

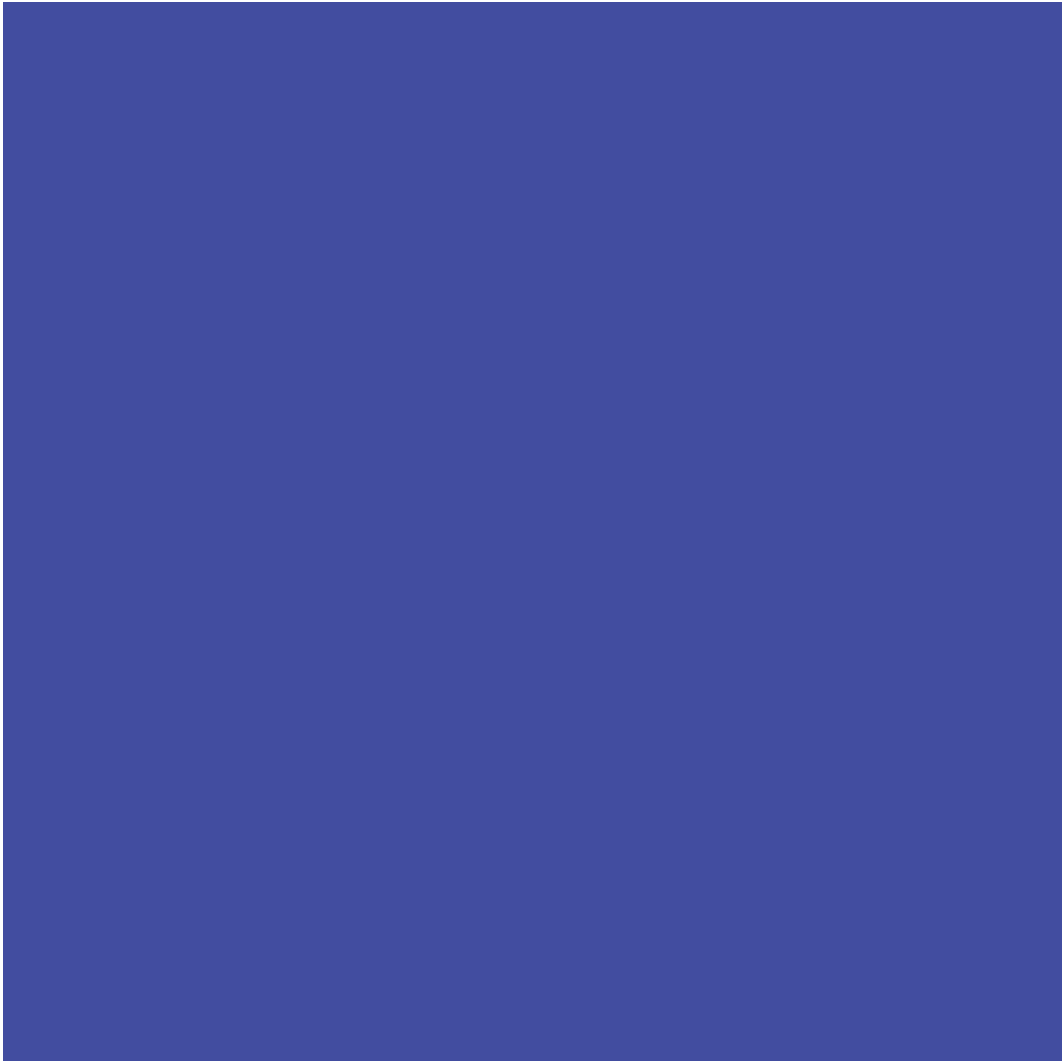


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MINISTRIA E TREGTISË DHE INDUSTRIË
MINISTARSTVO ZA TRGOVINU I INDUSTRIJU
MINISTRY OF TRADE AND INDUSTRY

SECTOR PROFILE OF THE **PLASTICS AND RUBBER INDUSTRY**





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1. Introduction

This sector profile provides basic information on the recent development of the rubber and plastics sector in Kosovo. Accordingly, the profile covers firms registered under code 22 of the NACE Rev. 2 classification (Nomenclature des Activités Économiques dans la Communauté Européenne).

The profile draws mainly on official data sources; an enterprise survey conducted by UNDP for the purpose of this report; and an in-depth interview with the management of one of most successful companies in the sector, Ferplast (Ferizaj /Uroševac). Discussion of overall sector characteristics, including the size and composition of the sector, is based on data from the Tax Administration of Kosovo (TAK) and the Kosovo Business Registration Agency (KBRA). The trade balance of the sector has been derived from data provided by Kosovo Customs.

All firm-level indicators on the characteristics and performance of the sector are based on survey data commissioned by UNDP during October-November 2015. A sample of 230 out of the 526 private firms registered under code 22 in the TAK database in 2015 were surveyed for the purpose of this study. Considering that the sector predominantly consists of micro-level firms, the survey attempted to cover all small and medium enterprises and a random sample of microenterprises; however, due to non-responses, only 24 out of 37 small and medium enterprises could be surveyed.

Further, during the course of the study it was established that some firms, even though registered under code 22, in fact do not produce rubber/plastic products (among their main products), and subsequently excluded from the sample. Accordingly, the sample ultimately used in this analysis consists of 225 firms.

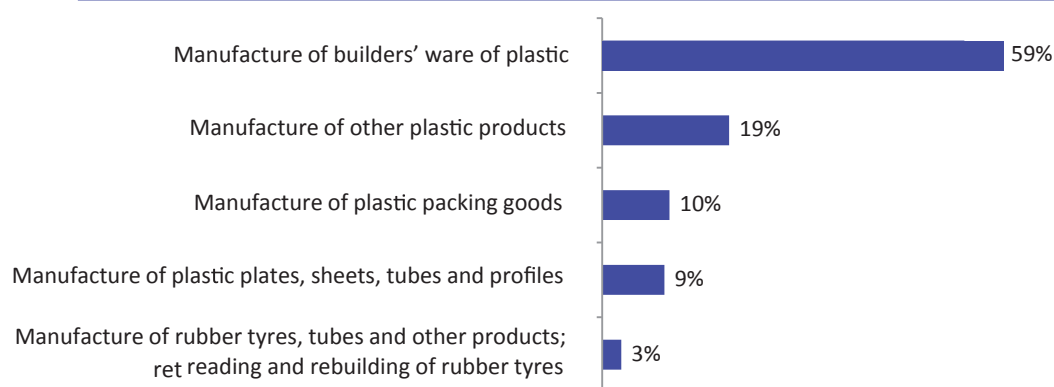
2. Basic firm and industry characteristics

2.1 Size and composition of the sector

According to the TAK database, 531 active businesses were registered under NACE Rev. 2 code 22 in Kosovo in 2015, the vast majority of which belong of manufacturing of plastic products¹. At this time, the sector employed a total of 1,734 individuals, of which 95% in the private sector and the rest in 5 socially owned enterprises. Note, however, that this figure refers to administrative data and hence is likely to significantly underestimate employment in the sector due to informality.

According to disaggregated data at the 4-digit NACE (Rev 2) level, the top activity in the plastics and rubber sector in Kosovo is manufacture of builders' ware of plastic (NACE 2223), which accounts for 59% of firms and includes the production of doors, windows, frames, blinds, floor coverings, etc. (Figure 1). The second activity in terms of the number of businesses (19%) is manufacture of 'other' plastic products, which, as defined in NACE code 2229, include plastic tableware and kitchenware, parts of lighting fitting, office or school supplies, etc. Manufacture plastic packing goods, such as bottles, bags, etc. (NACE 2222) and manufacture of plastic plates, sheets, tubes and profiles (NACE 2221) account for another 9% of firms in the sector. The remaining 3% of firms are involved in the manufacture of tyres, tubes and other products; retreading and rebuilding of rubber tyres (NACE 2211) and manufacture of other rubber products, such as conveyor belts, soles or other parts of footwear, rubberised yarn and fabric, etc. (NACE 2219)².

Figure 1: *Distribution of businesses by main activity*

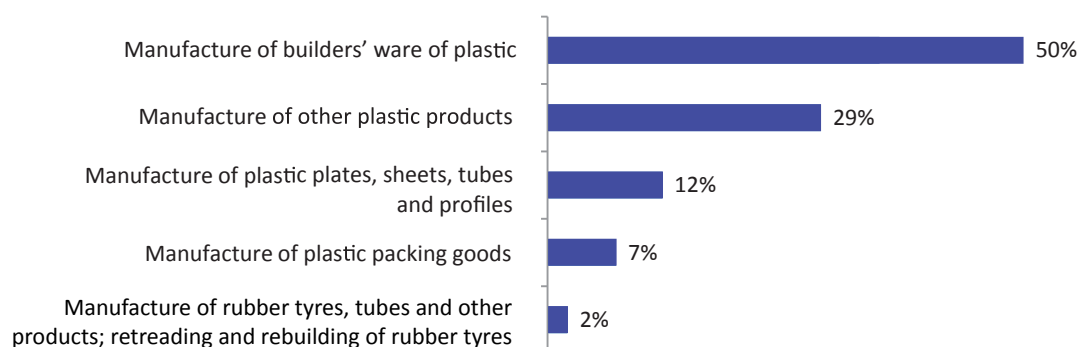


Source: TAK (2015)

- 1 Upon an initial review, it was established that the largest firm registered under this code, Solid, has a different primary activity (manufacture of footwear), therefore was excluded and the descriptive statistics for the sector are based on the remaining 530 registered firms.
- 2 In the course of the survey it was established that some firms are registered under NACE code 22, even though they should be registered under different codes. The ones which involve production of plastic products, such as manufacture of rubber footwear (which should be registered under 1520) or manufacture of plastic furniture (under codes 3101, 3102 and 3109) were kept in the sample. Other firms which were involved in unrelated activities (e.g. aluminium doors, etc.), were excluded from the sample.

The distribution of employment across sub-sectors broadly follows the distribution of above (Figure 2).

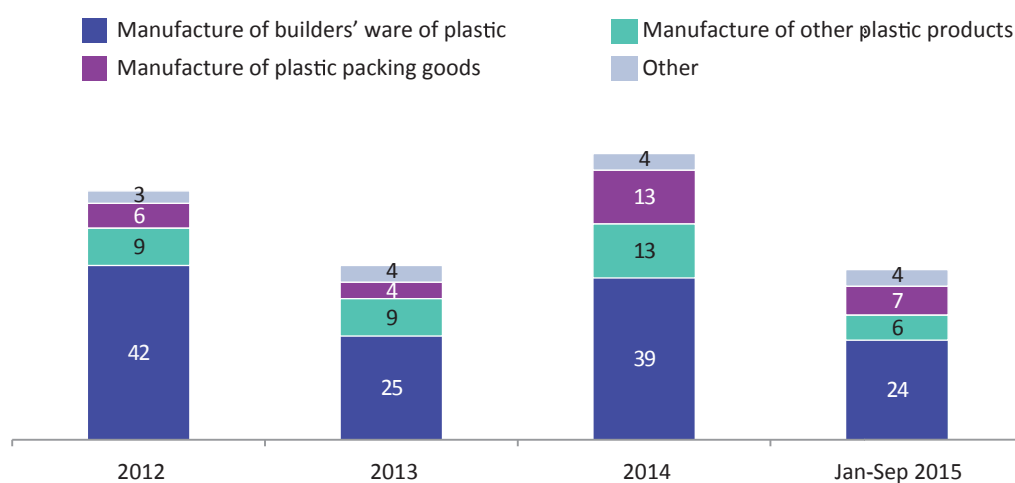
Figure 2: Distribution of employment by main activity



Source: TAK (2015)

The distribution of newly registered firms in the sector in recent years is broadly similar to that of active firms presented above. Manufacture of builders' ware of plastic leads in terms of firm creation, accounting for 61% of the number of newly registered firms between January 2012 and September 2015, whilst packaging and other products account for another 32% (Figure 3)³.

Figure 3: Number of newly registered businesses by activity



Source: KBRA (2015)

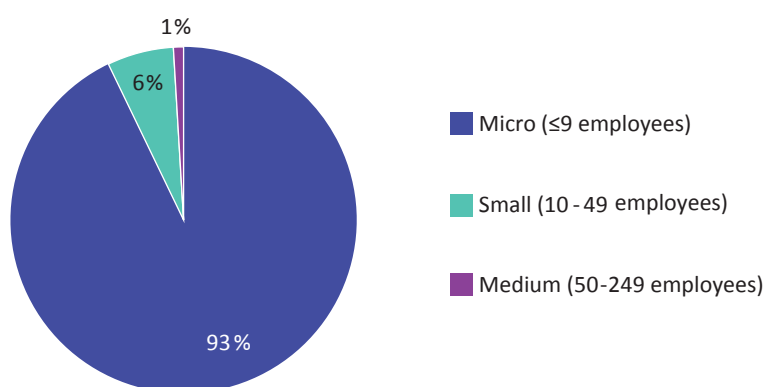
³ The number of business closures across sub-sectors was also considered, and net firm creation was calculated (as new business openings minus closures), however the results were very similar and did not reveal any additional insights on the relative performance of the subsectors.

For the purpose of this analysis, results have been disaggregated in only two sectors: manufacture of builders' ware of plastic and 'other plastic and rubber products', which includes the firms that fall under all the other NACE codes above, and is dominated by plastic (rather than rubber) products. This level of disaggregation was chosen because of the concentration of firms in builders' ware of plastic, which leaves the other sub-sectors with samples that are too small to be representative; and difficulties in classifying many firms which produce a combination of products that fall within different NACE sub-sectors.

2.2 Size and geographical location of the firms in the sector

Similar to the rest of the private sector in Kosovo, the majority of firms in the plastics and rubber sector are micro-enterprises, as measured by their number of employees (Figure 4). Only 1% of enterprises in this sector employ 50 or more employees, however none are large companies (i.e. 250 employees or more).

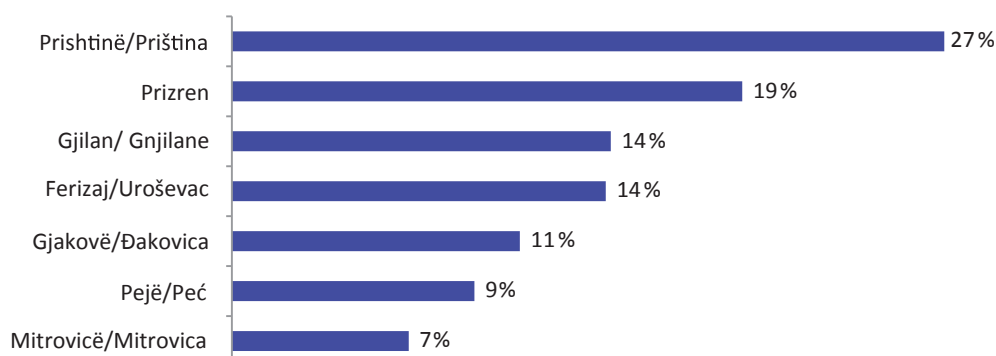
Figure 4: *Distribution of businesses by size*



Source: TAK (2015)

There does not appear to be a strong geographical concentration of firms in the rubber and plastics sector (Figure 5). Prishtinë/Priština accounts for the largest share of firms in this sector, followed by Prizren, Gjiilan/Gnjilane and Ferizaj/Uroševac.

Figure 5: *Distribution of businesses by region*



Source: TAK (2015)

Box 1: Success story: Ferplast

Ferplast is a manufacturer of plastic tubes based in Ferizaj/Uroševac. Its products include tubes for water supply, sewers and drainage, and cable protection. Ferplast was established in 1996 by domestic investors and it currently employs 41 workers. The initial capital, as well as the growth of the company, have been financed by own capital. The company has not made use of bank loans, and throughout the 20 years of its operation it has received a modest donor grant for co-financing the initial cost of the introduction of ISO standards in 2007.

Ferplast's main market is Kosovo, followed by Albania; other export destinations include Macedonia, Bulgaria, Montenegro, Serbia and Switzerland. The company began its exporting operations since 2009, and since then it has managed to continuously increase its exports, reaching EUR 1.4 million in 2015 (from merely EUR 77,000 in 2009). The company's export prospects are reported to be bright as a result of: (i) a recent investment in a new product line, introducing a Ø2000 tube which is not produced anywhere in region, and (ii) the exemption of machinery and inputs from VAT payment (at the border) as of 2015.

The management of the company attributes its success to continuous investments in new technology. Certification with ISO standards is also considered a must for companies in the sector that intend to export. When asked about why more Kosovan companies do not adopt these standards, the management of Ferplast notes that it is expensive – not so much the cost of certification, as the cost of abiding by these standards continuously.

The key obstacles that the sector faces are diverse. One of these is the supply and cost of energy, particularly the high tariffs during winter, which doubles energy costs and causes the company to work with significantly reduced capacity during winter months; as a result, some of its workers are left without jobs for periods of times (a few months), and the company cannot accumulate stocks which would enable it to be more flexible on pricing of products and hence be more competitive in regional markets. Competition of cheap but low quality imported products (i.e. products that are below industry standards, e.g. because of inappropriate inputs or weight), which are not tested at the border is another key factor that hampers the competitiveness of local companies (not only in this sector), according to Ferplast. On the other hand, authorities in regional countries not only do not allow imports of low quality products, but also adopt lengthy bureaucratic procedures which discourage imports. Availability and quality of skilled workers for the sector is not considered satisfactory, but the company has coped with this problem by experience and continuous training: each time new machinery is introduced, the machinery supplier is contracted to provide two-month specialised training and this has been sufficient to train the production staff, whereas the staff of the company's testing lab has been sent for training abroad.

Finally, lack of market information and innovative ideas on where to invest are believed to be an obstacle for this sector, as well as the private sector in general. As a result, instead of investing in innovative competitive products, firms sometimes simply copy incumbents and end up making bad investments in a saturated market. Publication of market data, such as trends of imports for specific products, is considered to be a simple – but meaningful – effort that can be undertaken by institutions in this respect.

2.3 Ownership of the firms in the sector

According to TAK records, 77% of the firms in the rubber and plastics sector are registered as individual firms⁴, followed by limited liability companies (19%). According to survey data (UNDP, 2015), the (main) owners of the firms in this sector are predominantly Albanian⁵ and male. Less than 3% of the firms reported to have some female ownership; among these, women owned, on average, 50% of the firm. Less than 3% have some foreign ownership, half of these being from the diaspora.

The average age of the (main) owners in the sector is 42 years old. Two-thirds of the owners are between 30 and 49 years old, whereas less than 10% are in their twenties (Table 1).

Table 1: Age of the (main) owner

Age	Share (%)
20 - 29 years	9%
30 - 39 years	30%
40 - 49 years	36%
50 or above years	25%
Total	100%

Source: UNDP Survey (2015)

The majority of firm owners in the sector, including all women owners, have completed secondary education as their highest level of education; the remainder are predominantly tertiary education graduates (Table 2).

Almost two-thirds of the main owners of firms in this sector have completed secondary schooling as their highest level of education; the rest hold a tertiary or post-graduate degree (25%) or have completed less than secondary education (13%).

Table 2: Owners' level of education (in %)

Level of education	Overall
Less than secondary	1%
Secondary	85%
Tertiary and above	14%
Total	100%

Source: UNDP Survey (2015)

4 In the survey, however, around 10% of those that declared they were (registered as) individual businesses, reported to have more than one owner; these are likely to be family businesses.

5 Among the surveyed firms, only one reported the owner to be a Turk.

3. Production

3.1 Inputs

Firms in plastics and rubber manufacturing predominantly import their intermediate and raw materials. Fifty-nine percent of the surveyed firms import all of their raw material and intermediate goods, while 18% buy locally produced inputs (Table 3). The imported raw material and intermediate goods are predominantly supplied by local traders.

Table 3: *Structure of raw material and intermediate products*

Source of intermediate products and raw materials	Share of firms (%)
Exclusively locally produced, of which	18
In-house production or mix of in-house and others	4
Local producers	14
Mix of locally produced and imported	23
Exclusively imported, of which	59
Local traders	40
International traders or producers	10
Mix of the above import sources	9

Source: UNDP Survey (2015)

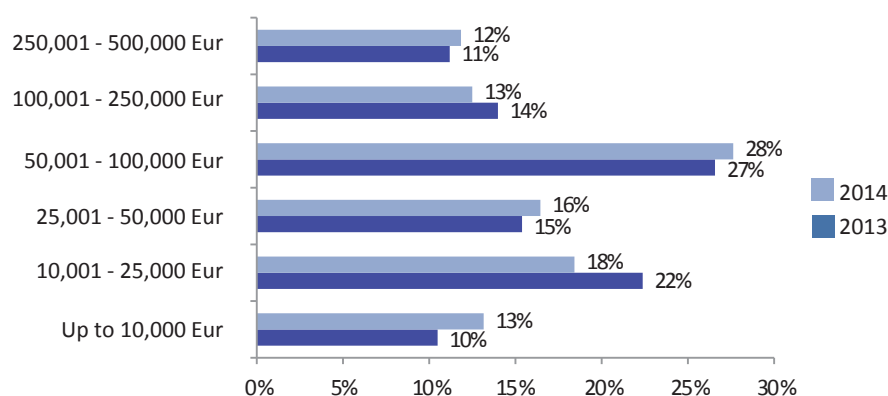
The most commonly imported inputs are High Density Polyethylene (HDPE), Polyvinyl Chloride (PVC) and Polypropylene (PP) granules, PVC profiles and foils, glass⁶ etc. Imported inputs come predominantly from Germany (accounting for almost two-thirds of the value of imports), followed by Hungary, Macedonia, Austria, Turkey and Serbia.

6 Note that windows are one of the most common outputs of the sector.

3.2 Outputs

Out of the firms that reported their output⁷, around three-thirds report an output of between 10,000 and 100,000 EUR (Figure 6 below). Among firms that reported their output for both years, almost 40% reported an increase in the value of output in 2014, another 40% reported no change in output, whereas 20% reported a decrease.

Figure 6: Annual output value, 2013 and 2014



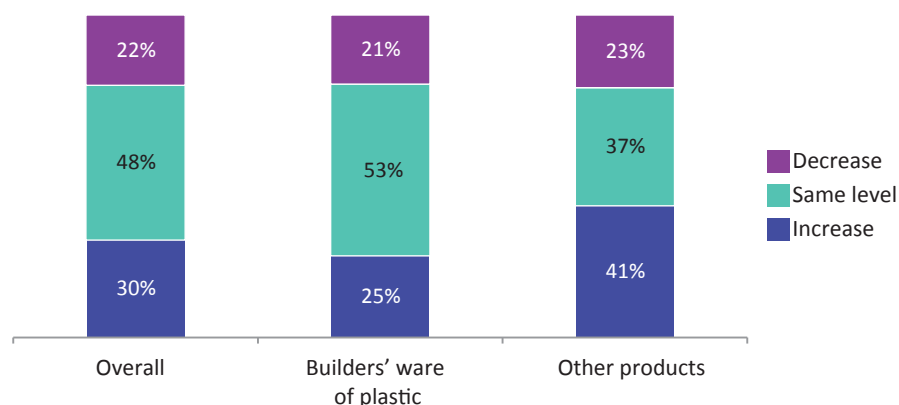
Source: UNDP Survey (2015)

Overall, in this group of firms, the output increased by around 3% year-on-year. Disaggregation of figures by sub-sector reveals that the growth of the larger builders' ware of plastic sub-sector was 1%, whereas manufacture of other plastic and rubber products has grown by 7.5%, suggesting a trend of diversification of the sector.

When asked about the expectations of future performance, responses are rather positive. Just over 20% of firms expect their sales to decrease compared to last year (by an average of 22%), and this share is similar across sub-sectors (Figure 7).

However, differences emerge with regard to the share of businesses that expect their sales to increase. Producers of plastic and rubber products other than builders' ware are more likely to expect increases in their sales, and they report a higher expected increase, on average (13%, compared to 10% for firms in builders' ware of plastic).

Figure 7: Expectations regarding own sales compared the previous year



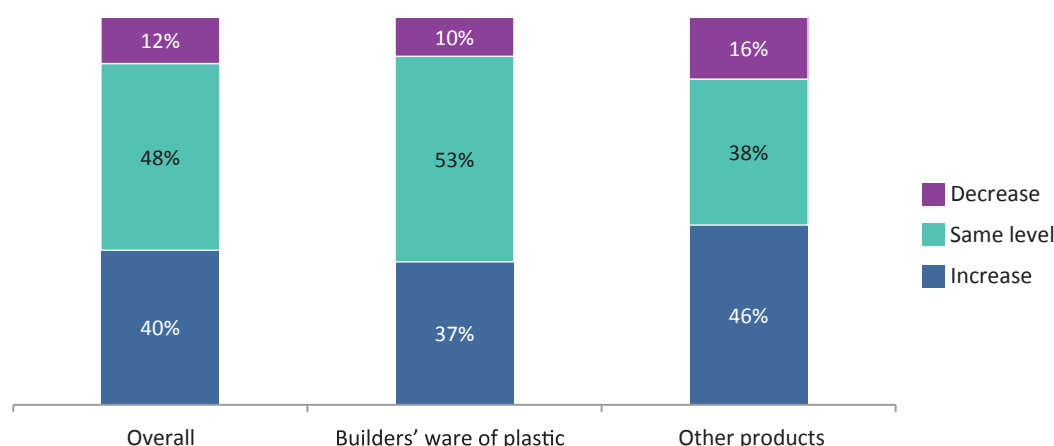
Source: UNDP Survey (2015)

⁷ 143 in 2013 and 152 in 2014.

Even some of the firms that do not have positive expectations about their own sales seem to report a positive outlook of the sector. Here, too, a higher share of manufacturers of other plastic and rubber products, compared to their builders' ware of plastic counterparts, are of the opinion that their sector is growing (Figure 8).

However, there is also a somewhat higher share of them that report that the sector is shrinking (as opposed to remaining at the same level).

Figure 8: Perceptions of sector's performance outlook



Source: UNDP Survey (2015)

3.3 Capacity utilisation

According to the results of the survey, capacity utilisation in the sector is quite high. Around 80% of firms used between 60% and 100% of their capacity in the previous years (Table 4). Around 28% of firms utilised their capacities fully in 2014. In 2014 the average level of capacity utilisation reported was 72.7%, recording a slight difference of less than 1 percentage point compared to the previous year.

Table 4: Capacity utilisation

Capacity utilisation	Share of firms	
	2013	2014
Less than 40%	3%	2%
40%-59%	22%	19%
60%-79%	34%	38%
80%-100%	41%	41%
Total	100%	100%

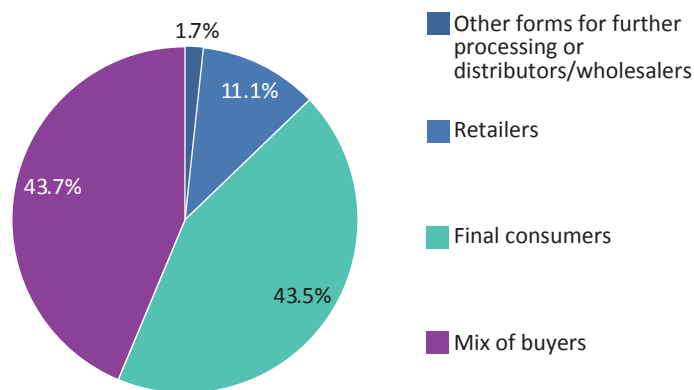
Source: UNDP Survey (2015)

Capacity utilisation is slightly higher in the manufacture of builder' ware of plastic compared to manufacture of other plastic and rubber products (73.8% and 70.4%, respectively).

4. Markets, exports and barriers to exporting

Of the surveyed firms in the plastic sector, around 44% sell their products exclusively to final consumers, while another 44% sell their products to a mix of buyers (which comprises predominantly of retailers, final consumers and distributors/wholesalers) (Figure 9). Less than 2% of firms sell their output to other firms for further processing.

Figure 9: Structure of buyers

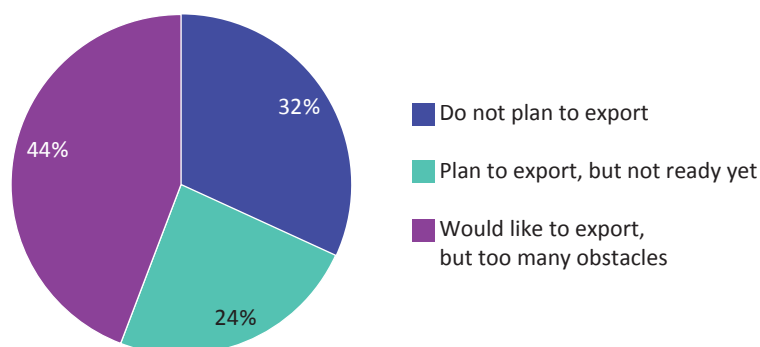


Source: UNDP Survey (2015)

Around 1 in 4 of the surveyed companies report that they export some of their output. The share of exporting firms is slightly higher (by 3 percentage points) among firms that produce builders' ware of plastic.

Among those that do not currently export, only around a third report that they have no intention to export, whereas the rest would like to export, but either feel that there are too many obstacles or that they are not ready to export yet (Figure 10).

Figure 10: Non-exporting firms' plans with regard to export



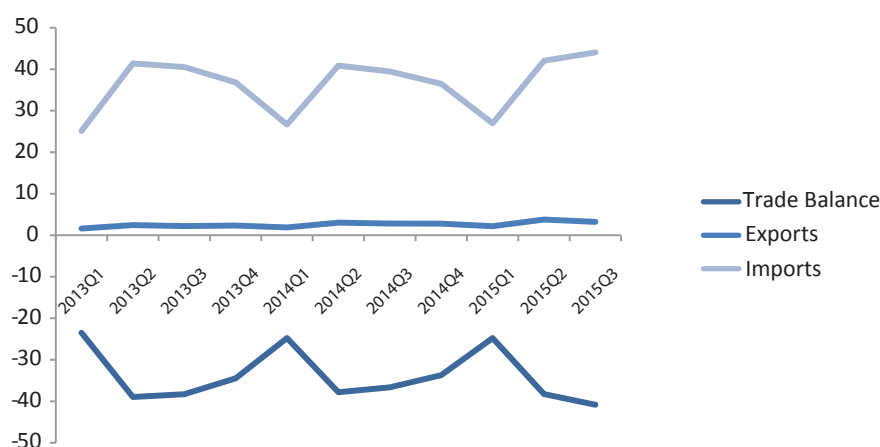
Source: UNDP Survey (2015)

Among those that export, the average export share is 13%, with firms typically reporting to have exported between 10% and 20% of their total sales in 2014. The main exports of the sector are doors and windows, followed by window blinds, tubes and profiles, kitchen furniture, etc. The main export destinations are Germany and Switzerland, followed by Macedonia, Albania, Montenegro, Austria, and some other EU countries. Although relatively few firms provided detailed data on exporting activities, it is interesting to note that, for those that did report details, EU and Switzerland account for over 70% of their total exports.⁸

Based on survey data, the number of exporting firms in the sector has increased significantly (by around 25%) in 2014 compared to the previous year. By the same token, most exporting firms report either a year-on-year increase, or the same value of export as in 2014. Overall, among the surveyed firms that provided the annual value of exports, exports increased by a staggering 45%.⁹

A look at official statistics also suggests that the sector's exports have increased over the last few years (Figure 11). In 2014, exports of plastics and rubber products increased by 22% year-on-year, whereas imports decreased slightly. In 2015, exports continued to grow, though at a slower pace: in the period Q1-Q3 their exports were 4% higher compared to the same period of the previous year.

Figure 11: Trade balance of the sector (in million €)



Source: Customs of Kosovo (2015)

Kosovo has a liberal trade regime and it enjoys duty-free access to important regional and world markets (Box 2).

⁸ Note, however, that this figure should be interpreted with caution because only around a quarter of the exporting firms provided data at this level of detail.

⁹ Note, however, that a little less than half of the exporting firms provided this information in the survey.

Box 2: Trade regulations and free trade agreements

Kosovo has a general flat rate of 10% for imports and 0% for exports. No custom duties are levied on imports of technology or on intermediate products that are re-exported (after processing). As of 2014, Law No. 04/L-163 on Goods exempt from custom tax and goods with zero rate of customs tax has been enacted, according to which some inputs for this sector (such as plastic and rubber in primary form, plastic profiles, some packing items, etc.) are treated as zero custom rate products.

Kosovo is a member of CEFTA, and it enjoys duty-free access to the EU under the Stabilisation and Association Agreement and to the US under the Generalised System of Preferences (GSP). Kosovo has also signed a free trade agreement with Turkey, but this has not come into power yet. Additionally, Kosovo benefits from trade preferences with Japan and Norway that include only few limitations.

Figure 12 below presents the intensity of barriers as reported by the firms that currently export in the sector. Intensity is measured on a range of 0 to 100, 0 representing the lowest level of intensity and 100 representing the highest one. The highest-intensity barriers to export are considered to be limited opportunities of networking with foreign firms, the high cost of bank guarantees, customs procedures and lack of credit for exports.

Figure 12: Barriers to exporting



Source: UNDP Survey (2015)

Box 3 presents the documents required for cross-border trading.

Box 3: Documents required for cross-border trading

Documents required for export:

- Single Administrative Document (i.e. customs declaration)
- Commercial Invoice

Documents required for import:

- Single Administrative Document (i.e. customs declaration)
- Commercial Invoice
- Certificate of Origin (for countries Kosovo has an FTA with or any other Agreement which covers exemptions based on rules of origin)

5. Employment and human capacities

5.1 Employment, wages and demographic structure of employees

According to official statistics (TAK, 2015), in 2015, the plastics and rubber sector employed around 1,734 employees. Firms covered in this study tend to report increasing employment over the last few years. In the firms included in the sample, reported employment increased by 2% year-on-year in 2014, and then again by 11% in 2015 at the time of the survey compared to 2014. There is no reason to believe that the latter figure reflects seasonal effects: the survey was conducted during October-November 2015, whereas any seasonal effects in this sector would be expected to be driven by construction-related activities, and hence expected to peak in earlier months of the year. Further, employment creation was not concentrated in a few successful firms: rather, 31% of the firms reported an increase in employment in 2015 (and another 48% reported no change). Employment dynamics seem to suggest that the sector is being consolidated as new employment is created in small (and medium) enterprises, whereas micro enterprises are shrinking (Table 5).

Table 5: Net employment creation by firm size

Firm size	2014	2015
Small and medium (10-249 employees)	13%	27%
Micro (≤ 9 employees)	-9%	-5%
Overall	2%	11%

Source: UNDP Survey (2015)

Consistent with the findings on output growth, when data is disaggregated by sub-sector, a significantly higher rate of growth of employment is found in the production of other plastic and rubber products compared to builders' ware of plastic (Table 6).

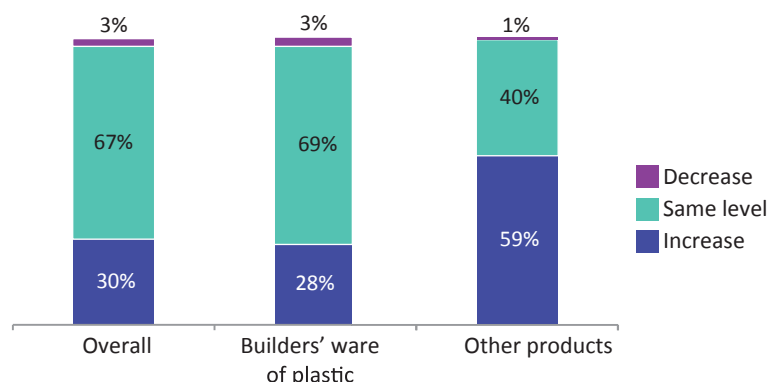
Table 6: Net employment creation by sub-sector

Sub-sector	2014	2015
Builders' ware of plastic	0%	4%
Other plastic products	6%	12%
Overall	2%	11%

Source: UNDP Survey (2015)

With regard to expectations of employment growth compared to the previous year, expectations are generally positive, consistent with the expectations of firm/-sector performance presented above. A negligible share of firms report that they plan to reduce their workforce (Figure 13), and the magnitude of these reductions is insignificant. On the other hand, a significant share of firms report plans to increase employment, and this share is around twice as high among manufacturers of other plastic products, compared to manufacturers of builders' ware of plastic. Compared to the previous year, reported plans for increases in employment are quite optimistic (18% in and 22% in manufacture of other plastic and rubber products).

Figure 13: Firms' plans with regard to employment

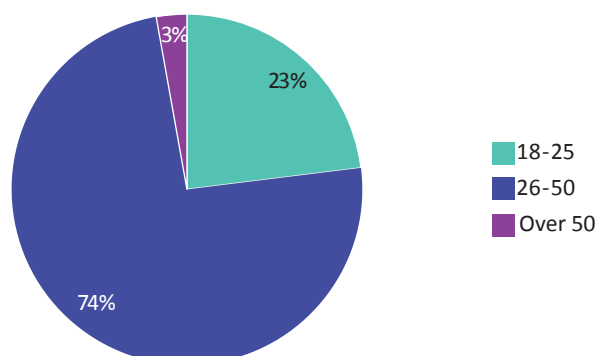


Source: UNDP Survey (2015)

According to survey results, the share of women in the workforce of this sector is relatively small, though it has increased markedly in 2015. Compared to a share of 5-6% in the two previous years, the share of women employees among the companies in the sample was 17% in 2015. It is not clear what drove this increase, but it does not seem to be a firm-specific or sub-sector specific phenomenon, i.e. employment of women is not concentrated in a few firms, and the share of women employees is roughly the same across sub-sector.

Kosovar Albanians account for the vast majority of employees in the sector. In 2014, ethnic minorities comprised 2.5% of the workforce, among these the highest share being Turks (58%), followed by Roma, Ashkali, Egyptians, Bosnians and Serbs (with 20%, 14% and 8%, respectively). The share of young workers (aged 18-25) in this sector is less than 23% (Figure 14). Almost three-thirds are aged between 26 and 50 years.

Figure 14: Employee structure by age group



Source: UNDP Survey (2015)

Box 4 below provides a summary of labour market regulations in Kosovo.

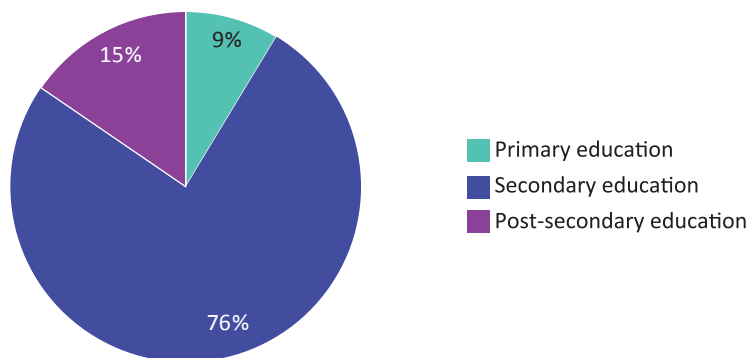
Box 4: Labour market regulations

Kosovo has a highly flexible labour market with a low tax wedge and low rigidities in terms of hiring and firing of workers. The personal income tax rate system is a progressive tax system with a 0-10% tax rate. In addition to that, only a pension contribution of 5% of the total wage is paid by employer (whilst another 5% of the wage is paid by workers). Since 2011, Kosovo has had a minimum wage of €170, or €130 for individuals aged under 35 years. Employment relations are regulated by the Law on Labour (No. 03/L-212) which takes into account the ILO Conventions, EU Legislation and the fundamental principles of free labour market and economy. Since 2013, occupational health and safety are regulated by the Law on Occupational Health and Safety (No. 04/L-161).

5.2 Workforce skills

Around three quarters of the workforce in the plastics and rubber sector has secondary schooling as their highest level of educational attainment, and 14% have completed tertiary education (Figure 15).

Figure 15: Structure of employees according to educational level



Source: UNDP Survey (2015)



One in five of the surveyed businesses identify the availability and cost of skilled workers as a problem. Lack of vocational education and tertiary education graduates in the relevant fields, in particular, is also identified as a problem by around 1 in 4 businesses. The cost of qualified/skilled workers, on the other hand, is seen as less of a problem (identified as a problem by around 14% of the businesses).

The sector-specific occupations that are most frequently cited as lacking are: engineers/technologists for plastic materials, milling and manufacturing machine operators for plastic products, assemblers of plastic products, and chemists for plastic materials. Other (generic) occupations reported as lacking an adequate workforce are marketing and public relations officers and quality control officers.

Firms in the sector revert to training provision to compensate for vocational skill deficiencies. One in five firms reported to have invested in workforce development through training provision in 2014. Training is predominantly focused on developing specific production skills (either on-the-job, or via courses, workshops, etc.). Provision of general skills training (e.g. presentation, time-management, etc.), on the other hand, is negligible.

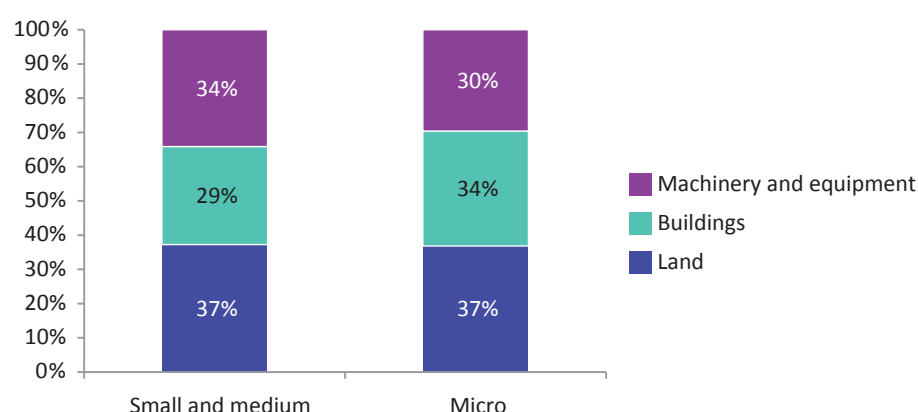
6. Assets, investment and innovation

The total value of assets reported by the surveyed businesses has remained roughly the same between 2013 and 2014. A slight increase in the value of land has been compensated by an increase in the value of buildings, whereas that of machinery and equipment has remained roughly the same.

The average capital intensity ratio¹⁰ was found to be 3.5. This was lower among micro businesses (3.3) compared to small and medium businesses (3.9).

In aggregate, the share of land in total assets is similar across firms of different sizes, whilst the share of machinery and equipment in total assets increases with firm size (Figure 16). Of the firms that reported assets, on average, micro firms have assets of €56,000, whilst small firms have assets of €860,000.

Figure 16: Structure of assets by firm size



Source: UNDP Survey (2015)

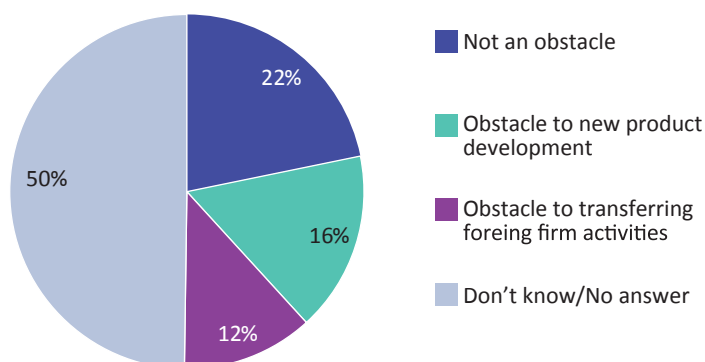
Fifteen percent of the interviewed businesses reported investing in 2014. The overall value of these investments was around €1.7 million, and this investment was mainly focused on the acquisition of new machinery and equipment.

Around 10% of the firms also reported undertaking innovations: mainly improvement of production methods or introducing new products, followed by the introduction of new packaging design/technique.

¹⁰ Capital intensity was calculated as a ratio between the value of machinery and equipment and the sales of the firm. The sales were calculated using the mid-point of the corresponding intervals in the questionnaire.

Less than 3% of surveyed firms reported that they have registered a patent in Kosovo. The process of registering patents is not considered to pose an obstacle to business development by those surveyed. Similarly, the level of intellectual property rights (IPR) protection does not appear to be considered a relevant factor for the development of the sector. Namely, half of the respondents respond that they do not know whether this is a problem and another 22% think that it does not pose a binding obstacle to development of the sector (Figure 17). The remaining firms think that the level of IPR protection is an obstacle for firms to develop new products/services, or in transferring activities of foreign firms (e.g. via licensing).

Figure 17: IPR protection effect for the development of the industry



Source: UNDP Survey (2015)

Box 5 below provides a discussion of industrial property and patenting regulations in Kosovo.

Box 5: Industrial property and patenting in Kosovo

Trademarks are regulated by the Law on Trademarks (No. 02/L-54)). Trademarks are registered at the Kosovo Industrial Property Agency. The proprietor of a registered trademark will, after registration, have exclusive rights in relation to the goods or/and services covered by the registration. In particular, these rights are: to use the trademark, to authorize another to use the trademark or to obtain legal remedy for a violation of the trademark. Trademark is registered for a period of 10 years and can be renewed for an unlimited time.

Industrial design is regulated by the Law on Industrial Design (No. 04/L-038). It is protected by the law up to the point that it is an innovation and has a specific character. Protection of an industrial design lasts five years and can be extended to a maximum of 25 years.

Patenting is regulated by the Law on Patents (No.2004/49). An invention shall be patentable if it is new, involves an inventive step and is industrially applicable. A patent right is granted for the duration of 20 years.

Standardisation is regulated by the Law on Standardisation (No. 03/L-144). The certification of products, processing, services, quality and personnel systems are regulated by the Law on Standardisation, and the institution responsible for the issuing, application and determination of standards is the Kosovo Standardisation Agency (KSA).

The surveyed companies consider that procedures for patenting are simple.

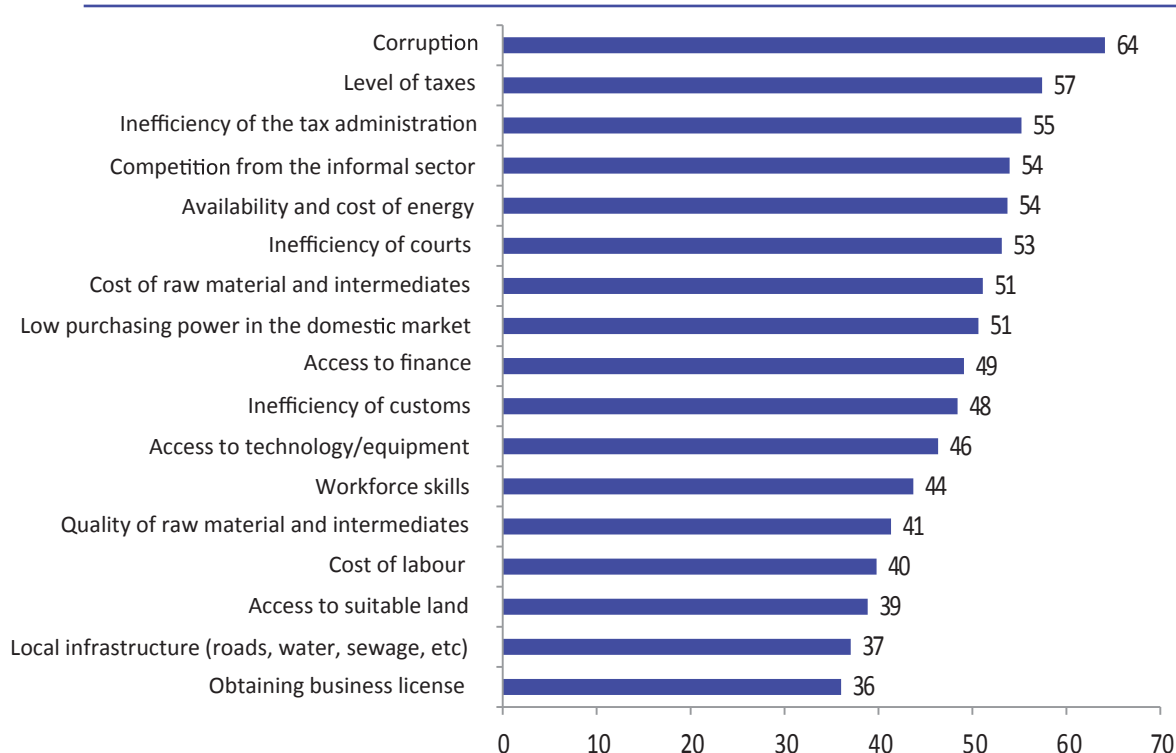
7. Business environment

7.1 Barriers to business development: Business perceptions

The average intensity of barriers to businesses development reported by the surveyed businesses in the plastics and rubber sector are presented below (Figure 18). Intensity is measured on a range of 0 to 100, 0 representing the lowest level of intensity and 100 representing the highest one.

Corruption is ranked by businesses as the top barrier, followed by the level of taxes and inefficiency of the tax administration, competition from the informal sector, availability and cost of energy and inefficiency of courts. Obtaining business licences, access to land, inadequate local infrastructure and labour costs, on the other hand, are among the lowest ranked barriers.

Figure 18: Barriers to business development



Source: UNDP Survey (2015)

When the data is disaggregated by size, some differences emerge in the reported intensity of some barriers for business development (Figure 19). Generally, small- and medium-sized firms report a higher intensity of barriers. Small- and medium-sized firms assign a higher intensity to barriers such as access to finance, obtaining businesses licences, inefficiency of customs, access to technology, level of taxes, cost of inputs (including labour), and, to a lesser extent, quality of inputs (excluding labour). This could be explained, at least partly, by a combination of contextual factors. Compared to their micro-size counterparts – which are likely to be predominantly family businesses – small and medium businesses are presumably more ambitious in their expansion and export plans and, therefore, more affected by access to finance and technology, cost (and quality) of inputs, and inefficiency of customs. The difference in terms of the intensity of the level of taxes may be due to the different

taxes that firms are subject to; i.e. relatively larger ones are likely to exceed the sales threshold for VAT payment.

Micro-firms, on the other hand, assign a higher intensity to corruption, inefficiency of courts and availability and cost of energy.

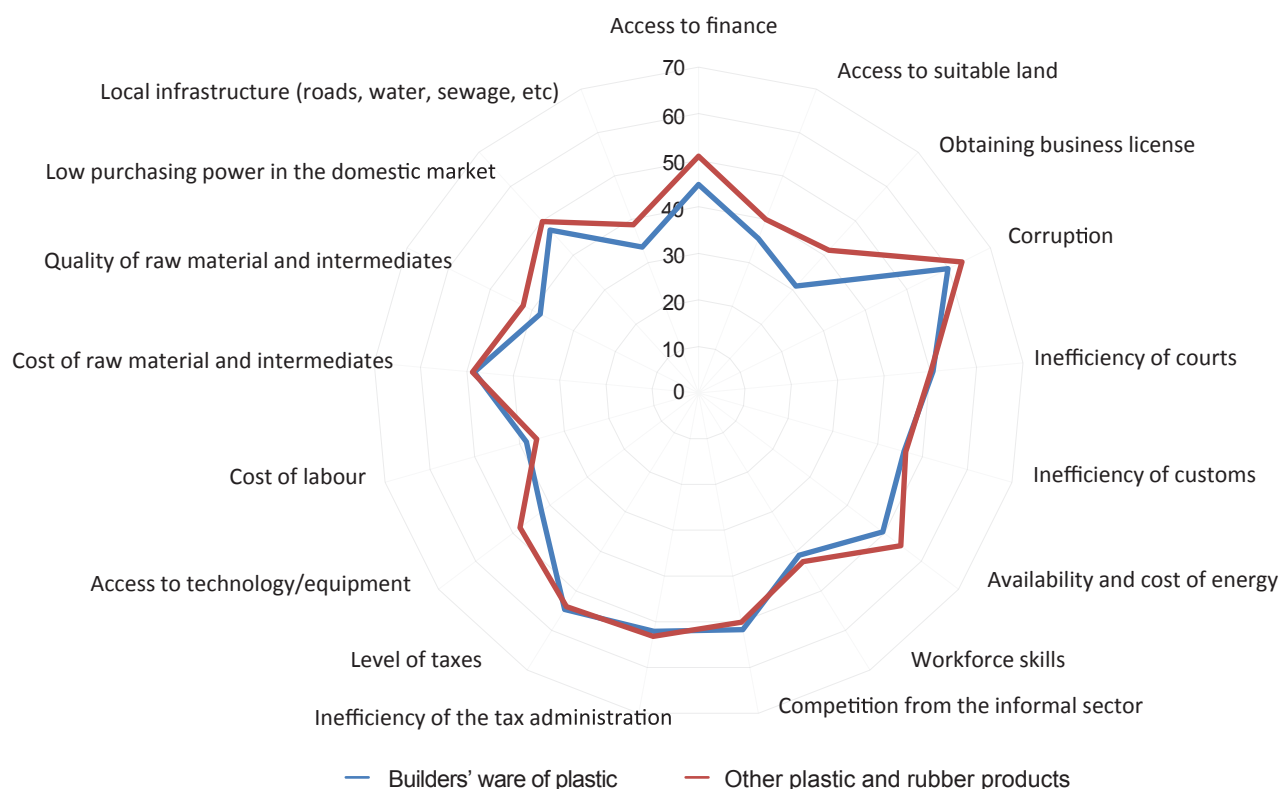
Figure 19: Barriers to business development by firm size



Source: UNDP Survey (2015)

Differences in the intensity of barriers among sub-sectors are less pronounced (Figure 20). Where differences exist, intensity of the reported barriers tends to be higher in manufacture of other plastic and rubber products. E.g. this is the case with obtaining business licences, availability and cost of energy, access to finance, land and technology/equipment, and quality of raw materials and intermediate products. This could be due to a lower level of development of firms in this sub-sector, as opposed to builders' ware of plastic sub-sector which is more mature.

Figure 20: Barriers to business development by sub-sector



Source: UNDP Survey (2015)

Boxes 6 and 7 below provide information on the relevant public institutions and business associations; sector-specific regulations; and permits and certificates for the sector.

Box 6: Relevant institutions

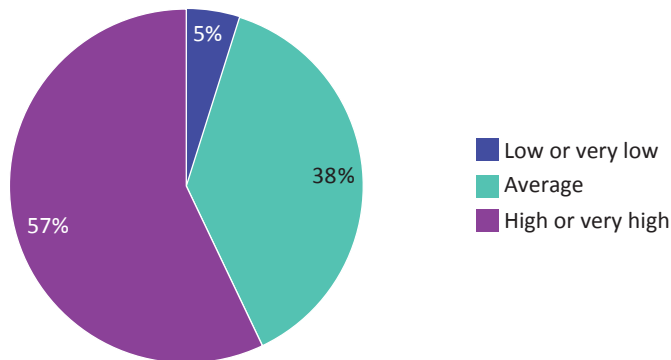
- ✓ Kosovo Business Registration Agency (business registration), <http://www.arbk.org>
- ✓ Investment Promotion Agency of Kosovo (protection and promotion of investments, supports application of public policies and programs for Micro, Small and Medium enterprises, <http://www.invest-ks.org/>
- ✓ Tax Administration of Kosovo (tax payment), <http://www.atk-ks.org/>
- ✓ One stop shops in municipalities (information sources and counselling services)
- ✓ Kosovo Customs (information on customs duties and procedures), <https://dogana.rks-gov.net>
- ✓ Business Associations (business networks, fairs, trade missions, advocacy, etc.): Chamber of Commerce; American Chamber of Commerce; Kosovo Business Alliance

Box 7: List of relevant permits and certificates

- ✓ Business Certificate
- ✓ Registration with the Tax Administration of Kosovo
- ✓ Registration of employees for the pension scheme with Tax Administration
- ✓ Fire protection clearance
- ✓ Clearance for water
- ✓ Construction permit
- ✓ Electricity connection

Fifty-seven percent of interviewed firms believe that the level of taxes is 'high' or 'very high' (though only 20% rate them as 'very high') (Figure 21).

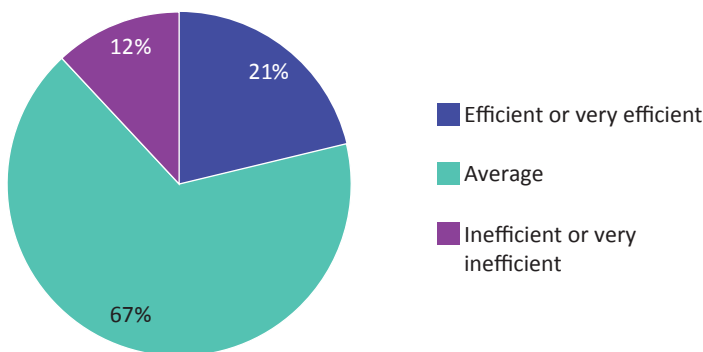
Figure 21: Business perceptions of the level of taxes



Source: UNDP Survey (2015)

Around one in five businesses rate the performance of the Tax Administration of Kosovo as 'inefficient' or 'very inefficient'; however, only 1.8% rate it as 'very inefficient' (Figure 22).

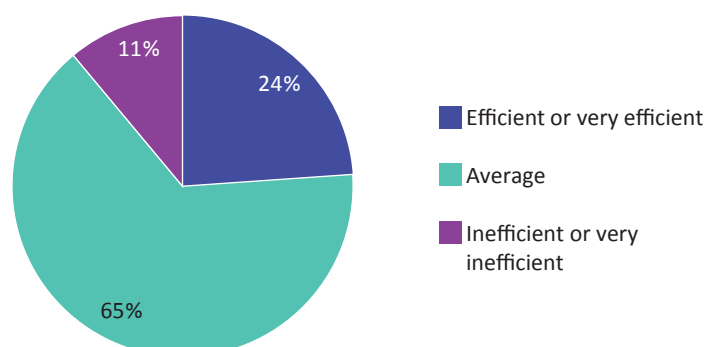
Figure 22: Business perceptions of the performance of the Tax Administration



Source: UNDP Survey (2015)

Compared to the ratings for the Tax Administration, a slightly higher share of respondents rate Customs Administration as 'inefficient' or 'very inefficient' is 24% (Figure 23); however the share of respondents that rate the Customs Administration as 'very inefficient' is negligible (0.9%).

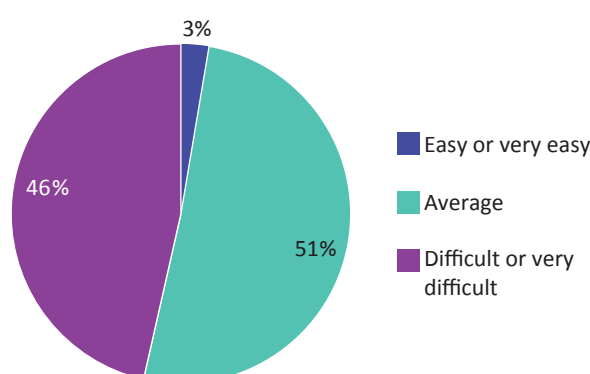
Figure 23: Business perceptions of the performance of the Customs Administration



Source: UNDP Survey (2015)

Around half of the interviewed businesses perceive that it is 'difficult' or 'very difficult' to obtain financing, whereas only 3% rate this as 'easy' (Figure 24).

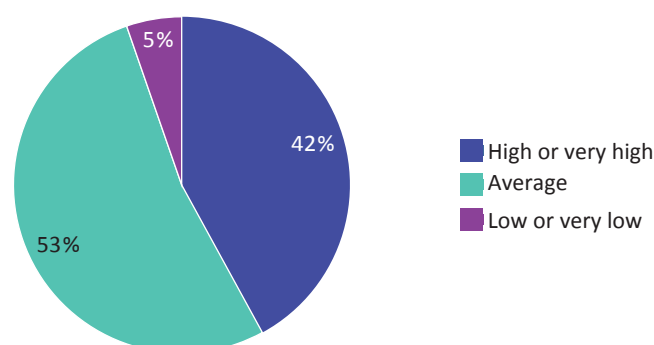
Figure 24: Business perceptions of the ease of financing



Source: UNDP Survey (2015)

Similarly, just over half of firms think that the cost of financing is 'high' or 'very high', whereas only 5% rate it as 'low' (Figure 25).

Figure 25: Business perceptions of the cost of financing



Source: UNDP Survey (2015)

Conclusions

The aim of this report was to provide a profile of the plastics and rubber industry and the barriers to its development, with particular focus on the barriers to export. There is some geographical concentration of the plastic and rubber manufacturing firms in Kosovo: Prishtinë/Priština and Prizren account for almost half of the firms in the sector. The vast majority of firms produce plastic products, and among these manufacture of builders' ware of plastic (such as doors, windows, blinds) dominates, followed by 'other products' (such as tableware and kitchenware), packing goods, and tubes, sheets and profiles. Distribution of employment follows a broadly similar pattern, with manufacture of builders' ware of plastic accounting for around half of (registered) employment.

In 2015, the plastics and rubber sector formally employed over 1,700 employees, though there are likely to be a significant number of informal employees. According to survey data, two-thirds of employees of the sector are aged between 30 and 49. Kosovar Albanians account for over 97% of employees in the sector, the remaining being Turks, Roma, Ashkali, Egyptians, Bosnians and Serbs. The share of women employees is low, but has experienced a rapid increase over the last year (from 5% to 16%). Women ownership in this sector is negligible, as is foreign ownership.

In 2014, over half of the firms report an annual output in the range between €10,000 and €100,000, while another quarter report a higher output level. Around 40% of the firms report that their output has experienced a year-on-year increase in 2014, and the average magnitude of the increase is higher in the manufacture of other plastic (and rubber) products, compared to the more mature sub-sector of builders' ware of plastic. Surveyed firms also tend to report having increased their workforce over the last years (by 2% year-on-year in 2014, and then by 11% in 2015 at the time of the survey compared to 2014), and employment creation was not concentrated in a few successful firms.

The outlook of the sector also looks bright: firms tend to report expectations of increased sales and employment in their own firm compared to the previous year, and an assessment that their sector is growing. In accordance with findings from the previous year, producers of other plastic (and rubber) products report a relatively more positive outlook, compared to those of builders' ware of plastic.

The intermediate goods and raw material used by Kosovar firms in the textile sector are predominantly imported. Inputs are primarily intermediate products such as High Density Polyethylene (HDPE), Polyvinyl Chloride (PVC) and Polypropylene (PP) granules, PVC profiles and foils, etc. Imported inputs come predominantly from Germany, followed by Hungary, Macedonia, Austria, Turkey and Serbia.



The buyers of these manufacturing firms comprise primarily of distributors/wholesalers or retailers, followed by final consumers. Very few firms sell their output to other producers for further processing. According to survey results, a significant share of firms (around 1 in 4) report some export, even though this often does not comprise a large share of their sales. The sector's main exports are doors and windows, followed by window blinds, tubes and profiles, etc. The main export destinations are the EU and Switzerland, followed by countries in the region (Macedonia, Albania and Montenegro).

According to the firms that have had some export (in 2014), the highest-intensity barriers to export are considered to be limited opportunities of networking with foreign firms, the high cost of bank guarantees, customs procedures and lack of credit for exports. In terms of doing business, firms (exporting and non-exporting) report the following as highest-intensity barriers: corruption, the level of taxes and inefficiency of the tax administration, competition from the informal sector, availability and cost of energy, and inefficiency of courts. The reported intensity of barriers varies by firm size and, to a lesser extent, by sub-sector. Compared to micro-enterprises, small ones typically tend to report a higher intensity of some barriers (e.g. access to finance and technology, inefficiency of customs, etc.), perhaps because they are more ambitious in their development plans, which makes these barriers more binding for them. Compared to firms in the builders' ware of plastic, producers of other plastic products tend to report a higher intensity of some barriers (e.g. obtaining business licences, availability and cost of energy, access to land and technology, etc.).

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