate. A relatively lower rate is observed for beverages as well as fruit and vegetable processed products. The lowest rate of growth is in the EU imports is for the bakery and confectionary products.

As the diagram illustrates, in all subsectors, Kosovar food and beverages exports have a relatively high average growth rate, with highest rates of exports of beverages and fruit and vegetable processed products (both with around 25% average growth), followed by semi-processed products and bakery and confectionary products. A high growth rate in exports of beverages and processed fruit and vegetable products may suggest an increased tendency of Kosovar food and beverages companies to export higher value-added products. Growth rates of beverages and processed fruit and vegetable products are higher than the growth rate of the EU imports, indicating a competing advantage of the respective Kosovo products, as well as a potential to further grow in the EU market. In addition, semi-processed products as the third Kosovo growing food and beverages subsector in exports, have recorded the highest import growth in the EU market.

Figure 6: Growth of national supply and international demand for food and beverages exported by Kosovo in 2021



Source: Author's calculation, International Trade Center, Kosovo Customs Dataset, period: 2017 - 2021

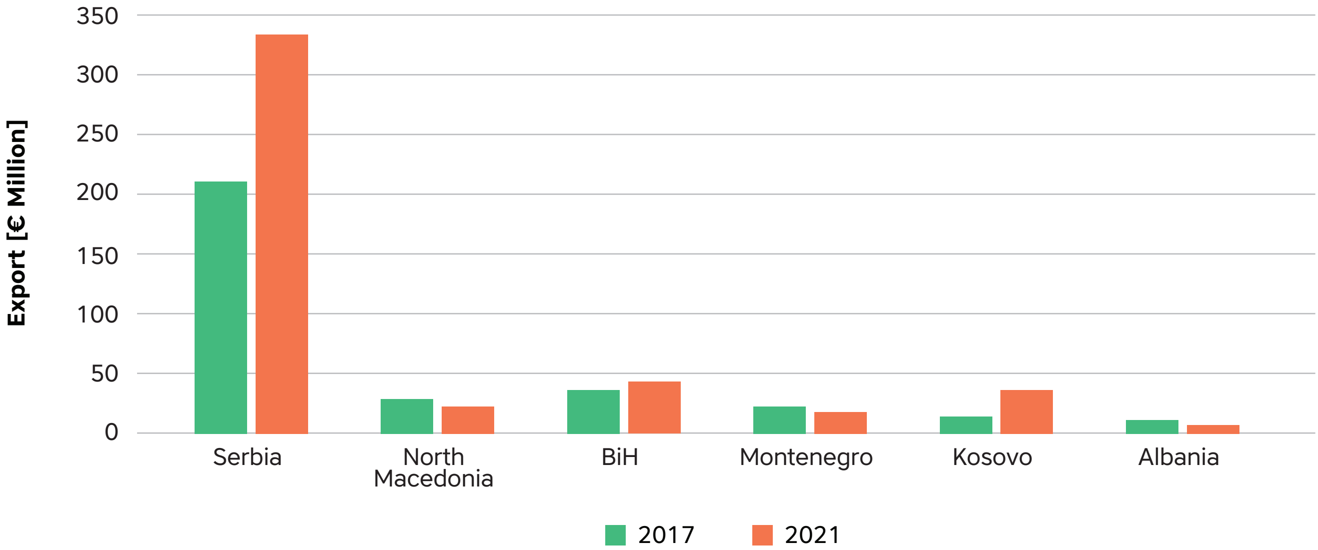
30 H. Halimi and L. Kapplan, 2020, Export Competitiveness of the Food Industry in Kosovo, Economic Alternatives, 2020, Issue 4, pp. 648-665, DOI: 10.37075/EA.2020.4.09

31 OECD Report, 2021, Competitiveness in south East Europe 2021 – A Policy Outlook ISSN: 20765762

32 USAID, Sector Assessments, 2021, https://pdf.usaid.gov/pdf_docs/PA00XCNN.pdf

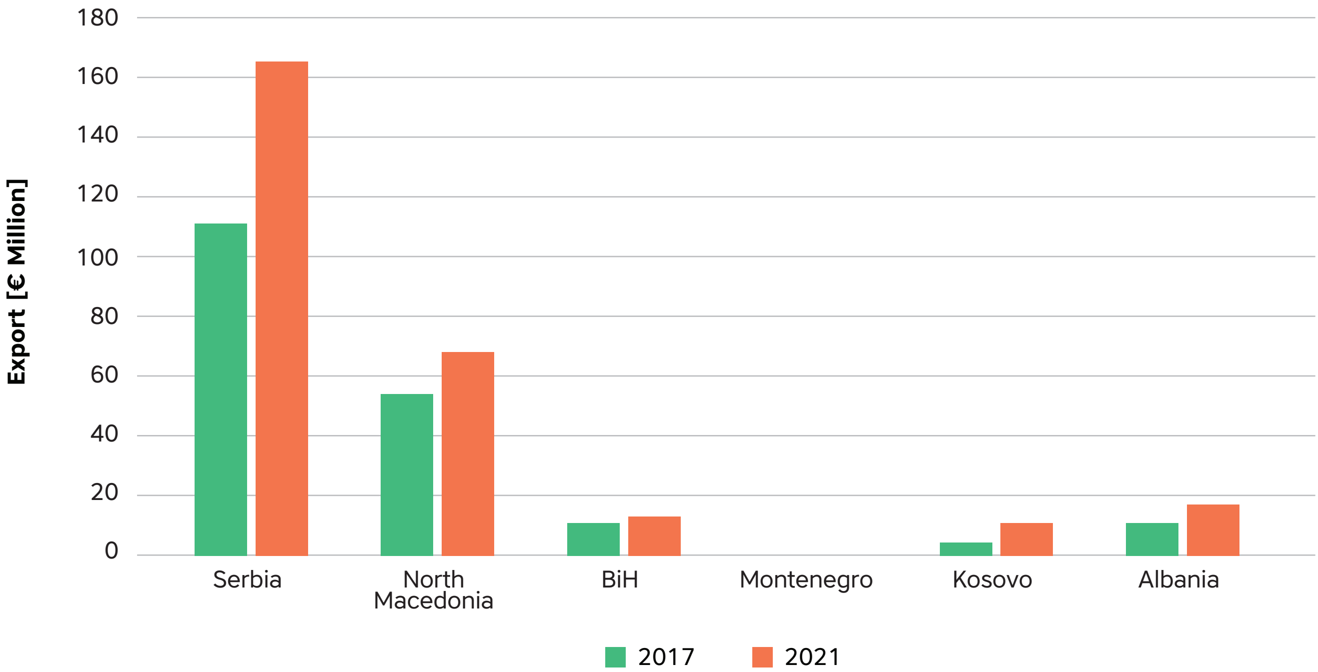
Export of beverages did not just raise for Kosovo over the recent years, but also for other neighbouring countries (Figure 7). Especially Serbia showed high values in both absolute values as well as relative growth. Interestingly, compared to the other neighbouring countries, the Kosovar food and beverage industry performed very well and outperformed BiH, North Macedonia and Montenegro. When it comes to processed food the neighbouring countries seem to have a stronger competitive position. Beside Serbia, North Macedonia and Albania outperform Kosovo in export volumes. However, Kosovo remains to reveal highest growth rates, but on a comparable low absolute level (Figure 8).

Figure 7: Export development of beverages 2017 and 2021,



Source: Author's calculation, International Trade Center

Figure 8: Export development of processed food 2017 and 2021



Source: Author's calculation, International Trade Center

4. Stakeholder Map

The role of stakeholders in the food and beverages sector varies across the value chain. The following table presents a rating on the importance and influence of each stakeholder group. Furthermore, stakeholders are divided into three main groups of stakeholders

Stakeholders that are involved directly and have a high active role in the food and beverage value chain are categorized as primary stakeholders. Stakeholders that are mainly responsible for the business enabling environment are grouped into secondary stakeholders since their role is more of an indirect relationship. Finally, stakeholders that are more distant from the value chain operations, both in decision making and benefit, are presented as tertiary stakeholders.

The following table presents the different stakeholders, of the three groups, which are important for their role in the eco-system of the food and beverages sector. The table explains the interest, relationships and dynamics between these stakeholder as well as their importance and influence in the overall value chain.

Table 4: Key stakeholders in the food manufacturing value chain

No.	Stakeholder (groups)	Interest	Importance	Influence	Examples
		Primary Stakeholders			
1	Farmers	Farmers are core members of the food value chain. In many instances, the growth of processing industry relies on growth at farm level – particularly in cases such as Kosovo where raw material supply is predominantly sourced locally. Improvement in competitiveness at the farm level (e.g. quality of primary production) can provide positive effects throughout the value chain. Though currently cooperation between farmers and the rest of value chain actors remains unsatisfactory.	3	1	

No.	Stakeholder (groups)	Interest	Importance	Influence	Examples
2	MSMEs	MSMEs are drivers of change. This is particularly valid for lead MS-MEs, who show high motivation for change, who can also act as catalysts for change through in-spiring other MSMEs to follow as well as other value chain actors such as farmers to improve com-petitiveness. MSMEs are faced with constraints with regards to resources and knowledge, which in turn hampers their interest and ability to invest.	4	3	
3	Non-MSMEs	Large firms from the food and beverages sector have been in-strumental in driving import sub-stitution trends and export growth. Such firms appear with dominant market position and frequently limit interaction or maximize con-trol with other core value chain actors – maximizing their control towards growth. The potential of these market actors to drive in-dustry changes is very high.	4	4	
4	Universities and R&D Institutions	Universities and R&D institutions are supposed to provide well trained graduates as well as to provide knowledge basis for trig-gering innovation. Nevertheless, the current level of knowledge and expertise in fields such as food technology is largely un-satisfactory and a constraint towards growth. Overall improve-ment of service delivery and skills provision is crucial in improve-ment of innovation and diversity of food and beverage industry offer.	3	2	Public and Private Universities Kosovo Agriculture Institute

No.	Stakeholder (groups)	Interest	Importance	Influence	Examples
		Secondary Stakeholders			
5	Ministry for Industry, Entrepreneurship, and Trade (MIET) Ministry of Agriculture, Forestry and Rural Development (MAFRD)	The MIET is in charge to support the private sector by providing suitable framework conditions for growth and competitiveness. Scaling up strategies and related interventions provided by the MIET can help the food and beverages sector to better compete on the national and international level and to foster investments in this sector. The MAFRD is the responsible public institution for overseeing and supporting the primary production as well as processing in the food industry. This Ministry has played a remarkable role in driving the growth of primary production through grants and subsidies as well as of processing (through grants). Further support of both ministries towards supporting services such as skills, knowledge transfer, promotion and exposure could enable the industry to reach higher growth levels.	4	4	
6	Other Ministries	Other ministries might indirectly support the value chain development of the food and beverage sector in Kosovo. For example, by improved education and training programmes and support of R&D infrastructure.	2-3	3	Ministry of Education, Science and Technology,
7	Cluster Initiatives or other Business Member-ship Organisations (BMO)	Large, national level associations, such as Kosovo Manufacturing Club(KMC) or the Kosovo Chamber of Commerce(KCC), which are comprised of lead enterprises. KMC presents a rather positive example of successful advocacy record to the benefit of sector companies, whereas KCC generally shows lower motivation in addressing that are important for the sector.	3	3	KMC, KCC

No.	Stakeholder (groups)	Interest	Importance	Influence	Examples
9	Agencies for investment support	Kosovo Investment and Enterprise Support Agency (KIESA) - mandated to promote and support investments and investors being interested in becoming engaged in the Republic of Kosovo. The role of KIESA in promotion, particularly through organization of trade fairs is high. KIESA offers a wide set of services for investors, ranging from support in pre-investments to after care services.	2	2	KIESA
10	Sectors Associations	The second level of business membership associations are at sectoral (or sub-sectoral), presenting active and influential actors in implementing activities for advocacy, exchange, knowledge transfer, etc. for the common interest of members.	4	2	Dairy Producers Association Organika (Association of producers and processors of Non-Wood Forest Products and Medicinal and Aromatic Plants), PePeKo(Association of fruits and vegetable processors of Kosovo) IADK (Initiative for Agricultural Development of Kosovo
		Tertiary Stakeholders			
11	International Partners and EU Institutions	There are many international donors, and implementation organizations respectively, active in Kosovo that provide support to various private and public sector entities in the food and beverage sectors. They all aim to improve framework conditions for growth, sustainability and job creation.	3	3	GIZ United States Agency for International Development (USAID)

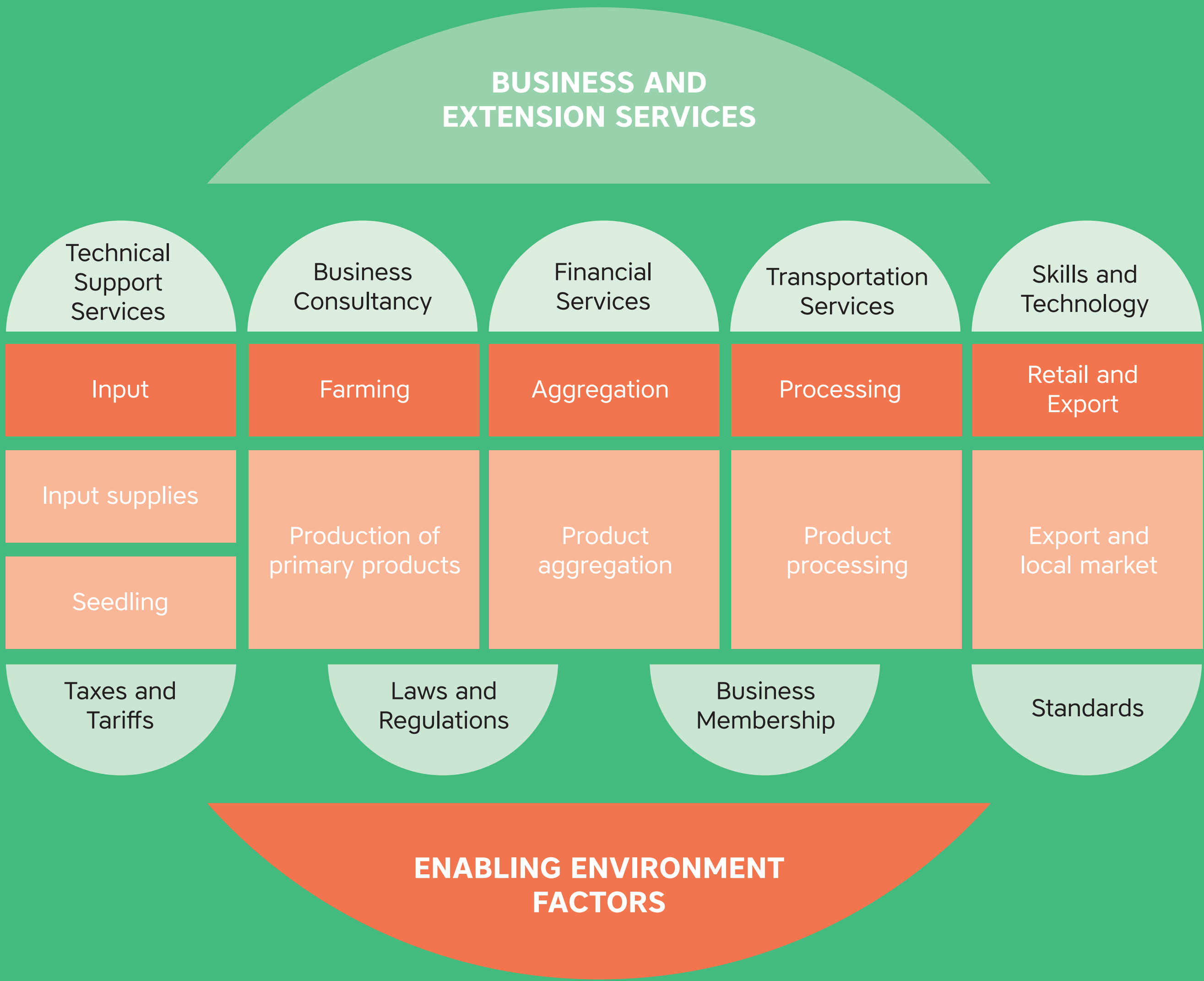
5. Value Chain Analysis

5.1 Sector Value Chain Map

The findings in this section are based on primary research conducted with 53 MSMEs of food and beverage sector. The food and beverages value chain map is presented in Figure 9. This sector represents a relatively sophisticated value chain, where in many cases, several core value chain functions are present. For example, there are instances where many value addition processes are performed, including: production of seedling, primary production, processing, product aggregation, distribution, and sales. Nevertheless, this extensive product value addition does not always occur, and this sector presents various examples of core value chain functions.

Business support services around the food and beverages sector are centred on financial services, skills and technology, technical support services, business consultancy and transportation. The importance of these services is high and crucial to the development of the sector. Some business support services have improved significantly in the last decade or so, while others have yet to address the constraints of the sector (s. Chapter 6.1 and 6.2). Both access to and cost of finance has improved, where banking sector offers far better products for investment finance to both processing MSMEs as well as farmers. Furthermore, many initiatives such as the ones from the Kosovo Credit Guarantee Fund and the subsidy and grants offered by the MAFRD, have enabled a far better business environment for the food and beverages industry. On the other hand, improvements with regard to technical support as well as skills have largely stagnated, where processing companies in Kosovo continue to struggle in acquiring skills.

Figure 9. Food and Beverage Value Chain Map



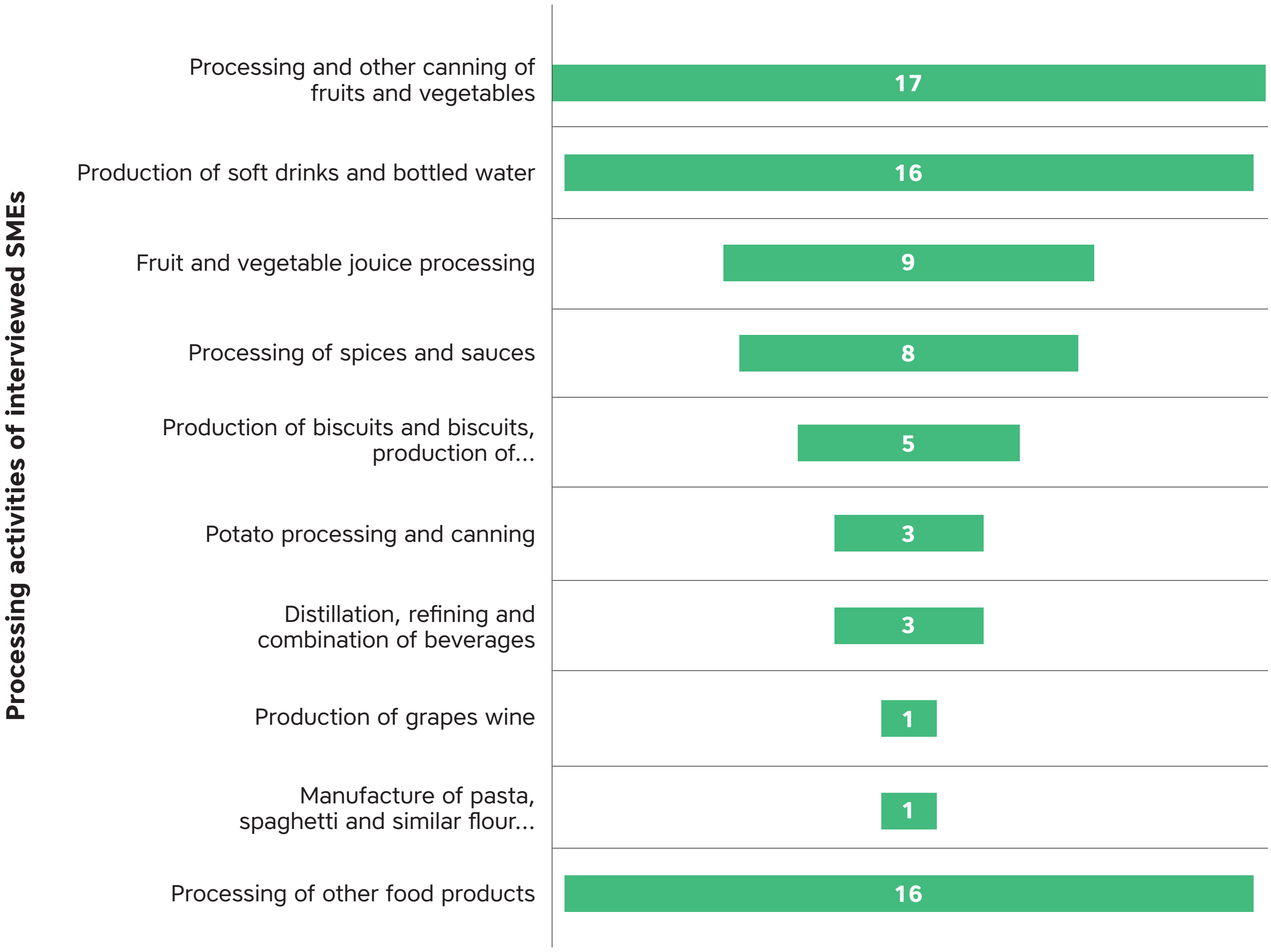
Source: Figure is designed according to Reçica and Meier zu Köcker[33]

On the enabling environment level, the food and beverages sector is characterised by a relatively inactive representation in terms of business membership organization (Chapter 5.6). Meeting European quality standards and conformity assessment procedures remains a challenge (Chapter 6.3). Specific laws, regulations (particularly with regards to food safety), taxes and tariffs exist. This sector is represented in some national business membership organizations, as well as few specific sub-sectoral organizations. At the national level, sector enterprises form an important part of the members of organizations such as the Kosovo Chamber of Commerce, while also being organized in organization such as Pepeko, Organika and other associations,

33 F. Recica, G. Meier zu Köcker, 2019, Kosovo Plastics Industry Value Chain, DOI: 10.13140/RG.2.2.15970.07368

Critical Control Points or organic certification, which are often precondition to enter the European markets. The sector is overseen and supported by the MIET as well as the MAFRD. For the implementation of all food safety related issues the Food and Veterinary Agency (FVA) is in charge (s. Chapter 5.3).

Figure 10. Processing activities of interviewed SMEs

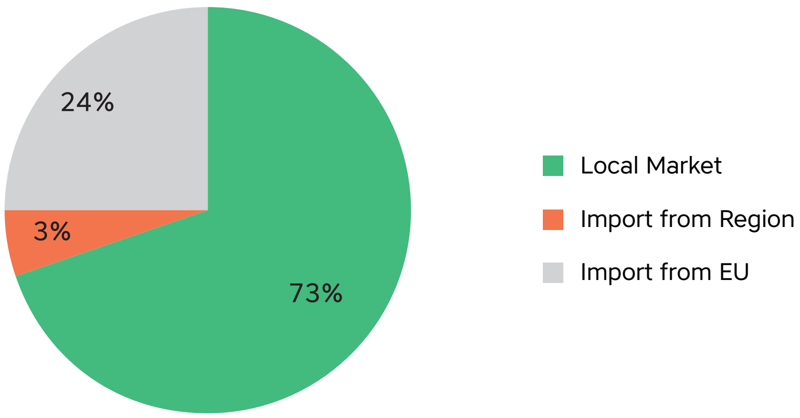


Source: Survey data, authors' calculation

Industries such as meat processing and dairy have not been included in the part of primary research. This has been done primarily due to the size of these industries and limitations of the sample size for this sector. The following graph represents the processing activities of the interviewed MSMEs. It can be argued that the sector MSMEs are quite specialized in their processing activities, as most enterprises are involved in one food and beverage subsector processing activity. As presented in the graph below, processing and other canning of fruits and vegetables and production of soft drinks and bottled water are the most common processing activities.

5.2 Value Chain Analysis: Supply Side

Figure 11. Share of raw material supply based on origin



Source: Survey data, authors' own calculation

The food and beverages processing sector is characterised by a large share of local sourcing of raw material. Specifically, over 73% of processing enterprise claim to source their primary production locally (Figure 11). This is only followed by a share of over three times less (24%) of primary production imports from EU compared to locally. Whereas raw material import from the region comprises of only 3% for the needs of the food and beverage processing enterprises. This finding underlines the importance of this sector for the economy, and the value addition generated at multiple value chain levels.

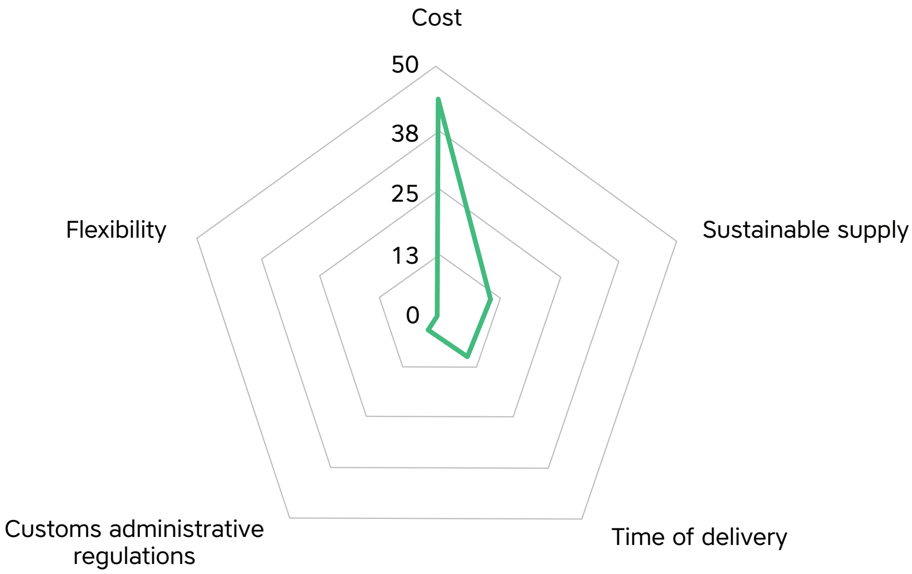
Around 55% of the interviewed MSMEs claim to supply their raw material directly from local farmers, which helps to assure proper transparency of the production chain. Direct sourcing is also more and more acknowledged by European consumers. This represents a significant share as well, considering that the study covers also processing activities such as production of bottled water where farming is not an activity of primary production. The cooperation with farmers in relevant sectors is assessed very positively by enterprises, where over 82% assess the cooperation with local farmers as either very successful (39%) or successful (43%). The remaining 18% assess this cooperation as neutral, while none of the MSMEs has presented a negative assessment in this regard. Enterprises claim that farmers are offer quality products, good cooperation, are generally correct and serious, and the quality of their products have improved. Among the enterprises that have a more reserved rating for the cooperation with farmers, claim that the awareness, delays and delivery time are the main issues.

Figure 12. MSME recommendations for improvements at the farm level

Source: Survey data, authors' own calculation

Interviewed MSMEs were asked to provide suggestions on critical issues that Kosovo farmers need to improve. The need for following improving knowledge and skills through trainings has been most frequently specified. This might be relevant for all actors of value chain, including service providers, institutions, and enterprises itself, as these actors could all be relevant for the organisation of trainings for farmers. At the same time, this shows the need for farmers to continuously seek for capacity building. The demand for trainings is followed by the need to improve the quality of primary production as well as the need to decrease/control the use of pesticides and other chemicals. The increase in quantity of supplied product, production capacities, better maintenance (including harvest, storage, delivery) and supply are also important requests for improving the performance of farmers in Kosovo.

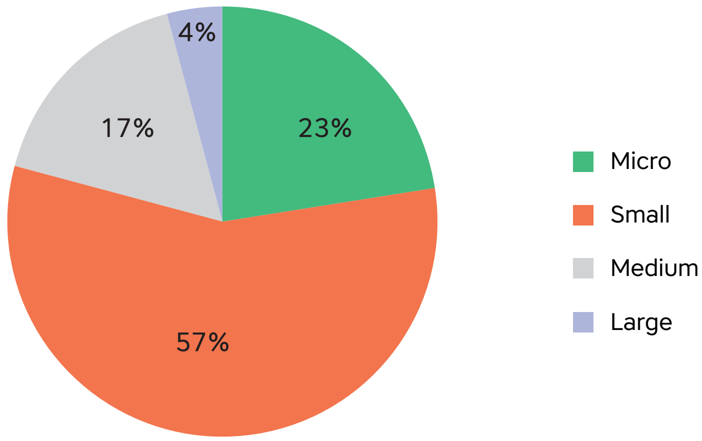
Figure 13. The intensity of supply-related challenges (in frequency)



Source: Survey data, authors' own calculation

Enterprises in the food and beverage sector have outlined three major challenges with regards to supply. As depicted in Figure 13, the most dominant challenge, and with a much higher intensity, is with regard to cost of supply. This finding is related particularly with the recent inflation surge, which was caused primarily from the Covid-19 pandemics and secondarily as a result of the war in Ukraine. Sustainable supply and time of delivery are the other two outlined supply challenges for local enterprises, which, could also be linked to the recent global pandemic and Ukraine war developments.

Figure 14. Distribution of company size of surveyed food and beverage producers



Source: Survey data, authors' own calculation

5.3 Value Chain Analysis: Producer Side

Most of the interviewed companies fall under the category of small enterprises. Specifically, over 56% of enterprises are small (11-50 employees), with an average number of 26 employees. This is followed by micro enterprises (less than 10 employees), which comprise of 23% of the interviewed enterprises. Around 17% are medium enterprises (51–250 employees), whereas large enterprises are represented by 4% of the sampled companies (over 250 employees). The average number of employees among all interviewed enterprises is 46. This finding represents a relatively high average compared to overall food industry data provided by the official statics as well as compared to other sectors in Kosovo. An important survey finding is also the increase in number of employees in 2021 compared to 2020. Findings show that the number of employees has increased by 10% in 2021, which represents the national and global trends of economic growth rebound after the outbreak of Covid-19.

5.3.1 Business Activity and Operations

Official data show that the overall sector of food and beverages in Kosovo is estimated at over €438 million in 2020 (MIET, 2021). This figure includes all food and beverage related sectors, including those that were not the focus of this study (i.e., meat, dairy, etc.) [34]. Figure 15 presents the size of the sector in terms of all related sectors and products, as well as only related to the sectors and products that were the focus of this study. The overall number of enterprises in the industry was 1,443 in 2020, whereas over 9,900 people were employed. Section b of the Figure 15 presents the official statistics of the food related sectors that

34 The list of food and beverage sectors for this study was selected in close cooperation with GIZ and MIET.

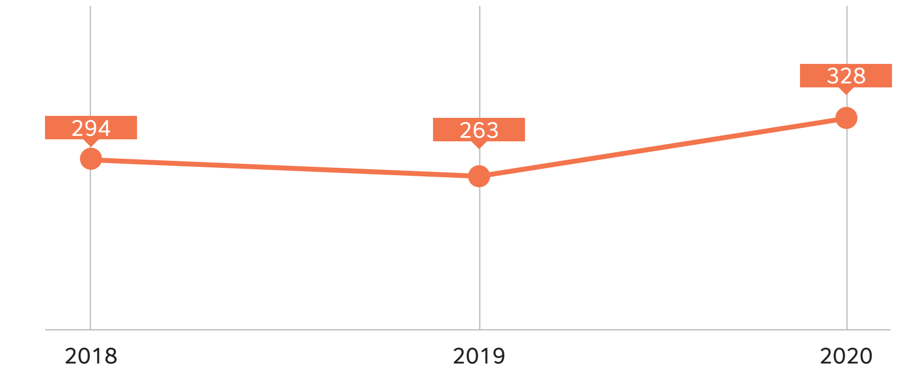
were the focus of this study, where in 2020, 328 operated in these sectors, employing over 4,175 workers and generating a turnover amount of over €241 million.

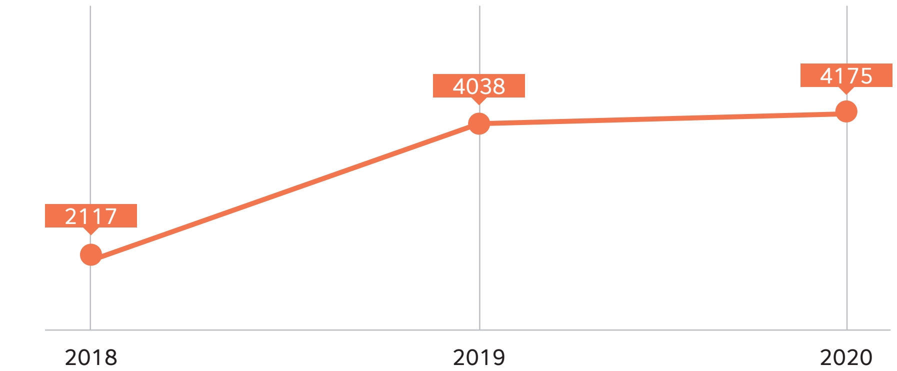
In both cases, all related food and beverages sectors and products as well as related sectors and products that were the focus of this study, remarkable growth has been recorded during the past two years. The highest growth has been recorded in terms of sector turnover, where the overall industry has almost doubled since 2018, while the study's selected sectors have more than doubled - from €102 million to over €241 million. A growth trend, though with a lower intensity can observed also in terms of the growth of sector employees and number of enterprises. The number of employees in the overall industry has growth by almost 59% whereas the number of enterprises has growth with 8%. With regards to this study's selected sectors, the number of employees has almost doubled, whereas the number of enterprises has increased with over 11%.

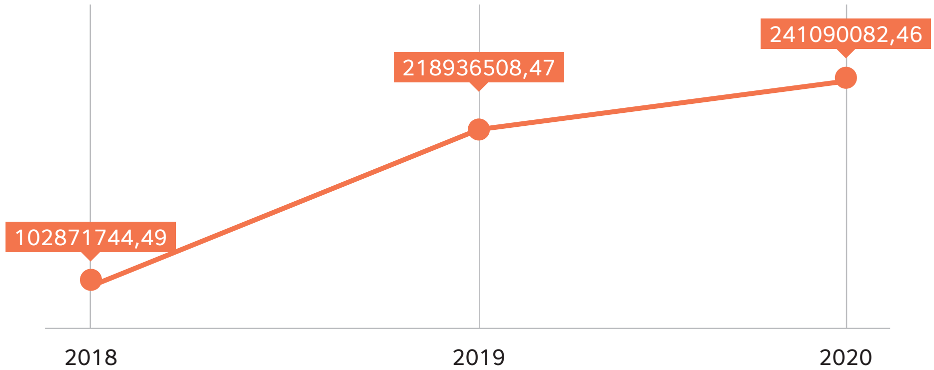
Figure 15: Performance of food and beverage industry in Kosovo in key indicators: (a) all food and beverage sectors, (b) selected sectors of food and beverage.

Source: MIET (2021) 'Sektori C - Industria përpunuese'.

b) including food and beverages targeted and interviewed sectors



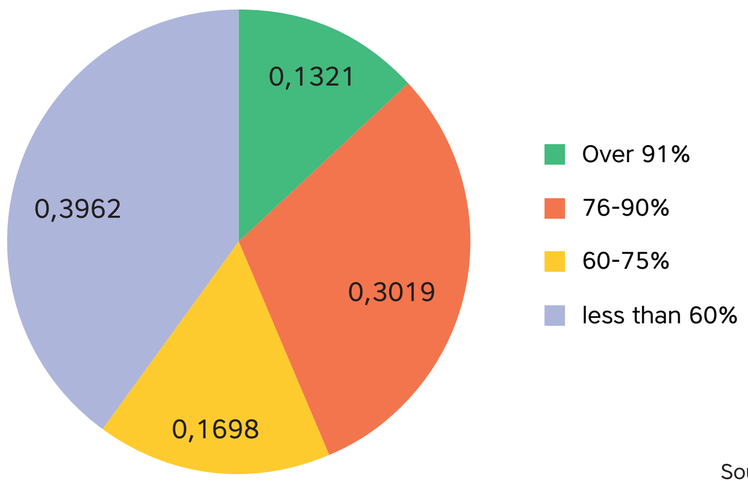




Source: MIET (2021) 'Sektori C - Industria përpunuese'.

Overall, interviewed MSME report a moderate level of capacity utilisation. The capacity utilisation rate is reported at 66%, on average, whereas 13% of enterprises claim to have a production capacity utilisation of over 90% (Figure 16), while 40% utilize their production capacity at 80% or higher. The most dominant reason for low product utilisation rate is lack of market opportunities. This has been declared by almost half of the interviewed enterprises with lower than 80% production capacity utilisation rates. This is followed by lack of market knowledge (with a significantly lower reported frequency) and price competitiveness, strong regional competition. Whereas lack of raw material and certification have also been outlined as reasons in a few cases.

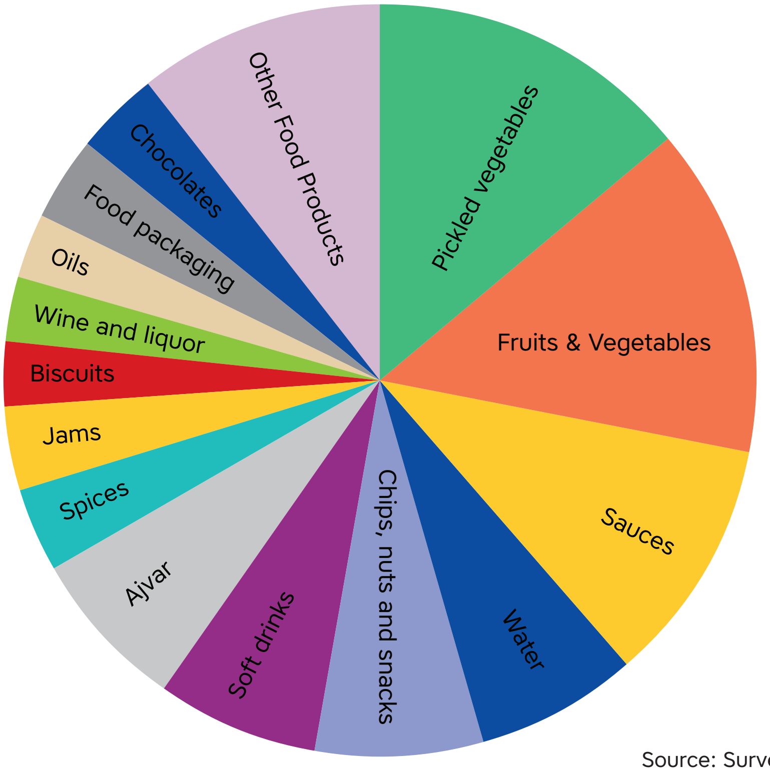
Figure 16: Distribution of production utilisation capacities



Source: Survey data, authors' calculation

When comparing utilisation levels with the size of enterprise, it can be argued that there is no difference between utilisation rate among micro, small and medium enterprises. On the other hand, the few large enterprises present in the sample have reported very high rates of utilisation, respectively over 90%.

Figure 17: Distribution of Kosovar food processing products



Source: Survey data, authors' calculation

The following chart represents an aggregation of the products that are processed by interviewed MSMEs. The chart depicts groups of products based on the reported frequency. Products most frequently produced are pickled vegetables and fresh fruits and vegetables. The latter are reported by MSME categories such as aggregation centres since farmers have not been the focus of this study. As depicted in Figure 17, these two categories add up to around a quarter of MSME's product portfolio. This is followed by production of sauces, water, chips, nuts and snacks, soft drinks, ajvar (traditional pepper sauce), etc. All in all, these products can be considered not to be very complex and difficult to process. Thus, the added value of such products as well as their diversity is limited. Only very few sampled enterprises have reported non-traditional (and potentially more diverse) products such as chocolates, nut butters, nut oils, specific spices, etc.

The recent global economic shock resulting from both Covid-19 and the war on Ukraine has also affected the food sector[35]. Increase in gas prices and global shortages on raw material (such as grain or sunflower) present serious threat of disturbing the food sector in Kosovo. This has already been outlined as one of the key supply constraints by interviewed MSMEs, who have emphasized the issue of supply cost, as well as sustainable supply and time of delivery - though to a lesser extent. This represents a competitive constraint for the Kosovar food processing companies, which should strengthen their supply chain – in particularly domestically, to survive the ongoing global crisis.

Cooperation with the value chain actors on production orders seems to be a common practice in the food and beverage sector, as 55% of interviewed actors have declared that they subcontractor other actors to complete assignments. A relatively smaller number of companies act as subcontractors for other producers in the market (around 25%).

35 OECD, 2021, Multi-dimensional Review of the Western Balkans Assessing Opportunities and Constraints, OECD, https://doi.org/10.1787/4d5cbc2a-en

Despite a relatively high share of companies engaged in subcontracting of each other, interviewed SMEs also reveal several obstacles for an enhanced cooperation. Among main factors, small size of the market, the level of trust between the actors, the degree of unfair competition as well as the compliance of the market actors with contracts, are reported as most significant obstacles.

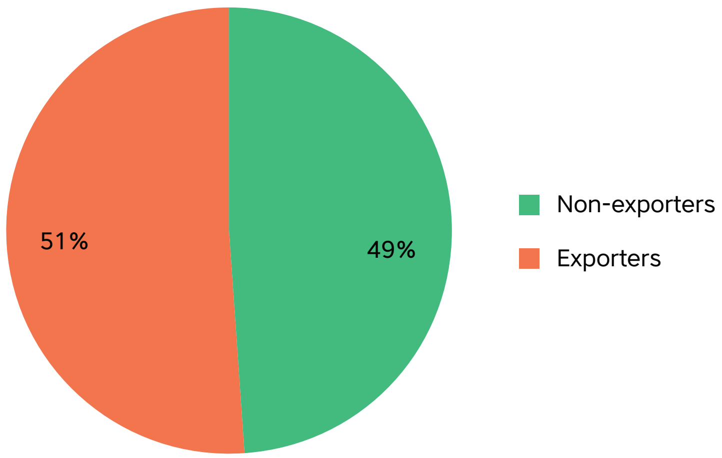
Interviewed companies indicated that they would need value additional trainings to further improve human and operational capacities that would contribute to company growth in both domestic and export markets. Related to skills and trainings that companies need, results of interviews show that SMEs mainly demand capacity building of staff on new product development, but also on logistics, management of stock, prices, etc. In addition, SMEs suggest that to be able to accelerate their investments support mechanisms are needed, with financial grants being the most preferred mechanism. This demand is reasonable when considering the size of companies and relatively low turnover and limited liquidity. Most companies may also have problems to access finance.

Interviewed SMEs consider that domestic labour costs are relatively low, presenting a key cost advantage. Similar consideration is also given to the tax level in Kosovo, which as well presents a cost advantage. The expected visa liberalisation is seen as an opportunity for Kosovar SMEs as it enables an easier travel to the EU countries, contributing to a better access to the markets where companies aim to export.

5.3.2 Local and Export Markets

Survey findings show that around half of interviewed companies are exporters. This is presented in the following figure, and as such shows that the sector is highly export oriented. The remaining group of enterprises, the 51% that do not export, listed lack of capacity, export linkages and channels as the main reasons to why they do not export.

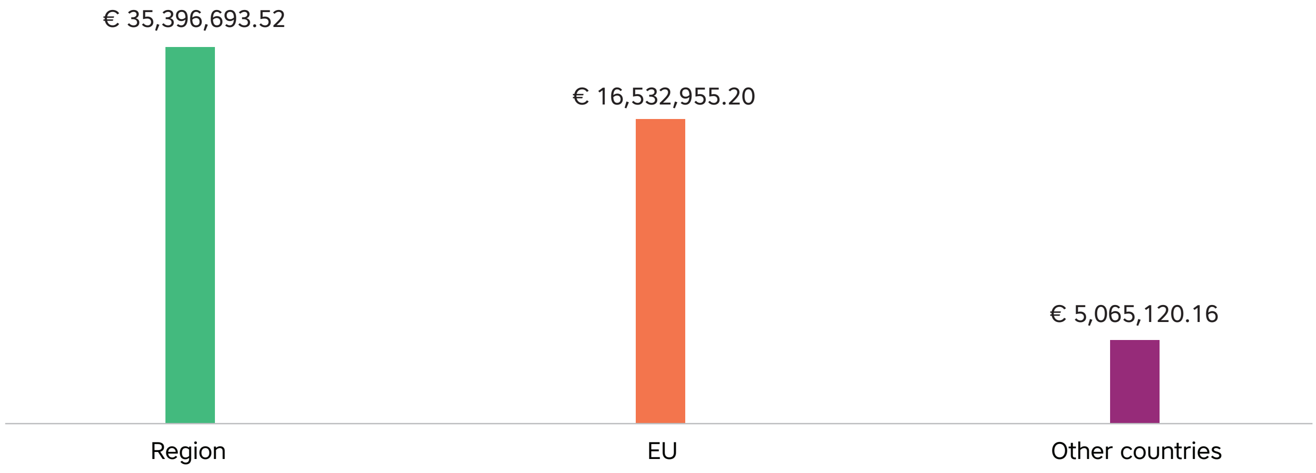
Figure 18: Share of exporters and non-exporters



Source: Survey data, authors' calculation

When analysing the countries where Kosovar enterprise export more, as depicted in the Figure 20, the main destination for Kosovar exporters are regional countries, adding to more than €35 million or 62% of all exports. This is followed by the EU countries, with an export figure of €16.5 million or 29% share of total exports. Whereas other countries form the rest of the world account for just over €5 million or around 9% of total exports share.

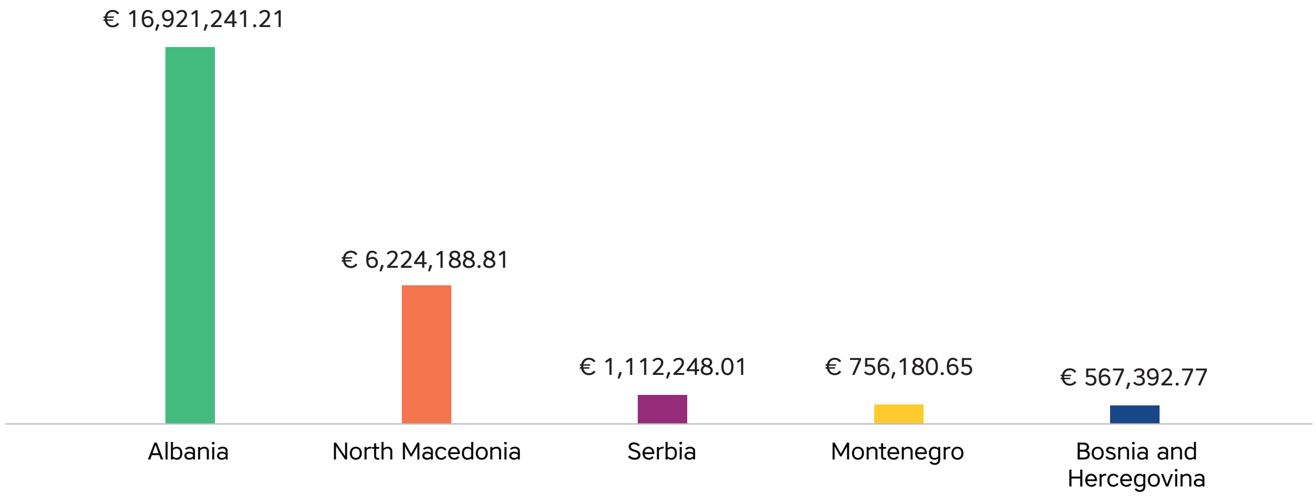
Figure 19: Kosovar food and beverage sector exports, by region, 2021



Source: Author's calculation, Kosovo Customs Data

Figure 20 presents a further examination of exports in the region, which shows that Albania is the main export destination for the companies of the food and beverage sector, receiving around 66% of all exports in the region. Albania, as the top regional export destination country, is followed by North Macedonia, which accounts for around 24% of regional exports share. Serbia, Montenegro and BiH, accordingly, together add the remaining 10% of regional export share for Kosovo food and beverage products.

Figure 20: Kosovar food and beverage sector exports, by country, 2021

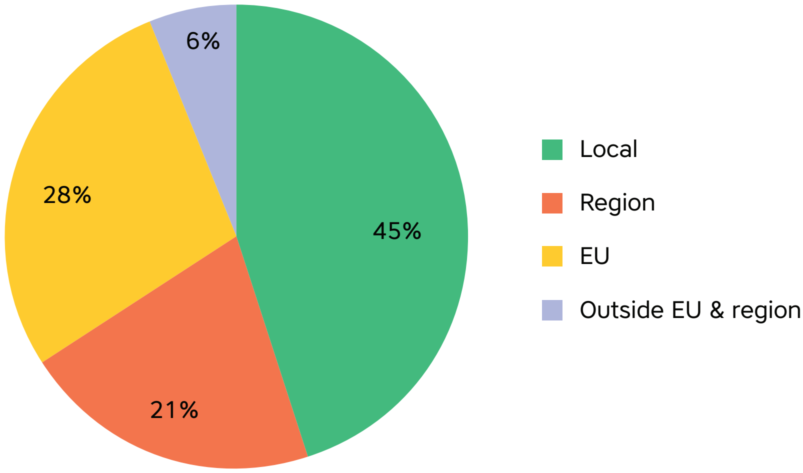


Source: Author's calculation, Kosovo Customs Data

Germany appears to be the main EU exporting partner, receiving around 30% of all Kosovar food products exported in the EU in 2021. Regarding more distant countries, exports of food and beverages in the USA have reached to over €500.000 in 2021.

Furthermore, it is interesting to notice that around 81% of the enterprises that export have 20 or more employees, whereas the majority (over 70%) of enterprises with less than 20 employees do not export at all. There seems to be a clear interdependence between a critical size of enterprises in terms of number of employers and the capability to export.

Figure 21: Market share of exporters.



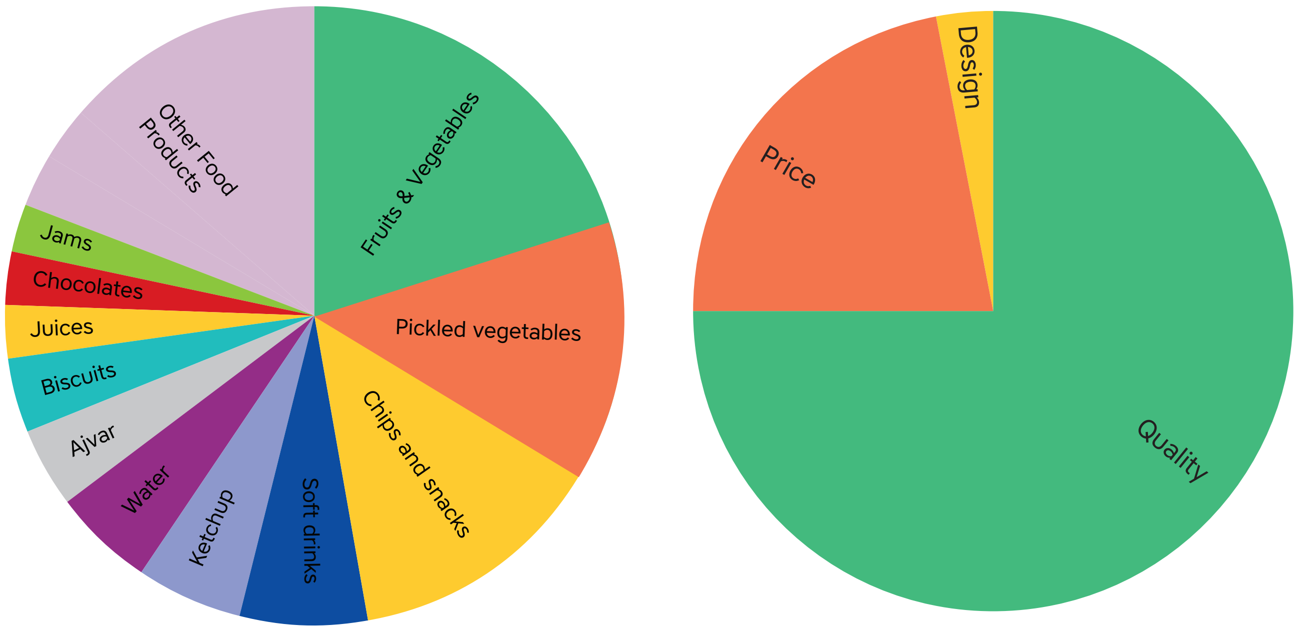
Source: Author's calculation, Kosovo Customs Data

Findings from the survey with interviewed enterprises show that among exporters, the majority of their market share is export - around 55%. More specifically, exporting food companies sell around 45% of their products in the local market, 28% in the EU market, 21% in the regional market, and 6% outside in exports outside EU and the region. The fact that Kosovo food companies export a significant share of their products to the EU market represent an important finding. Such exports are assumed to be high quality and value products. The difference between export share directed to the EU between the sampled enterprises and the overall industry could be explained by the selection of food sectors and the year of analysis. The official data includes more food and beverages sectors compared to the selection of the sample as well as the official data is presented for the year 2021 while the sample data are for the year 2022.

When asked about specific countries of export, it is particularly interesting how Germany dominates (with a high difference) as an export destination. Germany is followed by Albania (with almost half the frequency), North Macedonia, Switzerland, Sweden, Montenegro, etc. These findings suggest that Germany is the main EU export market, while Albania and Macedonia are dominant export regional destinations.

Nevertheless, similar to the overall product portfolio of Kosovo food processing companies, the diversity of exported products seems rather low. As depicted by Figure 22a, a significant share of all exported products is composed of either fruits and vegetables or pickled vegetables. These two product categories are followed by chips and snacks, soft drinks, ketchup, water, ajvar, etc. Figure 22b reveals that the main success factors behind the export of these products are quality (dominantly), followed by price and design, to a much lesser extent.

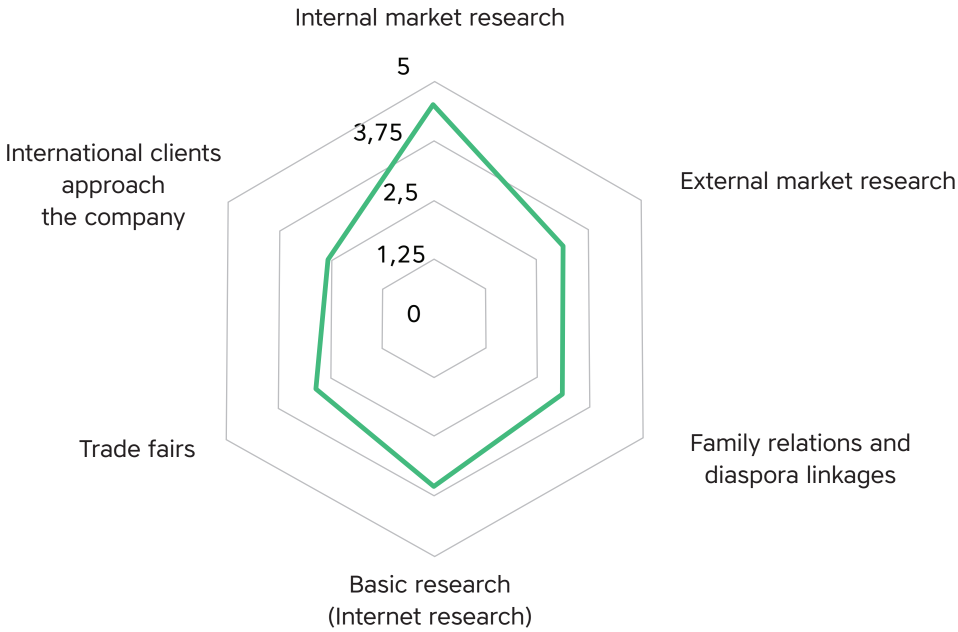
Figure 5: (a) Export food products and (b) Export success factors



Source: Survey data, authors' own calculation

Figure 23 represents the methods that food and beverage production companies in Kosovo apply for accessing new markets and identifying clients. The most frequently used method is market research, mainly conducted internally. The use of basic research through internet for potential market and clients has been assessed as the second most used method. Two other methods, external market research and using diaspora linkages are of medium relevance.

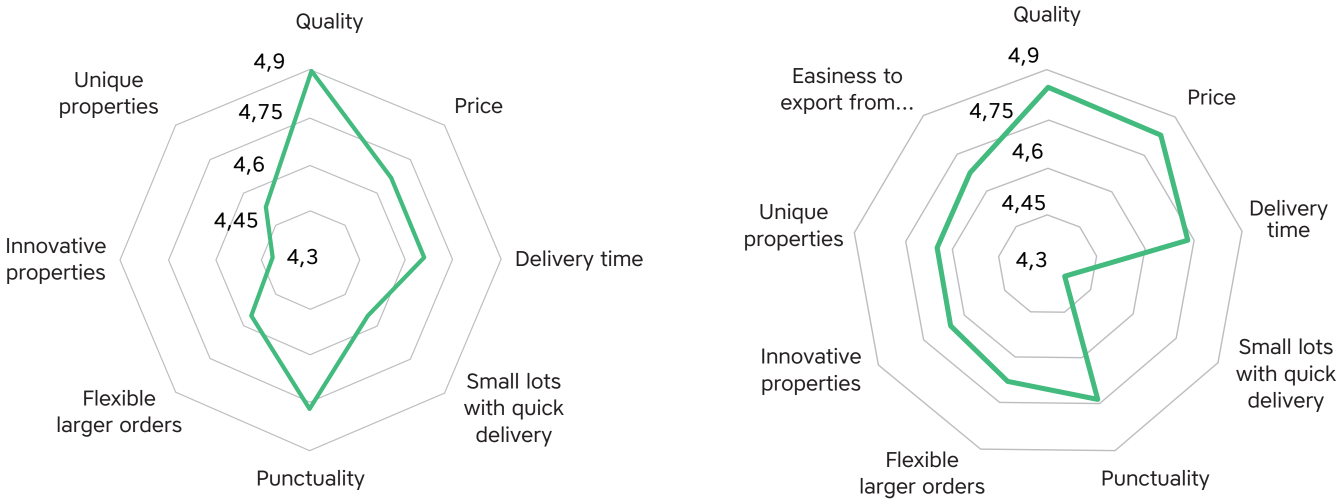
Figure 23: Market access and client identification means



Source: Survey data, authors' calculation

Business competitiveness was another aspect that was assessed during the interviews with food and beverage enterprises. This was done by applying a Likert-scale like rating for a self-assessment of competitive advantages. The highest-rated aspect in terms of competitive advantages is quality, with a rating of 4.88 out of 5 (Figure 24a). Almost all interviewed enterprises agreed that the quality of their product is their strongest advantage. The same is also valid with regards to competitive advantages for export market, though at a slightly lesser extent, where quality was assessed with 4.67 out of 5. Overall, enterprises have high self-assessment with regard to competitiveness for local market. It is worthwhile mentioning that enterprises have indicated that innovative and unique properties are their competitive disadvantages with regards to local market. On the other hand, the self-assessment for export market is lower overall (Figure 24b). Some of the elements, such as the ability to supply small lots with quick delivery have been outlined as disadvantage by many enterprises.

Figure 24: Business Competitiveness (a) Competitive advantages for local market and (b) Competitive advantages for export market



Source: Survey data, authors' calculation

There is a remarkably positive outlook for export growth. Over 92% of interviewed enterprises think that they will increase their export sales in the next three years, whereas the remaining 8% think that the level of exports will remain the same. None of the companies expects their exports of food related products to decline in the next three years. Of those having a positive outlook, a forecast of an average increase of experts for 30% is provided.

5.4 Human Resources

The sector seems to have a positive growth trend in employment. The results of the research show that sector companies, on average, have increased employment by around 17% in 2021 compared to a year before. The respective growth reflects also the expected recovery and sales growth in the post-pandemic period, following an overall demand increase. In terms of the employment structure, men generally dominate. Women make only around 29% of all employees.

Majority of employees in the sector have a secondary education degree or higher. Around 32% having a tertiary degree and around 63% a secondary education degree. Although the sector involves a high share of low-skilled labour functions, only around 5% have a primary education degree.

In terms of salaries, around 85% of interviewed companies have indicated to pay an average industry salary, while only around 15% indicated to pay salaries higher than the industry average. In general, salaries paid by Kosovar food and beverages companies are relatively low but with an increasing pressure to increase salaries due to shortages of labour in the market. The increasing labour costs will negatively influence global cost advantage of the Kosovar producers. However, the Kosovar tax system still presents a cost related advantage as compared to the EU and other countries.

Around 30% of the interviewees confirmed that they have serious issues to find workers. Emigration is the main factor that is causing lack of employees in the market. Main issues faced by companies are to find seasonal works, which seem to be attracted also by regional seasonal labour markets, such as Montenegro and Croatia. In general, companies demand both qualified and unqualified employees. The main professions indicated to be missing in the market include, among others: production managers, food technologist, machinery operators and sales agents.

The situation caused by the pandemic Covid-19 influenced changes in the work management practices, inspiring most of the companies to start applying online sales. Looking at the market trends, the further increase of company digitalisation in the food and beverages sector will require even more IT skills and competences. It is likely that this trend will put even more pressure on the companies to find properly skilled workers. Increased automation of production increases the demand for machine operators with knowledge in mechatronic skills. Besides such more IT-related skills other more cross-sectoral competences / professions are demanded by the food and beverage sector, like market researchers, middle management, food and beverage production technology, biochemist or conformity assessment[36]. As IT related professions are highly demanded in the market, this could become one of the limitations for further growth of smaller companies, as workers with appropriate skills demand higher salaries, a condition that may be difficult to be met by small producers.

5.5 Innovation and Digitalisation

In the last three years, around 34% of companies have undertaken investment to foster innovation and digitalisation (Figure 25). However, investment in product development seems much higher, with around 51% of companies having introduced new products. As indicated in Figure 25, 67% of companies that have introduced new products consider that respective products present an innovation for the market, a relatively high intensity of products with a higher degree of novelty, while the rest have introduced products that have already been present in the market. An increased intensity of innovation reflects that companies are increasingly attempting to compete with international competitors.

36 see also: KIESA / Republic of Kosovo, 2017, Kosovo MSME's Training Needs Assessment, https://kiesa.rks-gov.net/desk/inc/media/88FFC055-F8CE-417C-A1D9-C57AEE8C8563.pdf

Figure 25: Share of enterprises that have significantly invested in innovation over the last three years

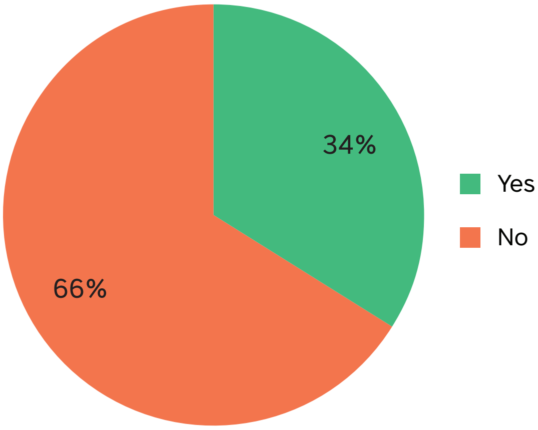
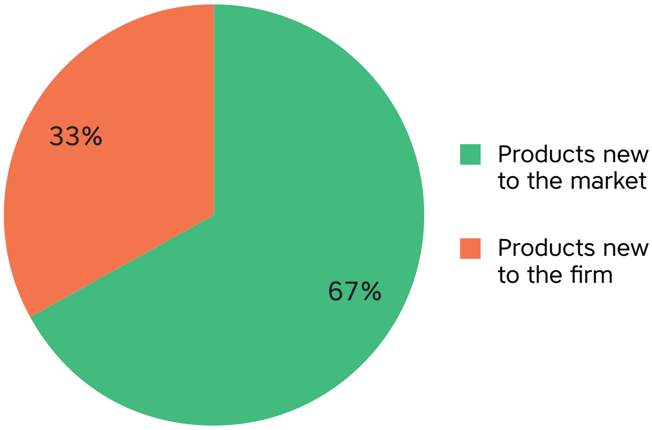


Figure 26: Degree of innovation novelty of new products



Source: Survey data, authors' calculation

Kosovar food producers followed a global demand trend of healthy food products, investing in introduction of new organic teas, dried fruits, fruit bars, etc. Such investments require food technology expertise as a key ingredient to innovation. However, companies declared to have mainly invested in new processing lines or have upgraded machinery. These investments led to automation and increase of their production capacity and improvement of the quality of products. In their innovation efforts, companies also digitalised or improved their sales platforms (for example, making their websites and social media channels more effective and attractive.

Among key barriers for not investing in innovation, companies have indicated their limited financial resources, lack of government support and increased uncertainty in the market due to continuous limitations caused by measures against Covid-19 pandemic, as well as recent global market uncertainty caused by the war in Ukraine[37].

It is important to note that around 70% of companies who invested in new product development have based their research and development process exclusively on their internal resources. Only around 30% have applied an open innovation approach, utilising knowledge of other actors, mainly cooperating with suppliers and distributors, but in around 10% of cases also with universities.

These findings further show that cooperation for innovation is relatively low. Considering limited knowledge in the market, cooperation with other actors in the industry is crucial for innovation, especially with universities and research institutions. Companies mainly rely of international expertise when they engage in the development of a new recipe or a new product with a higher degree of novelty.

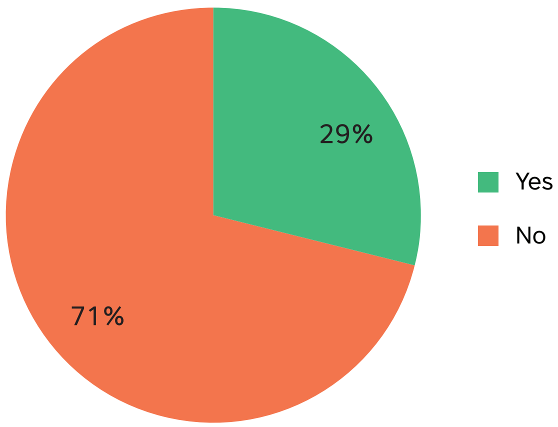
With respect to the level of digitalisation in companies, most respondents consider that their level of digitalisation is in line with market needs and trends. However, the validation workshop revealed that this self-perception is not necessarily in line with reality, since many interviewees were likely not aware of the complexity of well digitalized production processes in the food and beverage sector.

37 OECD, 2021, Multi-dimensional Review of the Western Balkans Assessing Opportunities and Constraints, OECD, https://doi.org/10.1787/4d5cbc2a-en

5.6 Networking Landscape

The majority of the companies in the food and beverages sector operate individually and without any formal cooperation. Only around 29% of the sector companies interviewed have declared to have a formal relationship with one of the existing business associations in Kosovo. Most of those that have a formal relationship are members of the PePeKo and Organika. Less than 10 companies also reported being members of the Esnaf Assocation and Kosovo Manufacturing Club. It is important to emphasise that among 71% of companies that are not members of any business association, the vast majority do not have any information about the existence of sector-related associations, and that funding and membership fees are also an obstacle. In addition, some firms interviewed indicate that being distant from the capital of Kosovo is another obstacle as they do not have frequent cooperation and lack access to information.

Figure 27. Share of SMEs that are member of business organizations



Source: Survey data, authors' calculation

Companies that are members of one of the business associations consider that this brings advantages to them in terms of better access to market information, networking, and joint promotion in international fairs. Whereas membership fees are considered as the biggest disadvantage in being a member of a certain association.

Nevertheless, despite the fact that most respondents were not active in sector association or regional networks, around 86% of the interviewees considered proximity to suppliers, transport companies and other actors as very important for their business development. Being located near other actors is considered to provide a certain competitive advantage to sector companies. Companies have reported highest intensity of cooperation with collection centres and distributors, followed by their cooperation with suppliers, and a lower intensity of cooperation with retail chains. Companies that are not members of any of the associations indicate to use their own resources and also cooperate with other partners and companies to address specific legislative issues or other issues of common interest.

In general, findings reveal that informal cooperation and association is much more intensive than the formal one. This suggests for current business associations to further explore their models of membership and operations, as regional clusters and associations may create a potential to outreach a much higher number of food and beverage companies in Kosovo.

6. Supporting Policies and Institutional Setting

The legal and policy framework that affects the food and beverage sector in Kosovo is regulated by line ministries such as the MAFRD, MIET, the Ministry of Environment, Spatial Planning, and Infrastructure (MESPI), the Ministry of Finance, Labour and Transfer (MFLT), and independent regulatory agencies, such as the FVA.

The MAFRD is responsible for development of agriculture sector related policies, supporting primary production as well as processing in the food industry. This Ministry has played a very important role in supporting sector growth through subsidies and grants for primary production through as well as of processing. The ministry has increased funding for agriculture and food sector subsidies and grants in yearly basis, contributing to an increased food production overall, be it in the cultivation or processing. The Ministry has also created policies for risk mitigation in the agri-food sector, such as the launching of the crop insurance scheme for few crops in agriculture production in Kosovo.

The MIET is the focal institution for the trade, enterprise and industry support and promotion. It is responsible for developing sector strategies, trade and industrial sector policies, as well as MSME and entrepreneurship development policies, among others. Under the MIET umbrella, several programs aim to support sector development by providing an increased access to knowledge, creation of business networks, such as industry clusters, support on MSME digitalisation, etc. Among main objectives, the MIET intends to improve business environment through an investment friendly legislation that creates a legal framework for a competitive market and a free trade with other countries. Few important agencies that function under the MIET umbrella are listed below.

- KIESA promotes the Kosovo investment potential and supports enterprise development and promotion in international markets. KIESA namely supports SMEs of various sectors to participate in international fairs, facilitates links with international businesses, and serves as the focal point for investors in the pre and post investment phase. KIESA also implements additional supportive measures for SMEs, providing investment grants, supporting companies with knowledge expertise and business support services, facilitating certifications with quality standards, etc.
- The Industrial Property Agency (IPA), is responsible for legal protection of the innovation, trade mark, industrial design, and designation of origin, geographic indications and topographies of integrated circuits, among others. Among other responsibilities, the IPA develops procedures for issuing patents and for other forms of legal industrial property protection.
- The Kosovo Standardisation Agency (KSA) is the national body that is responsible to establish standards, and harmonize them, approximating the practices of the quality infrastructure with those of EU, reducing technical barriers in trade. As a result, it stimulates economic development, creating basis for fair competition. Main objective of the KSA is to protect citizens from any risk of daily consumption of unstandardized and uncontrolled products.

- The Kosovo Metrology Agency (KMA) is responsible for preserving, developing and using standard measurement units. The agency ensures the equivalence of standard measurement units and international acceptance, provides calibration services, and protects consumers by organising field measurement inspections.
- The KBRA operates within the MIET as the only responsible institution for the registration of Kosovo businesses. The agency supports business registration through an electronic data system, making business registration faster and free of cost through the connections of municipal "one-stop-shop" registration solutions.

The MESPI is the responsible government institution for infrastructure, spatial planning and environmental issues. The ministry is following the EU led initiative for promoting green economies and is a signatory party of Green Agenda for the Western Balkans (GAWB)[38]. As all other Balkan countries, it has committed to work on improvement of legislation aiming to align it with the EU Climate Law, which among others implies also to target the EU vision of decarbonisation of the energy sector by 2050[39]. Policies that support environmentally friendly production and increased usage of renewable energy will also have an impact on food producers in Kosovo. Such policies will in long term create incentives for investments in sustainable production technologies and may increase circular economy models at the company level. An increased demand is expected for products that will be produced in a sustainable way that meet environmental standards. Such demand trends will also put pressure on producers to invest in environmentally friendly production. The MESPI can adopt policies that incentivise local food companies to invest in meeting environmental requirements.

MFLT is responsible for legal institutions for taxation and fiscal policy in Kosovo. It is worth noting that the fiscal policy is based on good EU practices and is perceived as business friendly by the private sector in Kosovo. The Kosovo Customs is responsible for implementation of regulations on customs, specifically on collection of customs duties as well as overview of trade and protection of trademarks and others. Since Kosovo operates under The Central European Free Trade Agreement (CEFTA) agreements and aspiring EU integration, the Kosovo Customs operates in accordance with EU standards. The CEFTA agreement promotes and facilitate export of food and beverage product. Signatories of CEFTA can be considered as preferential partners of the EU. However, countries operating under the CEFTA agreement must assure that sanitary and phytosanitary standards are properly met and monitored[40].

The FVA implements policies of the Government of the Republic of Kosovo related to the protection of animal and plant health. Through them and border control aims to preserve public health by guaranteeing safe food. FVA is mandated to guarantee right food safety at all stages to protect consumers' interests. It assures that food that is put on the market as well as the food that is dedicated to export is in line with the security requirements, labelling and other mandatory requirements, established by the Republic of Kosovo legislation. Further information are given in Chapter 6.3.

6.1 Investment Promotion and Support

Investment promotion is one of the key objectives in national efforts to support private sector development. According to recent estimates, foreign direct investments (FDI) in Kosovo in 2021 were €415 million compared to 2020's figure of just over €340 million[41]. This goes in-line with many stakeholder interviews

38 Sofia Declaration on the Green Agenda for the Western Balkans https://www.rcc.int/docs/546/sofia-declaration-on-the-green-agenda-for-the-western-balkans-rn

39 European Climate Law https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R1119&from=EN

40 European Commission, 2020, 2020 Report on Implementation of EU Trade Agreements, https://trade.ec.europa.eu/doclib/docs/2020/november/tradoc_159039.pdf

41 Foreign Direct Investments in Kosovo, 2021, Central Bank of the Republic of Kosovo, https://bqk-kos.org/statistikat/serite-kohore/

that confirmed that Kosovo became are more attractive place for European investors over the recent years. Increased near-shoring and the fact that Kosovo is considered to be a promising starting point to enter the West-Balkan market seem to be the prevailing reason behind this trend. Especially in the food & beverage, ICT, infrastructure, energy, and wood processing sectors FDI has increased in the recent past. Based on the advantage provided by natural resources, strong agricultural tradition, and subsidies/grants that the Government provides for the agricultural sector, KIESA ranks Food Processing and Packaging as one of the main sectors with investment potential.

The Programme of the Government 2021-2022 aims to review several areas as well as policies. These include the legal framework for strategic investments, promotion of economic zones, building institutional reforms and designing policies to promote investments according to the European Reform Agenda.

Relevant laws and regulations have been adopted according to international standards such as the policy and legal frameworks in relation to FDI's, like the Law on Foreign Direct Investment adopted in 2014 or the 2017 Law on Strategic Investments. It is important to emphasise that the Law on Strategic Investments lists several industries that have strategic potential. These industries, among others, include agriculture and food and beverages sector, as well as energy, infrastructure, manufacturing industry, health, mines, transport and telecommunications, tourism, and waste management. Other laws and regulations that directly and indirectly ensure more comprehensive legal frameworks are e. g. the Law on Late Payments in Commercial Transactions, the Law on Bankruptcy, the Law on Prevention of Money Laundering and Combating Terrorist Financing, and the Law on the Credit Guarantee Fund.

Although significant efforts have been spent to improve framework conditions for FDI (s. Chapter 6.1), there are several factors that hamper further progress. These factors include delays in regional and global integration, political instability, corruption, inconsistency of energy supply, the informal sector, the challenges in ensuring property rights protection and fact that many laws are not properly enforced. The stakeholder interviews revealed that foreign investors have positive perceptions in relation to buyers, suppliers and customers, whereas on the other hand, foreign investors have negative perceptions in relation to political instability, which influences their decision to invest in Kosovo.

Kosovo continues to have a low investment rate. KIESA as the national agency supports investors and promotes Kosovo investment potential. Aiming to improve business conditions and promotion to attract foreign investors, a Platform for Dialogue between the Kosovo Government and Investors was created, as well as few additional bodies, such as the National Council for Economy and Investment (NCEI) or the Multilateral Investment Guarantee Agency (MIGA)[42]. Several international agreements have also been reached aiming to improve trade conditions and consequently create a more favourable climate for investments, such the Stabilisation and Association Agreement (SAAs), the CEFTA agreement between the countries in the region, and bilateral agreements between Kosovo and several countries on double taxation (providing exemptions for certain types of dividend and interest, among others).

Inefficient institutional coordination of different government bodies remains one of the sources of low investments in Kosovo[43]. In addition, the institutions that are charged with attracting FDI, like KIESA, are lacking sufficient capacity and human / financial resources to manage due to the roles they have to play[44]. This observation was confirmed by various stakeholder interviews.

42 Free Market Economy (IFME) (2019). Foreign Direct Investment in Kosovo. The Investment Climate, Potential and Barriers Research Report By Institute For Free Market Economy (IFME)

43 OECD (2021), "Kosovo profile", in Competitiveness in South East Europe 2021: A Policy Outlook, OECD Publishing, Paris. DOI: https://doi.org/10.1787/573f3543-en

44 ibid

Kosovo is ranked 12 out of 190 countries in terms of the ease of starting a business, due to improvements in the ease of doing business and facilitation of services and its following activities[45]. The recent developments connected with the Covid-19 pandemic and Ukraine war might make Kosovo more interesting for FDI, especially following the global food demand increase. Mainly, because buyers who previously sourced from Ukraine and Russia are looking for new suppliers and those from the West-Balkan region, like Kosovo, are high on the buyers' agenda. Furthermore, the increasing trend for near shoring opens excellent perspectives for Kosovar food and beverage producers due to the proximity to the European markets. In addition, Kosovar food and beverages producers are well connected with the business networks established by Kosovo Diaspora, in particular in the EU and Switzerland, offering a great potential for attraction of FDIs.

6.2 Competitiveness and Innovation Support

Stimulation of competitiveness and innovation can be achieved in different ways. On the one hand, through framework conditions that make it easier for companies to survive in national and international competition. On the other hand, through so-called institutional support (i.e. institutions that advise and support companies in various areas). A third approach is public funding programmes that promote the competitiveness of players in the food and beverages sector.

According to the World Bank Indicators for Doing Business, Kosovo ranks on number 57 out of 190 countries. According to these indicators the framework conditions for starting a new business are very good (ranking on number 12), whereas in other areas, like getting electricity (ranking on number 90) or dealing with construction permits (ranking number 160) remains a challenge[46].

In addition to the institutional setting conducive to support competitiveness of enterprises given in Chapter 6.1, there are some other mechanisms in place to support enterprises through institutional services for innovative MSME's are the Innovation Centre Kosovo (ICK), Gjirafa Lab, among others. For examples, the ICK provides special training services and delivers market-oriented, high quality courses improving the skills of the general workforce. These training scheme range from marketing until cyber security training schemes. These institutions are donor based, for example ICK through Norwegian, Swedish, and German donor programs and EU grants. Gjirafa Lab is supported by the USAID, whereas Jakova Innovation Center is established by the Ministry of Industry, Entrepreneurship, and Trade (MIET) with the support of the US Embassy in Kosovo.[47] The IADK provides food technology services to sector MSMEs, be it with in-house or laboratory services for the enterprises in the food and beverages sector.

As far as programmatic support for competitiveness and innovation are concerned, there are only limited governmental mechanism in place. A key bottleneck is the missing Law on Innovation as well as Law on Invest Funds, which are preconditions for a stronger public engagement in innovation support. As given in Chapter 6.1 most public support schemes focus in export promotion rather than on innovation support. In 2018 / 2019 a National Strategy for Innovation and Entrepreneurship was developed, but never backed with dedicated support schemes or interventions.

So far, the food and beverages producers are mainly supported through grants provided by the MAFRD, which have contributed to a degree of innovation in the production processes, modernization of processing facilities and introduction of new products. The MAFRD has two dedicated programs for the support of the

45 ibid

46 World Bank Index on Ease for Doing Business, 2019, https://www.doingbusiness.org/content/dam/doingBusiness/country/k/kosovo/KSV.pdf

47 OECD/ETF/EU/EBRD (2019), SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe, SME Policy Index, OECD Publishing, Paris. https://doi.org/10.1787/g2g9fa9a-en

agricultural and food sector: the Direct Payments Program and the Rural Development Program[48]. Direct payments have increased from around €26 million in 2016 to around €67 million in 2020. The program budget was more than doubled in 2020, as one of the measures to address economic situation created by the Covid-19 pandemic.

To support overall food sector growth, direct subsidies are provided for the cultivation of agriculture related products, per area of cultivated crops, per livestock head, for inputs, wineries as well as crop insurance. Subsidies per area of production mainly support increase of cultivated area but not necessarily increase of productivity in the sector. Yield related subsidies that promote quality and productivity have been piloted, as in the case of raspberries or milk production, but support measures that influence increase of productivity in the agriculture sector are limited.

The MAFRD grant schemes, under the rural development program, supported increased competitiveness by co-financing investments in the primary sector, but also in the processing industry through various program measures. These measures include investment in physical assets, in agriculture, processing and trading of products, diversification of businesses, as well as capacity building. A budget of around €21 million was dedicated for the implementation of the rural development program 2020/21[49].

Investment promotion, export promotion and supportive schemes for service improvement is provided by the KIESA. The agency provides supportive service in the establishment of new businesses, as well as after care services. In addition, KIESA arranges and cover costs of exhibition in several international fairs, enabling promotion of domestic food products in international markets in yearly basis. Last but not the least, KIESA supports enterprises through the voucher consulting scheme, enabling companies to have better access to knowledge, certification of quality standards, improved marketing and digitalisation, etc.

Improved access to finance is supported through the Credit Guarantee Scheme, which serves as a risk-buying mechanism, allowing banks to lend money for relatively higher risk projects in the food and beverages industry, contributing indirectly to introduction of new products and technologies. In 2020, as part of the Covid-19 recovery plan, Kosovo established an all-encompassing Economic Recovery Plan in the amount of €1.1 billion to distribute funds in the form of loans, grants and subsidies. Among others, the MAFRD increased the budget for grants and subsidies by €5 million to stimulate agricultural production during the Covid-19 period[50]. By December 2021, 2.105 enterprises benefited from around €106 million in loans and €77 million in guarantees. Only in agricultural and metal manufacturing sector, 546 enterprises benefited from guaranteed loans, with around €35 million guarantee amount[51].

In addition, the sector is heavily supported by various donor agencies, including the EU, USAID, GIZ, Swiss Agency for Development and Cooperation (SDC), and other donors. Donor support was crucial in influencing innovations and further contributing to increased modernisation, productivity and competitiveness. Through various development projects, food and beverages sector companies benefited from international expertise, investment in new technologies, introducing new and modern semi-processing and processing lines, leading to new and better-quality products. Access to new markets, with a strong focus in international markets was also supported by donor related projects.

The recent Programme of the Government of Kosovo 2021 – 2025, aims to take several measures that will

48 Ministry for Agriculture, Forestry and Rural Development, 2020, Kosovo Green Report 2020, https://www.mbpzhr-ks.net/repository/docs/Green_Report_2020r.pdf

49 ibid

50 OECD, 2021, Multi-dimensional Review of the Western Balkans Assessing Opportunities and Constraints, OECD, https://doi.org/10.1787/4d5cbc2a-en

51 OECD (2022), SME Policy Index: Western Balkans and Turkey 2022; Assessing the Implementation of the Small Business Act for Europe, SME Policy Index, OECD Publishing, Paris. b47d15f0-en.pdf (oecd-ilibrary.org)

lead to a better transparency and quality of services and increase the effectiveness of administration for enterprises and citizens. The characteristics of this interventions are to achieve two main objectives, firstly by improving inter-institutional coordination in relation to inspections of business activities and digitalise the process of inspection[52].

In general, these programmes and interventions have a wide scope of support, but still a limited impact for boosting innovation. Kosovo continuous to have one of the lowest scores in the region with regards to innovation policy for MSMEs, although it has a high level of strategic framework for innovation, but it lacks concrete actions and targets[53]. Dedicated support schemes to de-risk investments in innovation, facilitation of knowledge transfer or support cooperation between the private and academic sector for joint R&D or technology / product development for the food and beverage sector are not in place. Consequently, enterprises mainly rely on their in-house knowledge, which is largely limited. As indicated by the recent OECD SME Policy Index Report, public investments in research remain marginal at 0.1% of GDP, and there are no concrete actions to establish supportive measures through an Innovation and Entrepreneurship Fund[54].

6.3 Conformity Assessment and Food Safety

Testing and certification are crucial services for the Kosovo producers to ensure compliance with national or international standards or to meet safety requirements. Food safety standards are particularly important for the export of food products. This counts even more since for the food and beverage sector there are many mandatory standards on national and international level to be met by Kosovar producers.

Kosovar producers exporting to EU are challenged by a very complicated conformity assessment system in the EU. EU countries has implement harmonised standards, which are embedded in national laws. The following EU standards and regulations have to be met be any exporter who intends to deliver to the EU.

These food and beverage related EU standards are concentrated in four main areas:

- Food hygiene: food businesses, from farms to restaurants, must comply with EU food law, including those importing food to the EU.
- Animal health: sanitary controls and measures for pets, farmed animals and wildlife monitor and manage diseases, and trace the movement of all farm animals.
- Plant health: detection and eradication of pests at an early stage prevents spreading and ensures healthy seeds.
- Contaminants and residues: monitoring keeps contaminants away from food and animal feed. Maximum acceptable limits apply to domestic and imported food and feed products.

The national system is challenged with many missing policies to assure a proper food safety system, like insufficient level of pesticide restrictions or lack of monitoring of the nutritive values in the production level[55]. Furthermore, intensive agriculture contaminates also water sources in Kosovo with it being the second largest sector that consumer water for irrigation purposes [13]. Low inspectorate capacities within the central

52 Government of Kosovo (2022), Economic Reform Programme 2022-2024 Kosovo, https://mf.rks-gov.net/desk/inc/media/23D2D3B1-81C1-41FE-B6C0-2D5C739A6F69.pdf

53 OECD, 2022, SME Policy Index: Western Balkans and Turkey 2022; Assessing the Implementation of the Small Business Act for Europe, SME Policy Index, OECD Publishing, Paris. b47d15f0-en.pdf (oecd-ilibrary.org)

54 ibid

55 Konrad-Adenauer-Stiftung, 2021, Kosovo's Food System: its Sustainability and Missing Policies

and local level institutions and a weak market surveillance system hamper sufficient consumer protection of Kosovar citizens. The strong divide between the situation in Kosovo and the requirements for food and beverage products to be exported to EU makes is very challenging for local producers.

While KSA is responsible for standardization, according to the Law on Food, which entered into force in 2009, the primary responsibility for ensuring food safety in Kosovo lies with the FVA through veterinary (for animal products), sanitary (hygiene control) and phytosanitary inspectors (for plant origin products).

Opportunities and Barriers

Firm level as well as stakeholder level interviews have identified a broad range of opportunities and constraints related to the future development of the food and beverage industry in Kosovo. The following paragraphs elaborate on some of the main opportunities and constraints. Most of them are cross-sectoral and valid for all sub-sectors of the food and beverage sector.

7. Opportunities and Barriers

7.1. Opportunities

1. **The food and beverage sector is a growing sector with high export potential.**
   The fact that Kosovo food and beverage companies export a significant share of their products to regional markets and the EU market proves the increasing competitiveness of this sector. Such exports indicate that domestic companies are able to penetrate even the most attractive markets with competitive products. Beverages and processed products have recorded the highest growth rates in export. In particular high-value added food and beverages seem to have the highest growth opportunities.

2. **European buyers are showing increased interest in shortening and strengthening their supply chain.**
   Both the Covid-19 pandemic and the Ukraine oftener leading to frequently broken or, at least, disrupted supply chains[56]. Consequently, many European buyers from the food and beverage sector are considering to increase sourcing from Europe, especially from the West-Balkan region, as the supply is supposed to be more sustainable and resilient[57]. This is an excellent opportunity for Kosovar food and beverage producers to step in. For example, Ukraine's trade partners in the EU were mostly countries with which it shares a land border. In terms of monetary value, Poland was the main importer of Ukrainian goods, with €4.19 billion in imports in 2021. In terms of percentage of the EU total, Hungary was the biggest customer, with 5.7 % of all EU imports from Ukraine going to Hungary[58]. These are countries with dedicated growth opportunities for new suppliers, like those from Kosovo.

3. **Current and future market trends can become a driver for innovative start-ups.**
   The food and beverage sector is under transformation, not only because of the digitalization of related industries. Among other things, the Covid-19 pandemic, served as a driver for innovative start-ups to offer new food products or food related services. E-Commerce in the food and beverage sectors is gaining importance. Markets are more and more open for new or innovative food and beverage related products and services. Innovative Start-ups and young firms do not need huge investments to enter domestic or regional markets. The current situation is, without a doubt, appropriate to produce a significant number of such start-ups if the political framework conditions are conducive.

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56 OECD, 2021, Multi-dimensional Review of the Western Balkans Assessing Opportunities and Constraints, OECD, https://doi.org/10.1787/4d5cbc2a-en

57 T. Cigut, M. McManus, M, Dermastia, 2022, Impacts and Potentials of the Ukraine Crisis on Supply Chains Development for the Danube Region, Danube Alliance, DOI: 10.13140/RG.2.2.17378.20161

58 ibid

4. The food and beverage sector is high on the political agenda
Specific public support measures and interventions for enterprises from the food and beverage sector were not sufficiently available in the past. Interventions were mainly aimed at export promotion, while other areas, where the sector needs support, like innovation, digitalisation, skills development or networking and cooperation, were neglected. Nowadays, there seems to be a higher policy awareness that the domestic food and beverage sector needs tailor-made support schemes, addressing the specific barriers and weaknesses of the sector.

7.2 Barriers

1. The food and beverage sector is dominated by micro and small enterprises
The vast majority of Kosovar business operating in this sector manufacturers are micro and small firms with very limited production and financial capacities. This makes it difficult to grow, e. g. by investing in higher capacities or new machinery, equipment or technologies needed to properly respond to new market trends and customer needs. Such small firms always have issues gaining access to the necessary financial means, especially since appropriate financial instruments, aiming support growth of small firms, are missing in Kosovo. Furthermore, going international becomes challenging for such small enterprises, since related experiences, competences and capacities are missing.

2. Lack of knowledge about foreign markets
The findings have shown that export plays an important role for many business. Further growth can only be secured if the businesses succeed in exporting to attractive markets. However, many businesses suffer to identify market opportunities, since the right tools are missing and market knowledge is limited. There is a lack of programmatic and institutional support, which makes it very challenging for domestic businesses to operate international.

3. Limited knowhow on production technologies and market trends
The current level of knowledge and expertise in key fields such as food process technology, food safety requirements or future market trend is largely unsatisfactory and a barrier towards further growth. The interviews revealed that in addition, business have comparable low ability to develop new (innovative) products, take advantage of digital marketing opportunities or lack to increase production efficiency due to missing knowledge. All such knowledge is needed to prepare domestic food and beverage producers to cope with upcoming challenges.

4. Unfair competition in the food and beverage sectors
Unfair competition, particularly from the informal sector, represents a significant constraint for food and beverage production businesses in Kosovo. Many of the businesses interviewed stated that competition from informal enterprises is a notable obstacle for their business. The high and persistent levels of informality are mainly due to weak enforcement rather than the prohibitive costs of doing business in the formal sector. Smaller food and beverage manufacturers with a comparable weak market position are strongly affected by this constraint.

5. Low availability of skilled workers
Despite the fact that only around 30% of the Interviewed companies reported of having challenges to find sufficiently skilled workers, the interviews with stakeholder and the validation workshop demonstrated that availability of workforces remains a challenge. Properly trained staff, especially for businesses that see good growth potential and need properly trained workers, is limited. Also, because food

and beverage manufacturers need a broad spectrum of skilled workers, ranging from food technology experts over food safety specialists until IT-related staff. What makes finding properly skilled workers even more challenging is the fact that young people do not value the food and beverage sector like others resulting in a low overall interest in working in this sector. Low training and education capacities offered by VTCs or universities are also an issue in this regard.

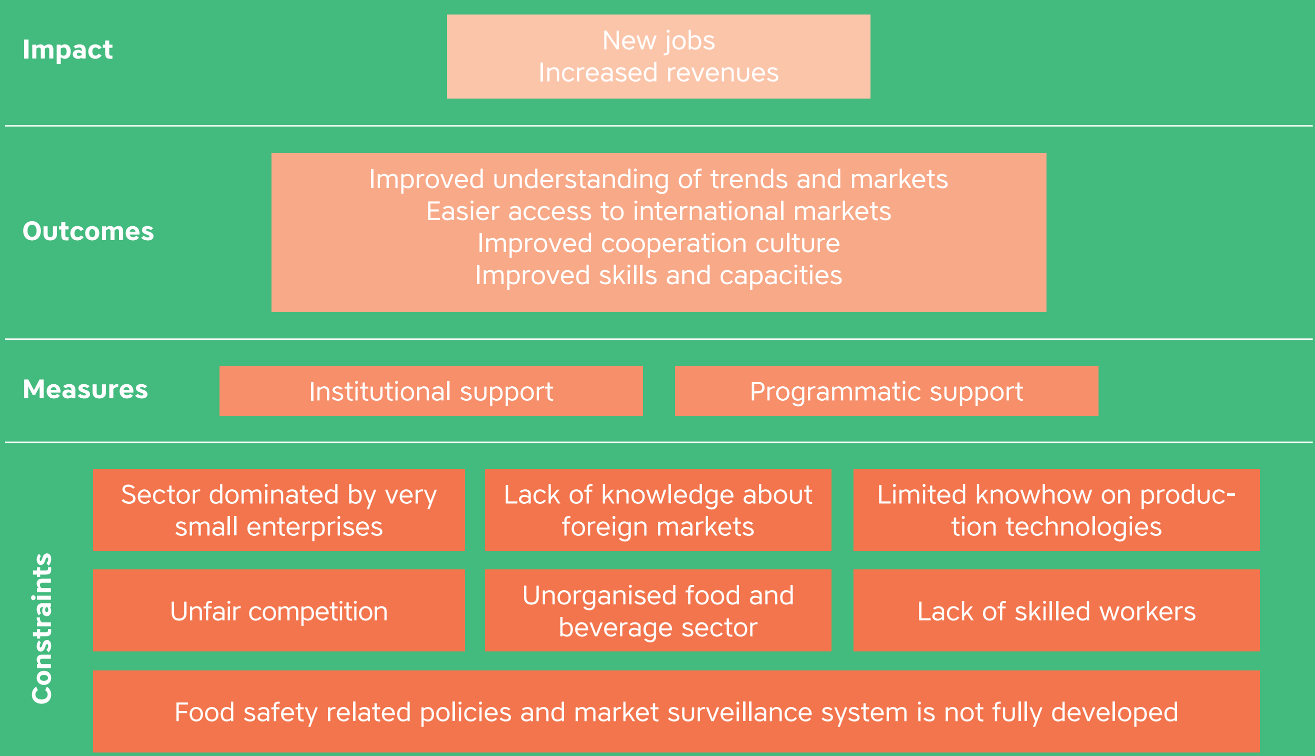
6. **The food and beverage sector is largely unorganized**
   Although there are some sector associations in place that offer support for domestic enterprises from the food and beverage sector, most firms are not members of such associations. There are various reasons, ranging from lack of knowledge about such associations or BMOs and the services they offer until the fact that the BMOs are often understaffed. So far, there is no strong association or BMO in place the represents the food and sector properly.

7. **Food safety related policies as well as market surveillance system is not fully developed**
   As given in chapter 5.3, the national system is challenged with many missing measures to assure a proper food safety system. The infrastructure of the FVA, such as laboratories and regional offices, needs further investments to fulfil all necessary tasks. In the current situation, Kosovo is not allowed to export live animals and food of animal origin to the EU. Increasing imports and lack of export opportunities are the result of the current situation and will put additional pressure on the competitiveness of the food and beverage sector in Kosovo.

8. Main Recommendations / Interventions

According to the findings of this mapping study, the food and beverage sector developed well over the recent years. However, supply chain disruptions, global mega trends and increasing industrial transformation provide significant challenges and opportunities for the food and beverage sector. Thus, the entire sector, also in Europe, is under transformation. Increasing costs for raw material and transportation, but also the raising importance of the West-Balkan, including Kosovo, to become integrated part of the global supply chain role, seems to have a significant impact on the entire sector. These developments contain a lot of opportunities, but also threats. Threats are also coming from the neighbouring countries, whose food and beverage sectors are partly much taller and industrial productivity partly much higher than in Kosovo. Furthermore, the rise of costs for raw material and transport will likely increase the production costs of most products and elements manufactured in Kosovo.

Figure 28: Theory of Change of the proposed interventions

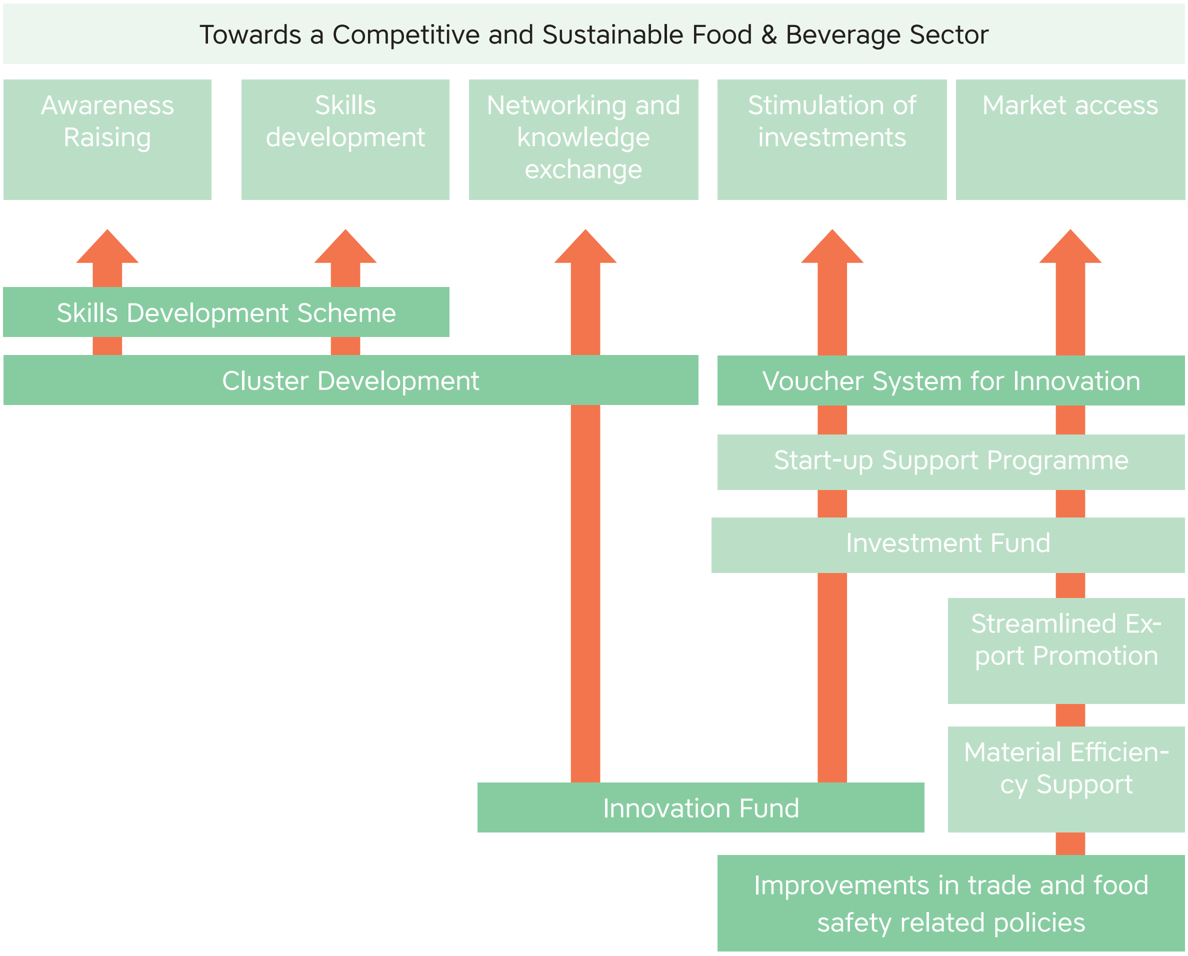


Source: Anteja ECG

The proposed interventions aim to improve the competitiveness of the entire food and beverage sector by specifically addressing the identified barriers and constraints (Figure 28). These interventions shall become part of the Strategy for Innovation and Entrepreneurship implementation (Chapter 6.2) to improve the framework conditions of the food and beverage manufacturing sector in Kosovo. The interventions shall be implemented through institutional as well as programmatic support measures. Focus is given on such interventions / recommendations, which are in the scope of the MIET.

In the following, nine interventions are proposed that address one of several areas of improvements as given in Figure 29. Dedicated attention is given that these interventions are complementary, but are also well interlinked.

Figure 29: Nine proposed interventions and addressed areas of improvements



Source: Anteja ECG

Recommendation 1: Implementation of a skills development support scheme

Rationale: There is, without doubt, a dedicated shortage of skilled workforces available for the food and beverage sector. The national educational system is ready to provide enough skilled workers. Even in case more efforts will be spent to upgrade the curricula and infrastructure of national vocational training education centres or universities, this will take time and it is unclear to what extent it will be possible that such institutions provide the support, which is really needed.

As a complementary approach, a promising way will be to stimulate training providers to become more active in providing of trainings workforces according to the needs of the food and beverage sector. Since training and qualification of employees is time consuming and expensive, support shall be given to such enterprises interested in offering training and qualification for their staff.

A promising intervention could be a skills development grant scheme [59]. Main beneficiaries of the grant scheme are food and beverage production enterprises that can receive advice in formulating internal skills development plans and financial support for skills development through training vouchers.

- Beneficiaries, mainly MSMEs, can receive support in training needs assessment of their workers, e. g. part of a skills strategy, which can be understood as a precondition for future training activities,
- Enterprises can receive vouchers for training programs which are relevant to developing mandatory skills, or
- Education and training providers, scientific organisations, association or business member organisations can receive support to develop and implement new training programmes, and additional support for forming international partnerships with training providers from abroad.

The scope of this voucher scheme shall be to offer training for all topics related to modern food and beverage production, including management, food safety, digitalization or marketing. If successfully implemented, the voucher scheme can also increase the awareness about the increased need to invest in own employees. It facilitates the design and implementation of tailor-made training programmes, but also allow training providers to extend their knowledge.

Good Practice Example

Voucher schemes for skills development became popular around 10 years before. There are several European countries that successfully implemented similar training voucher schemes, like Belgium, Bulgaria or Slovenia. Whereas many focussed on unemployed workers, many country also allow workers to benefit accordingly. The Flemish approach is very successful, where such vouchers for skills development served as incentives for MSMEs to support their employees with on-the-job training opportunities. It allowed low-skilled, but also high-skilled employees to benefit. The latter ones could use such vouchers for career-oriented training purposed.

The voucher scheme of the Government of Flanders did not focus on dedicated sectors, but was mainly requested for very specific, technical training purposes, incl. food processing technologies or ICT. The funding rate was 50%, meaning that the half of the training costs were reimbursed by the voucher scheme. The scheme was closely implemented with many sector associations or cluster initiatives, which strongly advertised this approach to their members[60].

59 This grant scheme shall be open of all manufacturing sectors, not just food and beverage, like metal or wood manufacturing, textile or chemical industries

60 Vlaanderen, 2021, https://www.vlaanderen.be/en/training-vouchers-for-employees

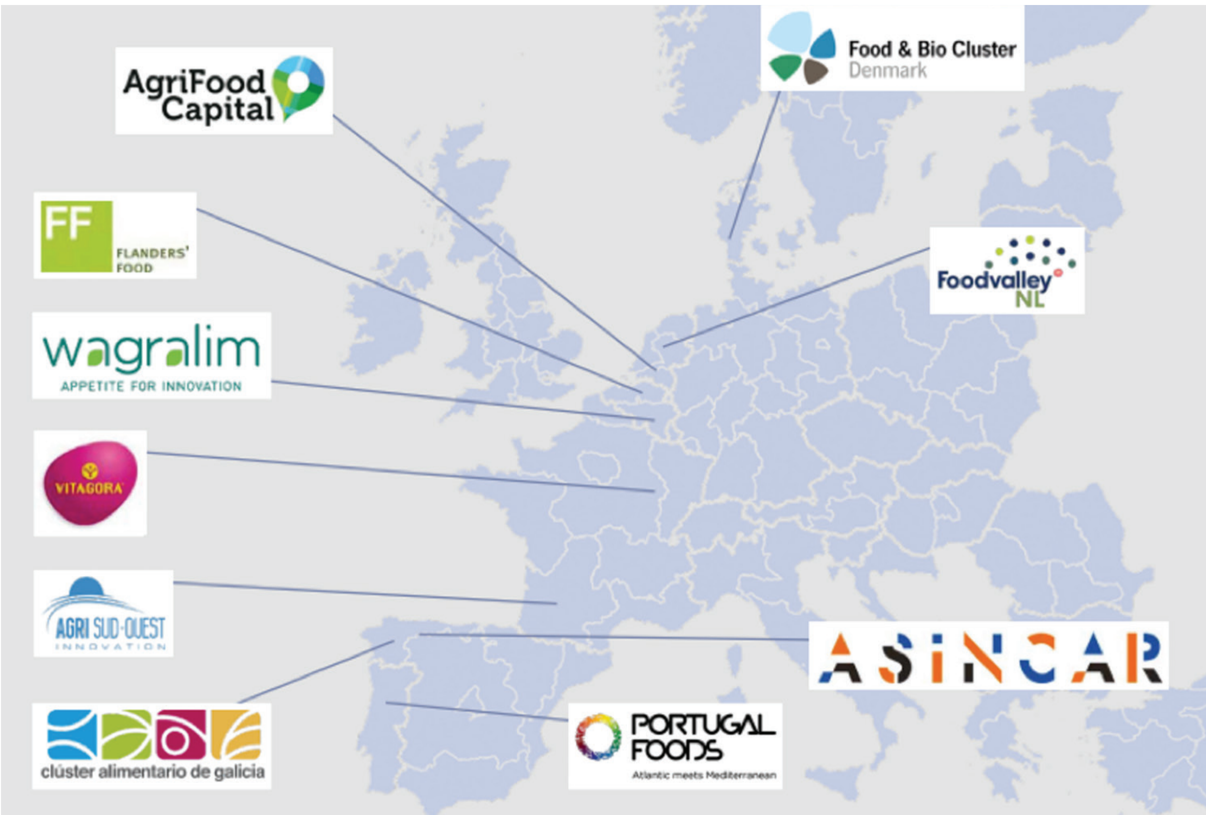
Recommendation 2: Development of food and beverage cluster

Rationale: The national landscape of business member organisations, sector associations and cluster initiatives is still embryonic or not even existing. PePeKo association was established in 2014 and represents food and vegetables producers. However, the services offered to its members and the overall impact is limited. Any related food cluster initiative is missing. On the contrary, food cluster initiatives are playing a more and more important role. When looking at the European cluster landscape, there are around 100 such cluster initiatives in place, underlining the importance of such entities. Figure 30 reveals some of the strongest food cluster initiatives in Europe.

The main objective of the proposed intervention to support the development of a food and beverage cluster in Kosovo is support the development of food and beverage cluster initiative to improve the competitiveness of sector. The intervention shall support a future cluster organisation to provide services for a range of activities, including networking, matchmaking, skills brokering, provision of training in food production technologies, internationalisation, bundling production capacities or common innovation activities. Support provided by such a cluster organisation will strengthening the capacity of the members from the food and beverage sector to cooperate, network and innovate, which in turn will enable them to become more competitive in their key sector.

Cluster members shall represent the entire food and beverage value chain, incl. MSMEs, research and knowledge dissemination organisations, business and knowledge service providers, government organisations or other legal entities.

Figure 30: Selected food cluster initiatives in Europe[61]



61 G. Meier zu Köcker, 2022, Food Cluster Hamburg (in German language) https://www.hamburg.de/contentblob/16204992/9eca-eac45dcda45121d98a6f5ff8b895/data/studie-food-cluster-hamburg.pdf

Good Practice Example

FoodRegio – Cluster initiative for the Food Industry in Northern Germany e.V.

The cluster initiative foodRegio e.V. currently has 81 members, who come from all five northern German states, Schleswig-Holstein, Mecklenburg-Western Pomerania, Lower Saxony, Hamburg and Bremen. The foodRegio e.V. was founded in 2007, after already two years of active networking, and has since been associated with Regional Development Agency of the City of LÜBECK. The cluster management has set itself four basic goals for its work in the cluster. On the one hand the strengthening the competitiveness of the member companies is the central element of the measures, on which the support of profitable and sustainable company growth is based.

Furthermore, foodRegio e.V. is to be perceived as a national and international location for the food industry. foodRegio e.V. also organizes important fields of work via working groups, which in turn provide impetus for concrete measures. The topics covered by foodRegio e.V. range from procurement, logistics, market and communication, personnel, training, and quality/certification. Cluster services resulting from these objectives and principles are, on the one hand, training courses on a wide variety of topics in the food industry, which are also offered as e-learning formats are offered. On the other hand, the working groups initiate events on trends or relevant developments. In the area of innovation, a program for the promotion of start-ups, the Start-up Lab, has been developed. Here, foodRegio e.V. actively networks established companies with start-ups from the food industry. In addition, there is a cooperation with the program GATEWAY49-Accelerator of the Technical Center Lübeck, together with the Chamber of Commerce Lübeck. foodRegio e.V. organizes in this respect event series as well as mentoring programs with experienced entrepreneurs from the food industry.

The cluster initiative is financed in part by the Schleswig-Holstein state program "Wirtschaft Schleswig-Holsteins and is supported by the European Regional Development Fund (ERDF). Further income is generated by membership fees, graded according to company size as well as corporate body (starting at €400 for companies with up to 20 employees up to €3000 for large large enterprises with more than 1000 employees as well as non-profit organizations and non-production companies.

Recommendation 3: Setting-up a voucher system to stimulate firm-level innovation

Rationale: The findings revealed that investments in innovation and innovative production or technologies is still an exception. Despite that fact that there are some programmes and support schemes for companies from the food and beverage sector, offered by the MAFRD, are in place, none of these incentives is intended for early stage activities in the field of innovation and digitalisation. Designing and implementing a so call Voucher Programme can be similar as given in Recommendation 1, but having a different scope. A voucher programme usually consists of economic incentives granted by local, regional and national governments to enterprises with the aim of addressing pre-defined goals. In this context, the voucher programmes are meant to address mainly MSME.

Voucher schemes are well recognised in Europe and beyond and have proven to be an effective tool to support MSMEs in various areas. It is recommended to implement a voucher programme that stimulates innovation in the food and beverage sector. The vouchers can be used by the enterprises to receive support from consultants, training providers or R&D institutions. The requested support can cover

- Analysis of the innovation potential
- Innovation management
- Innovation related activities (contract research, proof of concept development, prototyping, testing and validation)
- Prototype development
- Feasibility studies
- Patent drafting and protection, or
- Business advisory services, including market research, design, and branding; business strategies and planning; operation and management improvement projects

The amount of the vouchers shall be limited, e. g. €5.000 per voucher and applicant (within 24 months).

Good Practice Example

The Innovation Vouchers of the UK offered innovation voucher is up to £2,500 (€3.000), of part-funding offered to eligible companies to spend on business innovation activities. The Innovation Vouchers Scheme targeted MSMEs from industrial key sectors and aimed to develop new processes and systems to improve innovation and production efficiency of MSMEs. By such support, the beneficiaries were supposed to bring new, innovative products and services to market. The value of the Innovation Voucher needed to be matched with a £1 contribution to every £1 received. The typical value of an Innovation Voucher was £2,500 (€3.000) meaning you would also contribute £2,500 to create a total business innovation fund of £5,000 (€6.000). To stimulate potential applicants, free support in the form of business innovation workshops were given[62].

Recommendation 4: Streamline the Export Promotion Support Landscape

Rationale: Despite the fact that the GoK has some programmes in place and appointed entities, like KIESA, to promote the internationalisation efforts of the private sector actions appear fragmented, not always aligned, often traditional and, by far, not sufficient to set-up conducive framework conditions for export promotion. Any systemic strategy is missing. In addition, the financial instruments in place that support enterprises interested to go international do, by far, not satisfy the demand from the private sector. Most of the enterprises from the 2food and beverage sector are very small and challenged by low financial capacities, which are needed to go international. Short term loans with reduced interest rate subsidies for exporters can be a promising instrument. Subsidizing interest rates for food and beverage manufacturers with export orders in hand may ease the liquidity burden that they face when delivering large orders in foreign markets. Such orders have usually been pre-financed by the supplier.

Institutions, like KIESA, shall play a stronger and more active role to support MSMEs' internationalisation efforts. Support in participation and exhibition in international food and beverage trade fairs, training of firms how to internationalise as well as strengthening the diaspora networks are activities would all help the sector to go international. KIESA could act as a key driver in this regards. Increased visibility of Kosovo as a hub for the food and beverage manufacturing industry shall become part of a dedicated branding strategy.

62 For more information: https://www.innovation-vouchers.com/about/

The streamlining of the export promotion support schemes shall also contain new and innovative elements. E. g. the involvement through cooperation with diplomatic offices abroad. Kosovo has established its diplomatic ties with the vast majority of European countries which could also serve as trade facilitators and promoters of local brands abroad. Appointment of trade attaches in diplomatic missions in existing as well as new potential export markets can be initiated jointly by MIET and the Ministry of Foreign Affairs and Diaspora (MFAD).

Good Practice Example

Internationalisation is an integrated part of the National Smart Specialisation Strategy. With an export share of 80% in 2020, internationalisation is the prevailing growth option for domestic companies. Consequently, the Government offers a supportive environment for emerging businesses looking to thrive internationally.

As part of its internationalisation efforts, Slovenia set-up a consequent Branding Strategy to better communicate its Unique Selling Point ("The Slovenian economy is green, creative and smart, which is evidenced by its focus on the green economy and sustainable development to become an advanced, low-carbon society that actively responds to global challenges and co-create new trends"). Slovenian government and public institutional bodies provide many free-of-charge services to existing and potential Slovenian partners, investors, suppliers and exporters, helping them to enhance their cross-border operations, increasing the geographical diversification of Slovenian exports and creating better conditions for Slovenian companies on foreign markets. SPOT Global run by SPIRIT Slovenia works as a one-stop-shop for all the necessary information. Entities involved in internationalisation support measures are adequately equipped and operate in a professional manner. SPIRIT is also charged with the implementation of existing financial support schemes for export promotion and internationalisation.

Support schemes relate to:

- promoting the competitiveness and resilience of Slovenian exports,
- attracting, supporting and retaining foreign investors in Slovenia,
- supporting Slovenian companies investing abroad,
- improving the international visibility of the Slovenian economy,
- improving the functioning of the internationalisation support ecosystem itself.

In addition to traditional measures such as co-financing market research and activities related to trade fairs and business events to encourage companies to enter foreign markets, support is also targeted at new forms of encouraging the internationalisation of companies, i.e., the digitalisation of companies, e-content as part of business operations, new business models, partnerships with the aim of jointly entering a selected foreign market and similar initiatives.

In addition, support is also focused on suppliers, which includes tailor made information about Slovenian suppliers, a database of Slovenian exporters Sloexport, distribution of your inquiry among Slovenian exporters, organisation of fact-finding missions, links with industry and local authorities, and advice on practical matters. More detailed information for Slovenian potential suppliers, the business environment, industries and other business-specific information can be found on the portal Slovenia Partner.

Recommendation 5: Re-activating the former Innovation Fund

Rationale: Most food and beverage businesses do not have the means to properly invest in innovation, neither on product, technology or process level. A low ability to innovate, diversify or to adapt to the needs of the upcoming clients is the logical consequence. Most of the interviewees confirmed that there is a need to become more active in innovation, but they do not have proper access to finance and knowledge.

Over the last years, the GIZ CETEP in collaboration with the ICK, supported by MIET provided financial support to SMEs through an "Innovation Fund" grant scheme. In 2019 eight projects were awarded. It is strongly recommended to increase and strengthening the Innovation Fund. The objective of the "Innovation Fund" is to respond to the current situation, by improving the competitiveness of firms within the manufacturing sector, promoting diversification and enabling beneficiary firms to engage in innovation (and R&D). The scheme will support collaborative innovation projects that bring together different companies or companies and research organisations for the development of new technologies and new or improved products and services.

Whereas the innovation vouchers (Recommendation 3) aims to sensitise and increase awareness of the MSMEs with regards to innovation, the Innovation Fund support research, development and innovations within enterprises.

Eligible activities under the scheme are:

- Industrial research
- Experimental development
- IP protection and licensing
- External services required for project preparation and implementation
- Purchases of equipment required for project implementation

Good Practice Example

EIT Food is the world's largest and most dynamic food innovation community. It accelerates innovation to build a future-fit food system that produces healthy and sustainable food for all. Recently, the EIT Food launched an Innovation Fund Scheme aiming to support enterprises and R&D institutions to become more innovative. The Innovation Fund will support food innovation projects implemented by enterprises that bring innovative technology solutions to the market. There are several thematic calls under this Innovation Fund. The first call in 2022 support SMEs in production of healthier food production, net zero food production and in setting up fully transparent, fair and resilient food systems.

The Innovation Fund supports research, development and innovation efforts by companies and provides funds of up to 70% of the eligible project costs to re-risk the necessary investments. The Fund supports commercialization of existing prototypes or proof of concepts, the development of new applications for existing food processing technologies or to run market demonstration activities for high impact technologies or services.

The Fund provides up to €600.000 per year. The 70% funding from the EIT must be matched with 30% co-funding from the beneficiaries. Activities on Technology Readiness Level 5 or above must be targeted. The overall volume of the Fund is around €20 million. In addition, the Innovation Fund offers training and information seminars for interested applicants[63].

Recommendation 6: Stimulation innovation and entrepreneurship through support of start-ups

Rationale: The Kosovar food ecosystem is not yet driven be innovation. Mainly because innovative MSMEs are missing and because of lack of support schemes for MSMEs to invest in innovation. However, there is good evidence that innovative start-ups can play a decisive role as innovation drivers. Furthermore, start-ups in the food and beverage sector usually do not need huge investments and can enter a market quickly. Nevertheless, starting a business remains a risky thing, which prevents many food and beverage inventors to start their own business.

By means of setting-up a start-up support scheme for the food and beverage sector, the GoK could stimulate the creation of new and innovative businesses. Whereas similar start-up initiatives exist for ICT firms, such support is not yet in place for food and beverage start-ups. Such an intervention should focus on the pre-seed phase to kick-start innovative agrifood businesses. It can be subordinated loan scheme with low interest rates or a grant scheme, depending on the final policy objectives. The first one is likely to be more practical like.

Such start-up support scheme shall be implemented in close cooperation with existing incubators in order to provide non-monetary support for food and beverage start-ups.

63 For more information about the EIT Food Innovation Call: https://www.eitfood.eu/news/eit-food-launches-open-funding-call-for-food-innovation

Good Practice Example

The Pre-seed Fund for Agrifoodtech Start-ups (Startlife), implemented by the Dutch region of Gelderland, is a good practice example how such funds can stimulate the creation many new businesses. The Development Agency OostNL offers early stage food & beverage start-ups founder-friendly subordinated loans. Startlife offers loans from €25.000 up to €250.000. The loans are solely granted in combination with a minimum of three month coaching and guidance by StartLife. Thus, the founders can also benefit from the knowledge and experience of world-renowned corporates and investors from the agriculture and food industry.

The key determinants of this support scheme are

- Interest rate: 3%
- Loan duration: 6 years
- Grace period loan and interest: 24 months
- Payback scheme: 48 months
- No co-financiering / matching required
- No personal surety required

The scheme is open for start-ups younger than five years and having an innovative business idea[64].

64 For more information: https://start-life.nl/startups/funding-opportunities-for-startups/

Recommendation 7: Setting-up an investment fund to production renewal and production increase

Rationale: The study clearly pointed out that the Kosovar food and beverage sectors is dominated by micro and small enterprises. At the same time critical mass in terms of company size matters, especially since the future growth markets are outside of Kosovo. High requirements related to food safety and EU standards and regulations have to be met. From an economic point of view, it makes sense if companies can export on a larger scale at the same time, in order to be able to distribute the efforts and costs of exporting over a larger production volume. Therefore, the topic of expanding and increasing production will become more important in the future if Kosovar companies from the food and beverage sector want to survive in international competition.

However, expanding production involves significant investment, which is a major hurdle for SMEs in particular. This is precisely where the recommendation comes in. The proposed investment support programme aims to provide financial support to enterprises that are willing and able to expand their production capacities. Such production expansion can then represent an important element of an entrepreneurial growth strategy. The support schemes shall preferably provide grants or governmental backed-loans with lower interest rates that provide the financial means for the companies to do proper investments. If a grant scheme is selected, certain amount of an overall investments can be covered (e. g. 15% - 25%). If a loan scheme is preferred, it a governmental back-loan scheme is needed to cover parts of the risks banks have when providing loans to smaller food and beverage manufacturers.

Good Practice Example

As a result of recent crises, many companies in Baden-Württemberg were not in a position to the financial means to make the necessary investments related to production extension or environmental friendly production to better cope in the future. To support competitiveness of local SMEs and to protect the climate and preserve the environment, investments in production extension is needed.

The grant scheme "Future Investments" was intended to enable existing production facilities to be expanded as well as efficient products and processes to be implemented on the market, in order to maintain the competitiveness of local SMEs and thus to create or safeguard value added and jobs, and at the same time to contribute to climate protection. The grant scheme was implemented in the beginning of 2021.

Within this scheme one funding stream is limited to a maximum of €200.000 per applicant enterprise. Accumulation is possible, taking into account the accumulation rules are in accordance with Article 5 of the de minimis regulation or § 3 of the Small Grants Regulation. However, accumulation is only possible if the projects are only possible if the eligible expenditure is different and identifiable.

The following investments are eligible for funding within the grant scheme

a) Acquisition and production costs for the movable tangible assets (non tangible fixed assets, including plant, machinery and other equipment) used within the subsidised in Baden-Württemberg, provided that they are capitalised and depreciable, and capitalised and depreciable, as well as the associated ancillary expenses.

b) Material expenses and external services for qualification measures that serve to personnel in the use of new machines, systems and processes that are and processes promoted under this administrative regulation.

The funding rate varies between 10% and 25 % depending from the company size and to what extend environmental related criteria are met[65].

Recommendation 8: Reduction of dependency of raw-material from abroad

Rationale: Despite the fact that most raw material is sourced locally or regionally, one quarter of the raw material, especially for value added products, is sources from the EU (Figure 11). In times of increasing costs for raw material or shortage due to disrupted supply chains, it seems to be advisable to spend more efforts to support the food and beverage industry to become less dependent from raw material from the EU. There are many options for substitutions, like food ingredients. Increased use of domestic primary raw materials can have positive effects on the security of supply for the food and beverage sector and stimulate further entrepreneurship. Often there is only a lack of awareness that alternative raw material can be sources locally or regionally. Stimulation of firm-level innovation (Recommendation 5) or the creation of start-ups (Recommendation 6) can motivate new businesses to enter the local business for raw material production.

Another option to reduce dependency of raw material from abroad is to consume less. Meaning, improved material and resource efficiency within food and beverage companies can significantly help to reduce the

65 Invest BW, https://invest-bw.de/wp-content/uploads/2021/03/2021-03-22-VwV-Invest-BW-Zukunftsinvestitionen.pdf

use of raw material input. This can be reached by coaching / advice on raw material efficiency. Applying new recycling technologies or moving towards resource-efficient agriculture can also help business to use less (raw) material. The application of new technologies with focus on automation and digitalization plays an essential role, too.

Good Practice Example

Innovate UK, Defra and the Biotechnology and Biological Sciences Research Council (BBSRC) implemented a support scheme, €13 million worth, to improve the resource efficiency and resilience of the UK food and drink manufacturing companies. The Scheme "Improving Food Supply Chain Efficiency" was initiated in 2014 and lasted over several years. It was open for any kind of private business. The impact was quite impressive. Enterprises from almost all food and beverage sub-sectors used the opportunity to apply for grants intended to develop innovative ideas how to increase production efficiency and to reduce the input of raw material. More than 25 enterprises were supported within this scope. Many innovations and technical solutions developed under this scheme are nowadays state-of-the-art[66].

Recommendation 9: Improvement of trade and food safety related policies

Rationale: Kosovo signed a SAA on 27 October 2015 which came into force on April 2016. The SAA envisages progressive reduction of customs duties on imports of agricultural and food products originating from EU member states with the view to completely abolish customs duties or other taxes. At the same time, the SAA agreement provides a massive opportunity for export of food and beverage products from Kosovo to the EU market without any quantitative restrictions, custom duties or other measures having an equivalent effect. However, European Union is known to have the highest safety and quality requirements and standards in production and processing of agri-food products. Development and implementation of quality and safety measures in the area of food safety requires alignment of Kosovo policy and legislation to the requirements of the EU acquis and a high level of competence of the administration in charge for implementation of the legislation covering the above areas.

Currently, Kosovo is not allowed to export live animals and food of animal origin to the EU and export of other agricultural products is subject to safety and quality requirements. Other food and beverage products have to meet comparable high requirements to be imported to the EU. The current situation prevents many Kosovar food and beverage producers from fully benefiting from the opportunity to export to the EU and countries in the region which are aligning their national policy to the requirements of the EU acquis under Chapter 12 Food safety, phytosanitary and veterinary policy. Increased imports and lack of export possibilities already puts pressure on the competitiveness of the food and beverage sector in Kosovo. Furthermore, delayed integration or full operation of food control bodies continues to affect confidence of the Kosovo consumers in the quality and safety of domestic products.

It is recommended to further support the FVA in meeting all mandatory requirements, supported by the efficient implementation of related food and safety policies to lower the burden for Kosovar food and beverage exporters. More efforts have also have to be spent from DAK side to meet the international requirements testing and certification, even out of main scope food safety regulations.

66 A list of projects and businesses funded under this scheme can be found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/548957/Improving_food_supply_chain_efficiency_-_competition_results.pdf

In addition, amendments in the Law of Internal Trade for imported products shall be made. Domestic producers of food and beverages products are systematically being exposed to harsh competition from imports and sometimes even discriminated against in domestic market duet to their weak bargaining power. In many cases local producers do not get the same treatment as opposed to wholesalers of imported products when it comes to product placement and promotion in retail chains across Kosovo. Considering that the Law of Internal Trade is being revised, amendments that address the issue of product placement and equal treatment of products regardless of their origin, need to be considered by the Government.

9. The Way Forward

The COVID-19 pandemic and the Ukraine-Russia war has caused raw material prices to rise significantly and has impacted supplies of many products, incl. food and beverages. There are considerable challenges present as many supply chains are now broken due to these challenges. This, combined with the trade embargo imposed on Russia, means that European buyers are now struggling to find substitutes for missing import products. Furthermore, they put more and more attention to shorten their supply chains by integrating European suppliers instead of Asian or other suppliers from over-sea.

Kosovo and other Western Balkan countries have the opportunity to replace the loss of these supply streams and establish new value chain models and partnerships within the region and with companies across Europe. Such potentials for Kosovo food and beverage producers are not only related to the war in Ukraine. There are other drivers to step into new supply chains. This situation can further fuel the development of the food and beverage sector in Kosovo, which developed well despite all challenges.

Despite the thoroughly promising developments for the national food and beverage sector, there are also a number of challenges that need to be mastered so that the sector can really benefit from the future potential. Neighbouring countries have also developed comparatively well in recent years by further improving their industrial production, including in the food and beverages. This competition must be successfully mastered to remain competitive. It is also important to successfully shape the digital transformation, but this also means extensive investments in machinery, technology and human resources. At the same time, Kosovar companies need to be more active in identifying future market and technology trends in order to secure competitive advantages over their regional competitors.

The recommendations proposed indicate concrete solutions that can help the sector maintain and further expand its competitiveness. To be successful, however, substantial public and private investment is required. The proposed measures are aimed precisely at giving the private sector concrete pointers so that it can invest more easily in future technologies and knowledge. In this way, it might be possible to support the food and beverage sector in a sustainable way.

The recommended measures depend not only on an appropriate design, but also on professional implementation. However, there is little experience with the implementation of such measures and support programs in this country. It is important to avoid the mistakes made in the past in many Western Balkan countries. Interventions must be implemented in a needs-oriented, rapid and comparatively unbureaucratic manner. Companies need quick decisions and not months of waiting.

The study lays the foundation for a public-private dialogue on the results and proposed measures, which should ultimately lead to a targeted use of limited public funds where they can have the greatest impact on the food and beverage sector.