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MINISTRIA E TREGTISË DHE INDUSTRISË
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SECTOR PROFILE OF **TEXTILE INDUSTRY**

March 2014

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Contents

1. Introduction

This sector profile provides basic information on the recent development of the textile sector in Kosovo. The profile covers the manufacture of textiles, manufacture of wearing apparel, processing of leather and manufacture of leather products (Nomenclature des Activités Économiquesdans la Communauté Européenne- NACE Rev. 1 codes 17, 18 and 19).

The profile draws mainlyon 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 the largest and most successful companies in the sector, Kosovatex. 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 collected by UNDP during October-November 2013. The sample for this survey consists of 120 out of the 182 active firms in the database of TAK in 2012. Considering that the sector predominantly consists of micro-level firms, the survey attempted to cover all small, medium and large enterprises and a random sample of microenterprises. The sample ultimately consisted of 101 out of the 157 microenterprises and 19 out of the 25 small, medium and large enterprises.

For the purpose of this report, the activities of this sector will be defined as follows: (i) manufacture of textiles, which in Kosovo consists mainly of footwear, (ii) manufacture of apparel, predominantly consisting of workwear and other outerwear and (iii) manufacture of leather products, mainly consisting of footwear. The abundant workforce and the low cost of labour (lowest in the region), on the one hand, and its geographical proximity to the EU market, on the other, provide for the potential development of the textile sector in Kosovo.

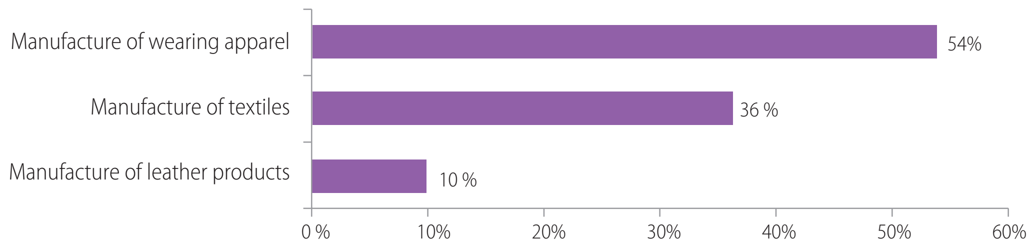
2. Basic firm and industry characteristics

2.1. Size and composition of the sector

According to the TAK database, 182 active businesses were registered under NACE Rev. 1 codes 17, 18 and 19 in Kosovo during 2012. These cover firms in the manufacture of textiles, manufacture of wearing apparel, processing of leather and manufacture of leather products, respectively.

Just over half of these businesses are in the manufacture of wearing apparel, followed by manufacturers of textiles (36%), whilst the manufacture of leather products accounts for merely 10% of firms (Figure 1). A look at the distribution of firms owned (at least partially) by women suggests that these firms are somewhat more concentrated in the manufacture of wearing apparel (64%) and less so in manufacture of textiles (29%) and leather (7%).

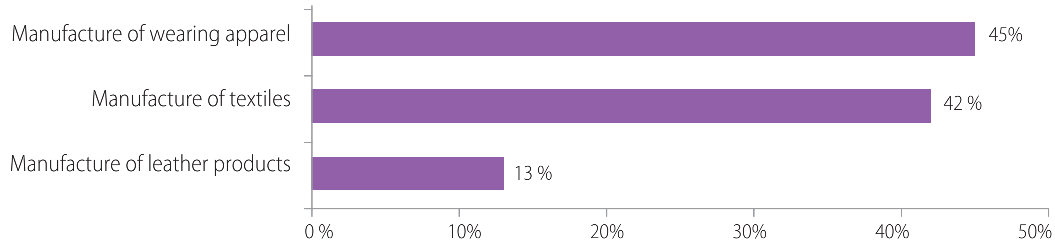
Figure 1: *Distribution of businesses by main activity*



Source: TAK (2013)

However, a look at employment figures for active firms (Figure 2) reveals that the size of the manufacture of wearing apparel and manufacture of textiles subsectors are similar in terms of size, together accounting for 87% of employment in the sector, compared to a relatively smaller leather subsector (13% of total employment).

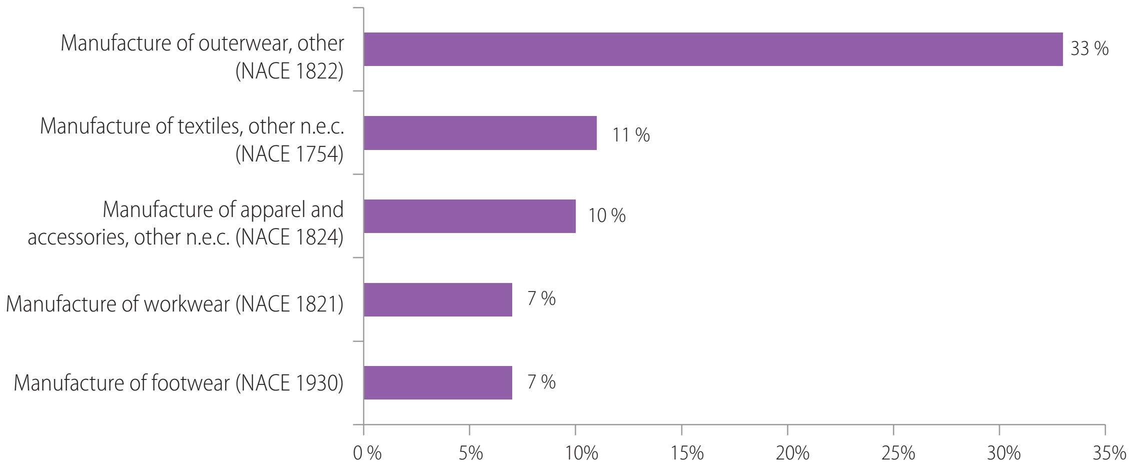
Figure 2: *Distribution of employment by main activity*



Source: TAK (2013)

According to disaggregated data at the 4-digit NACE Rev 1. level, the top five activities of the textile sector in Kosovo are: (i) manufacture of outerwear, outerwear n.e.c. (NACE 1822, 33% of firms); (ii) manufacture of textiles, n.e.c. (NACE 1754, 11% of firms); (iii) apparel and accessories, n.e.c. (NACE 1824, 10% of firms); (iv) manufacture of workwear (NACE 1821, 7% of firms); and (v) manufacture of footwear (NACE 1930, 7% of firms).

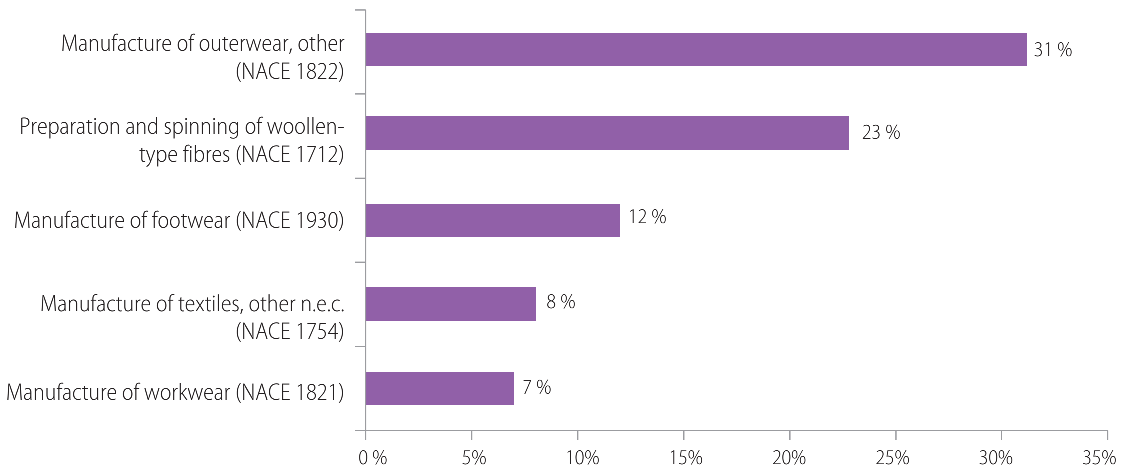
Figure 3: *Distribution of businesses by main activity (4-digit NACE)* [1]



Source: TAK (2013)

Manufacture of outerwear, n.e.c. (NACE 1822) is also the largest subsector in terms of employment, accounting for almost a third of the employment generated by the textile sector. Manufacture of footwear (NACE 1930), manufacture of textiles, n.e.c. (NACE 1754) and workwear (NACE 1821) also remain in the top five activities, albeit with relatively smaller shares. However, preparation and spinning of woollen-type fibres (NACE 1712) now emerges as the second largest subsector, owing to one large firm, Remateks.

Figure 4: *Distribution of employment by main activity (4-digit NACE)* [2]

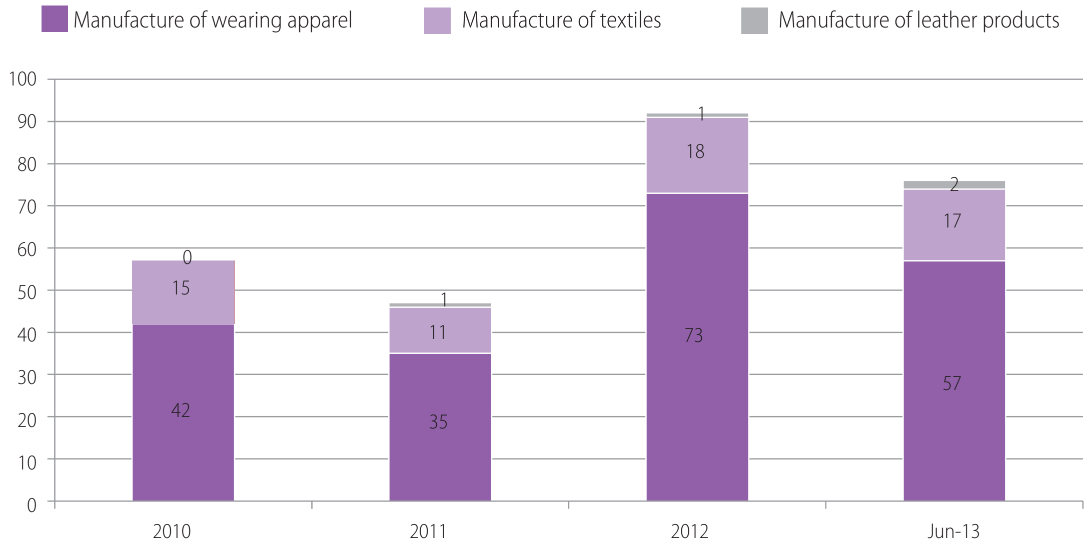


Source: TAK (2013)

1 The remaining 32% are businesses engaged in various types of activities spread in very small (insignificant) shares.
2 The remaining 19% are employed in businesses engaged in various types of activities spread in very small (insignificant) shares.

The share of newly registered firms over the last three and a half years (2010-2012 and the first half of 2013) is broadly consistent with the distribution of firms across sectors in 2012 (Figure 5). Around three-quarters of recently registered firms in the sector are in the manufacture of wearing apparel (NACE 18), whilst the rest (22%) are predominantly in the manufacture of textiles.

Figure 5: *Number of newly registered businesses by activity*



Source: KBRA (2013)

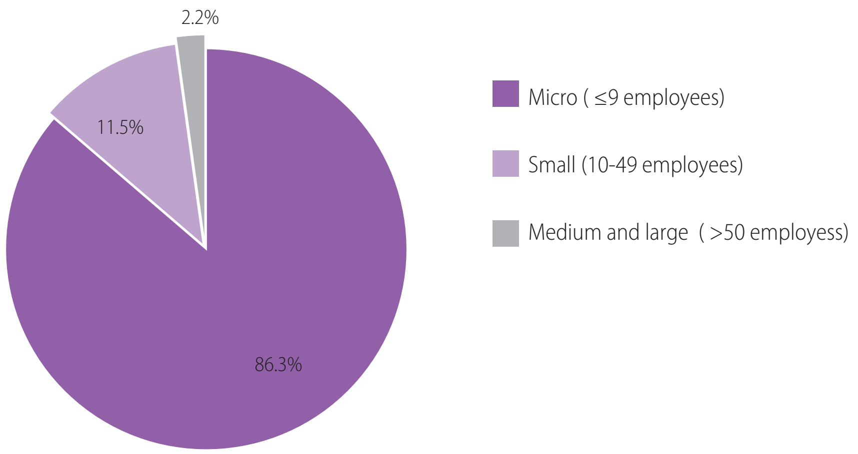
In 2012, the textile sector employed 1,453 individuals, accounting for about 0.7% of registered employees in Kosovo (TAK, 2013). Similar to the rest of the private sector in Kosovo, the majority of active businesses (86%) in the textile sector are micro businesses--i.e. they have less than 10 employees[3] (Figure 6). The rest are predominantly small firms (between 10 and 49 employees), whilst only 2% are medium and large firms (employing 50 employees or more). However, the impact of the larger firms on employment is significant. Namely, the four largest businesses (the only medium and large ones at that time) accounted for 50% of the sector's employment, whilst only largest two of these four accounted for 40% of the sector's employment.

3 The size of firms is likely to be somewhat under-represented to the extent that some firms under-report the number of employees.

2.2. Size and geographical location of the firms in the sector

Similar to the overall private sector in Kosovo, the majority of the 182 active businesses in 2012 were micro businesses (Figure 6).

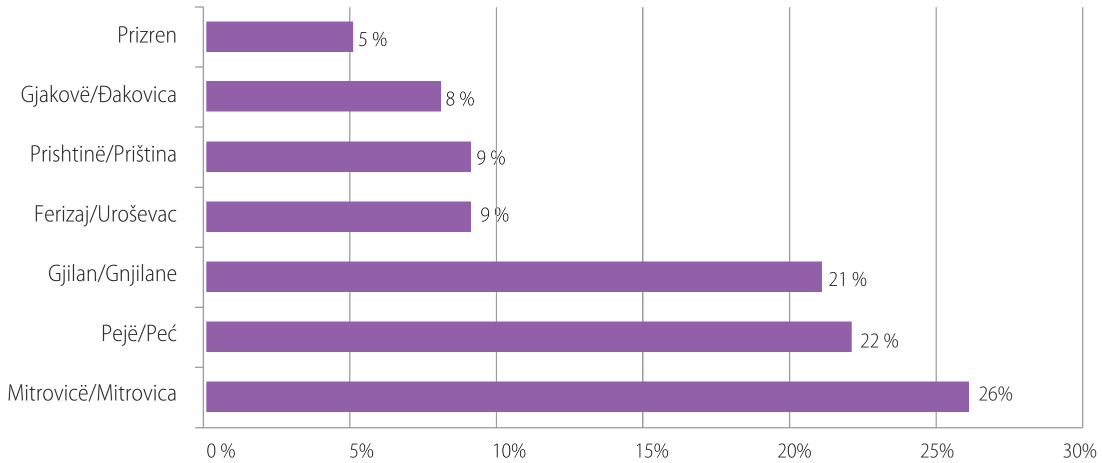
Figure 6: *Distribution of businesses by size*



Source: TAK (2013)

A geographical concentration of firms is apparent in the textile sector (Figure 7). Over two-thirds of textile manufacturing businesses are concentrated in three regions: Prizren, Gjakovë/Đakovica and Prishtinë/Priština.

Figure 7: *Distribution of businesses by region*



Source: TAK (2013)

Box 1: Success story: Kosovatex

Kosovatex is a jeans manufacturer that employs around 300 workers and is located in the outskirts of Prishtinë/Priština. Previously a major cotton yarn producer founded in 1952, the company was privatised in 2006 through a special spin-off to Ecolog International. In 2010, a significant investment was made in Kosovatex by building a Denim manufacturing facility with top-of-the-line technology. Since 2010, the company has started producing jeans for export, and its sales have experienced an increase since then.

The company manufactures some products exclusively for exporting for well-known Italian and German brands such as Pierre Cardin, Cabano, Pioneer, Otto Kern, etc. In 2013, it exported 300,000 pairs of jeans to EU destinations such as Germany, Italy and Austria. Upon the introduction of a fourth production line in the beginning of 2014, the company's production capacity has increased to 450,000-500,000 pairs of jeans per year.

Kosovatex manufactures products according to customers' specifications and using materials chosen by the customer, but it can also provide product development services to them. Through its six departments, it offers modelling, cutting, sewing, drying, finishing (washing, dyeing and special treatments) and quality control. All garments produced at this factory undergo strict quality control of the fabric (inspection, shading, shrinkage test, width and weight) and the finished garment.

Intermediate products, such as fabrics, are exclusively imported from Germany, Turkey and the Former Yugoslav Republic of Macedonia because they are either not available locally or local products are not of a sufficiently high quality. The most serious constraint to business development that Kosovatex is facing is the lack of skilled workers. According to them, it is often impossible to find suitable technologists, chemistry technicians, and specialists for modelling, organising sewing and dyeing in the Kosovar market. This challenge is overcome by hiring staff from neighbouring countries, Italy or Turkey, both to work (in a short-term or long-term basis) and to train local staff. Accordingly, all staff at Kosovatex undergoes on-the-job training in specific production skills. However, in spite of all of this, the company also faces problems in finding skilled machinery technicians.

The competitive advantage of Kosovatex appears to lie in a combination of factors. The quality of their technology and the quality of their workforce – which they achieve by continuous investment in staff development and "importing" experts – guarantees high production of high-quality products that enables them to meet the demands of major European companies. Relying on its owners' capital and having networking opportunities are two other key success factors; although, as noted by the management of the company, networking opportunities are not of much value if a firm cannot produce high-quality products. When asked about the competitive advantage of Kosovo over cheaper major Asian producers such as China, the management noted that, apart from geographical location, Kosovo can compete with the quality of their products.

2.3. Ownership of the firms in the sector

According to survey results, the vast majority of firms in the sector are individual businesses (93%); they are all privately owned; and the vast majority are owned by domestic individuals, mostly Kosovar Albanians (95%) and Kosovar Turks (4%). Around a quarter of the surveyed businesses are owned by at least one woman. Out of these, 54% are exclusively owned by women. The average age of the (main) owners of textile and leather firms is 45 years old. Over two-thirds of the owners are 40 or more years old, while the share of owners that are below 30 is particularly low (Table 1).

Table 1: *Age of the (main) owner*

Age	Share (%)
25-29 years	8%
30-39 years	24%
40-49 years	45%
50 or above years	23%
Total	**100%**

Source: UNDP Survey (2013)

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%). The share of women and men owners who have completed tertiary education is roughly the same; however, among those who have not completed tertiary education, women are, on average, less educated than men (Table 2).

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

Level of education	Overall	Women
Less than secondary	13%	32%
Secondary and less than tertiary	63%	42%
Tertiary and above	24%	26%
Total	**100%**	**100%**

Source: UNDP Survey (2013)

3. Production

3.1. Inputs

Raw materials and intermediate goods dominate the cost of inputs for micro and small businesses (75% and 63%, respectively), and they account for around 46% of that in medium and large businesses. On the other hand, the share of wage costs increases with firm size, ranging from 14%in micro businesses to 36% in medium and large ones (Table 3, Panel A).Differences also exist among sectors (Table 3, Panel A). Due to differences in the cost of raw material, the share of wage costs--lowest in the manufacturing of leather products (9%)--is much lower than in the manufacture of textiles and wearing apparel (38% and 31%, respectively).

Table 3: *Monthly cost of inputs (in €)*

A: *Average cost of inputs according to firm size*

Firm size	Raw material and interme-diate products	Wage costs	Energy	Water	Fuel	Other
Micro (≤9 employees)	3,946	758	101	17	190	338
Small (10-49 employees)	13,383	4,093	1,080	137	2,880	/
Medium and large (≥50 employees)	66,485	50,850	8,580	4,326	12,050	/
Sector average	**7,511**	**3,524**	**572**	**221**	**946**	**338**

B: *Average cost of inputs according to firm activity*

Main activity	Raw material and interme-diate products	Wage costs	Energy	Water	Fuel	Other
Manufacture of textiles	4,741	5,041	1,104	580	1,625	200
Manufacture of wearing apparel	4,627	2,448	238	27	369	314
Manufacture of leather products	42,793	4,736	630	143	1,951	800
Sector average	**7,511**	**3,524**	**572**	**221**	**946**	**338**

Source: UNDP Survey (2013)

The intermediate goods and raw material used by Kosovar firms are predominantly from imports. Sixty percent of the surveyed firms report that their raw material and intermediate goods are exclusively imported[4] (Table 4). The imported raw material and intermediate goods are predominantly supplied directly by foreign producers or by local traders, whereas very few report to purchase them from international traders. The rest of the firms are almost equally split: 19% rely on local supply (own production or other local producers), 21% use a mix of locally produced and imported raw material and intermediate products.

4 Again, in the case of Kosovatex, the reason for this is reported to be the availability and/or quality of local intermediate products.

Table 4: *Structure of raw material and intermediate products*

Source	Share of firms
Exclusively locally produced	**19%**
In-house production	*8%*
Local producers	*11%*
Mix of locally produced and imported	**21%**
Exclusively imported	60%
Local traders	25%
International traders	7%
Foreign producers (directly)	28%

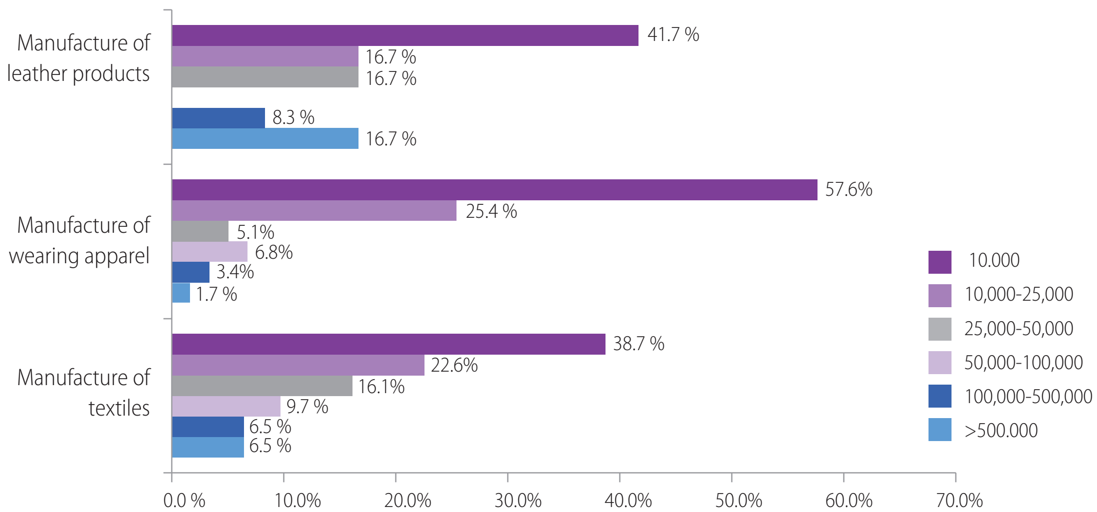
Source: UNDP Survey (2013)

The imported inputs are predominantly intermediate goods such as cotton, wool and other fibres, leather and sewing threads. The most frequently cited country of origin for these products is Turkey, followed by the former Yugoslav Republic of Macedonia, Italy, Germany and China.

3.2. Outputs

The reported average value of output for firms in the sector was€244,000 in 2012. Manufacture of leather products has the highest average output at€963,000, followed by textiles (€406,000) and wearing apparel (€53,300).[5] In 2012, two-thirds of the businesses had an output value of less than €25,000, whilst 10% had a value of output between €100,000 and €10 million (Figure 8). The value of output in the sector increased by 18% from 2011 to 2012, and this seems to be driven by increases in the output of the manufacture of textiles and leather products.

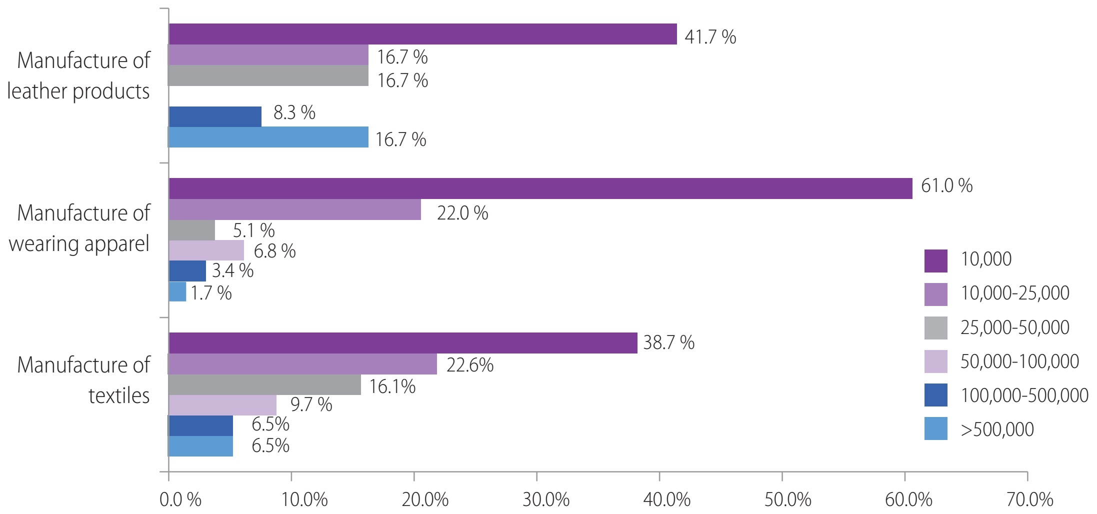
Figure 8: *Annual output value according to firm activity*
A: *Output value in 2012 (in €)*



Source: UNDP Survey, 2013

5 Production statistics were calculated based on the mid-points of ten intervals of production values as reported by 112 out of 120 firms in the sample.

B: *Output value in 2011 (in €)*



Source: UNDP Survey, 2013

3.3. Capacity utilisation

According to the results of the survey, only approximately 10% of firms utilise their capacities fully. Capacity utilisation has not changed significantly between 2011 and 2012. The average level of capacity utilisation in the textile sector was 56%in 2011 and 57% in 2012. Around half of all firms use between 60% and 100% of their capacity (Table 5).

Table 5: *Capacity utilisation, 2011 and 2012*

Capacity utilisation	Share of firms	
	2011	2012
Less than 20%	9.3%	6.0%
20%-39%	16.9%	20.5%
40%-59%	25.4%	23.9%
60%-79%	23.7%	23.1%
80%-100%	24.6%	26.5%
Total	**100%**	**100%**

Source: UNDP Survey, 2013

The average level of capacity utilisation differs somewhat across firms of different subsectors and sizes. In 2012, the level of capacity utilisation ranged from 51% in the manufacture of textiles to 61% in the manufacture of wearing apparel (Table 6, Panel A). The differences in capacity utilisation across firms of different sizes are not large, but the capacity utilisation is relatively lower in medium and large firms compared to micro and small ones (Table 6, Panel B).

Table 6: *Differences in capacity utilisation, 2012*

A: *Average capacity utilisation according to sector*

Capacity utilisation	Share (%)
Manufacture of textiles	51%
Manufacture of wearing apparel	61%
Manufacture of leather products	54%
Average	**57%**

B: *Average capacity utilisation according to firm size*

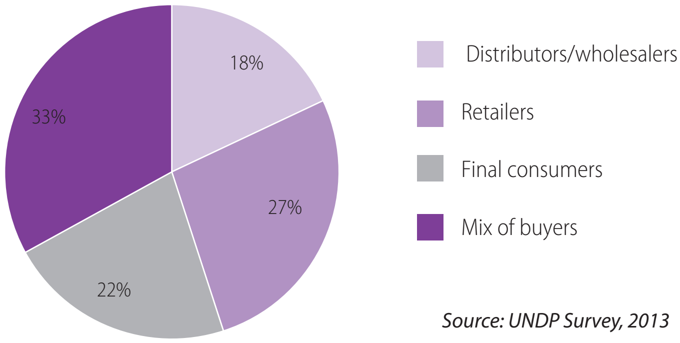
Capacity utilisation	Share (%)
Micro (≤9 employees)	57%
Small (10-49 employees)	59%
Medium and large (≥50 employees)	50%
Average	**57%**

Source: UNDP Survey(2013)

4. Markets, exports and barriers to exporting

Of the surveyed firms in the textile sector, around 45% sell their products exclusively to distributors/wholesalers or retailers, while another 22% sell their products exclusively to domestic final consumers (Figure 9). The remaining 33% of firms sell their products to a mix of buyers, including foreign ones.

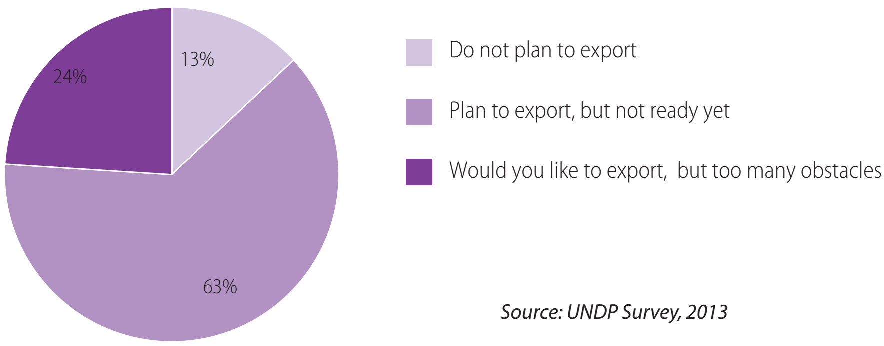
Figure 9: *Structure of buyers*



Source: UNDP Survey, 2013

According to the survey results, around 10% of firms in this sector export some of their output. When asked about plans to export, of firms that do not export, around 40% report that they do not plan to export. However, the rest report that they would like to, or they plan to, export in the future, but they feel that there are too many obstacles, hence they are not ready to compete in foreign markets (Figure 10).

Figure 10: *Non-exporting firms' plans to export*

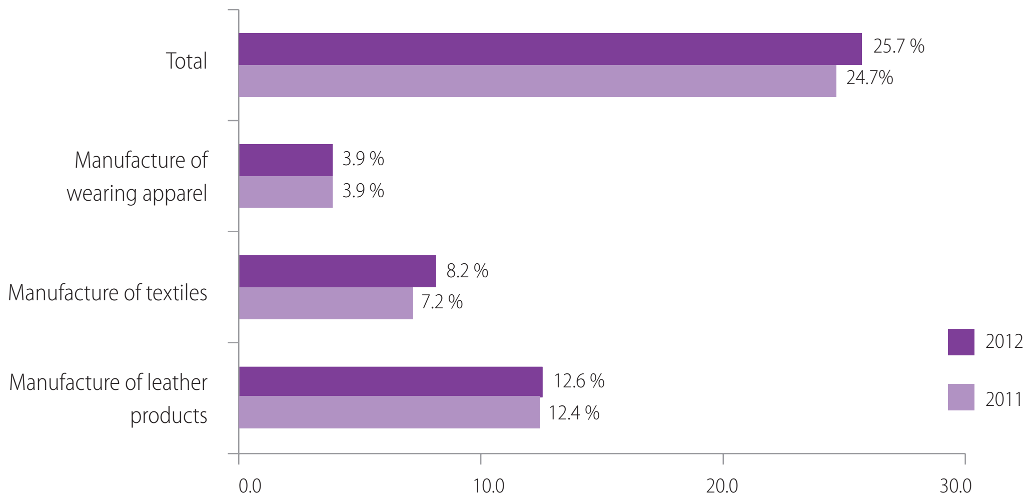


Source: UNDP Survey, 2013

Of the exporting firms, the average share of exports in the output of exporting firms is 30%. Only four firms export 50% or more of their output, two of which produce exclusively for export. The main exports are leather and leather footwear, woollen type and other fibres, and wearing apparel (e.g. jeans and socks). The main destination countries of intermediate and final products are Germany, Italy, Albania, Bosnia and Herzegovina and Serbia.

The share of exporting firms in 2012 did not change from 2011; however, the volume of exports increased by 4.5% over the same time period. The increase in export volume was driven almost exclusively by the manufactured textiles subsector (Figure 11).

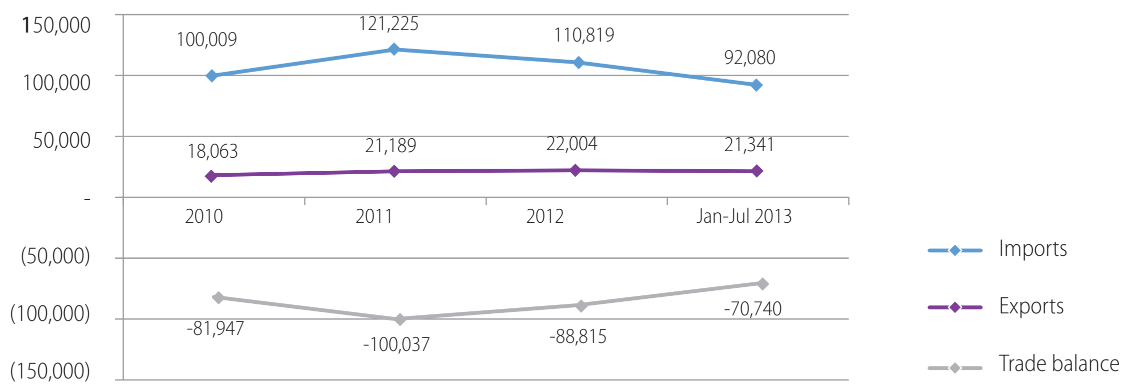
Figure 11: *Average export volume by activity of businesses (in million €)*



Source: UNDP Survey, 2013

A look at official statistics also suggests that the sector's exports have remained relatively stable over the last few years (Figure 12). On the other hand, imports decreased between 2011 and 2012, which has led to a slight decrease in the trade deficit of this sector.

Figure 12: *Trade balance of the sector (in thousand €)*



Source: Customs of Kosovo (2013)

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

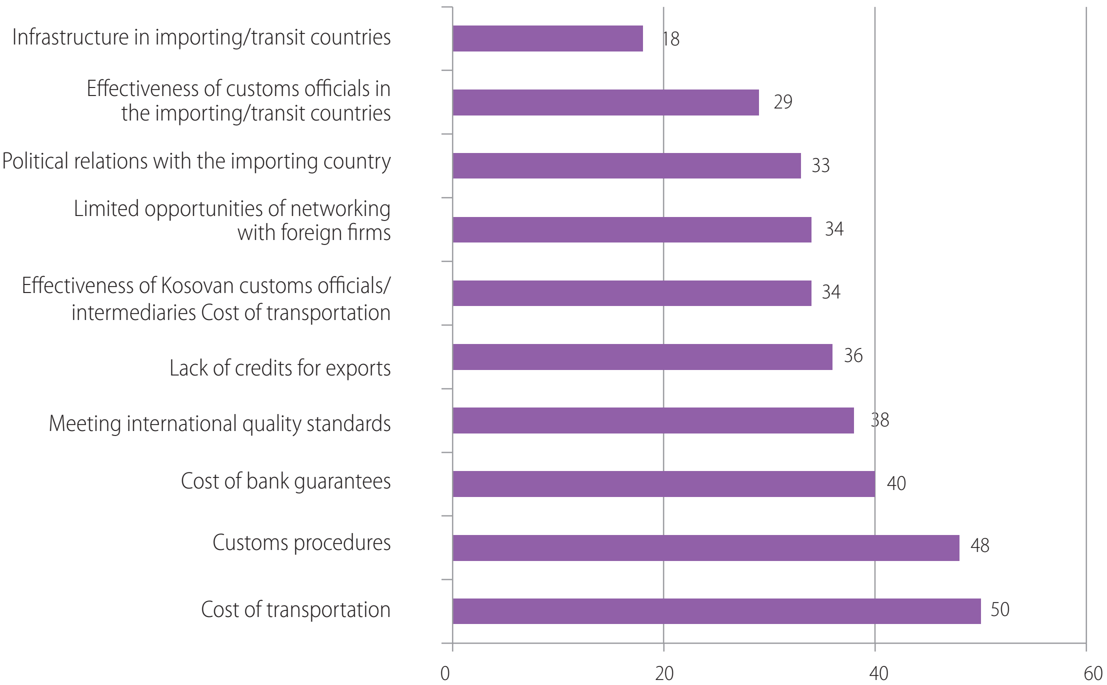
Box 2: Trade regulations and free trade agreements

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). A draft law for customs duty exemptions on some raw materials, intermediate products, machinery and equipment and packaging relevant to textiles and leather may be enacted by the Parliament during 2014.

Kosovo is a member of CEFTA, and it enjoys duty-free access to the EU under the Autonomous Trade Preferences and to the US under the Generalised System of Preferences (GSP). Kosovo also has an agreement of free trade with Turkey, which will come into power once it is ratified by the Turkish Parliament. Additionally, Kosovo benefits from trade preferences with Japan and Norway that include only few limitations.

Figure 13 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 high transportation costs, customs procedures, costly bank guarantees and difficulties in meeting international quality standards.

Figure 13: *Barriers to exporting*



Source: UNDP Survey, 2013

The cost of transportation and the time and (transaction) costs of completing customs procedures are being addressed by the Kosovo government. The cost of transportation is expected to decrease with the completion of the Highway R7 which connects Kosovo to Albania and Serbia and Highway R6 to the former Yugoslav Republic of Macedonia, the construction of which is expected to begin in 2014. On the other hand, the regulatory framework for trading across borders has recently been reformed, and the number of documents required to export has been greatly reduced (Box 3). This has subsequently reduced the cost of trade by 20% (MTI, 2013).

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

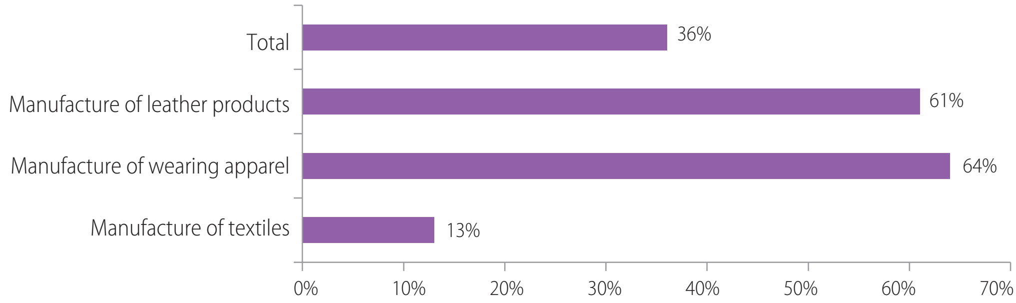
Certificate of Origin (for countries Kosovo has an FTA with or any other Agreement which covers exemptions based on rules of origin)

5. Employment and human capacities

5.1. Employment, wages and demographic structure of employees

According to official statistics (TAK, 2013), in 2012, the textile sector employed around 1,453, or 0.7%, of registered employees in Kosovo. The average number of employees per firm was 10 in 2011 and 14 employees in 2012, and overall employment in the survey sample increased by 36%during this period (Figure 14). However, this increase in hiring was limited to relatively few firms. Most notably, only three of the largest firms accounted for 95% of the job creation in the sector in 2012 (compared to the previous year).

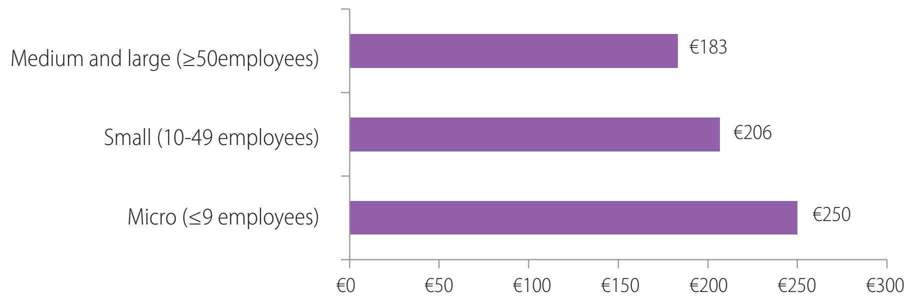
Figure 14: *Firm growth (2011-2012) according to number of employees*



Source: UNDP Survey, 2013

According to the survey data, the average wage in the textile and leather sector was €230 in 2012. Wages are, on average, the highest in medium and large companies, at €250, and the lowest in small companies, at €183 (Figure 15 below).

Figure 15: *Average wage by firm size*



Source: UNDP Survey, 2013

Differences in the average wage are more marked across sectors (Figure 16). For firms engaged in the manufacture of wearing apparel, the average wage is €276, while those that manufacture textiles and leather products pay average wages of €230 and €161, respectively.

Figure 16: *Average wage by firm activity*

Source: UNDP Survey, 2013

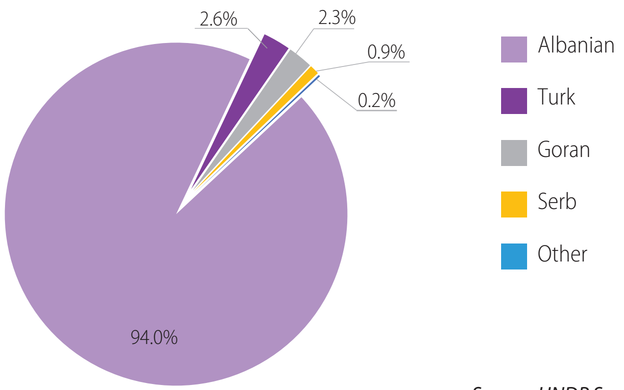
These relatively low wage levels are partly due to the flexible market regulations present in Kosovo (Box 4).

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).

According to survey results, the share of women and men employees in the sector is exactly equal. Kosovar Albanians account for 94% of the total workforce (Figure 17). Turks and Gorans are the most highly represented minorities in the textiles sector, making up almost 5%, whereas the remaining 1% are predominantly Serbs.

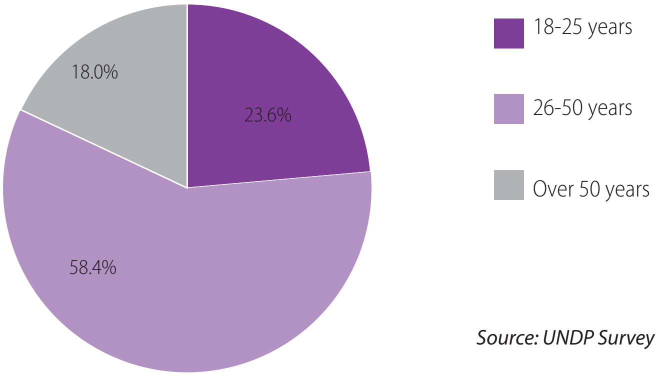
Figure 17: *Structure of employees according to ethnicity*



Source: UNDP Survey, 2013

The share of young workers in this sector is less than 20% (Figure 18). As such, most employees (60%) are aged between 26 and 50 years.

Figure 18: *Employee structure by age group*

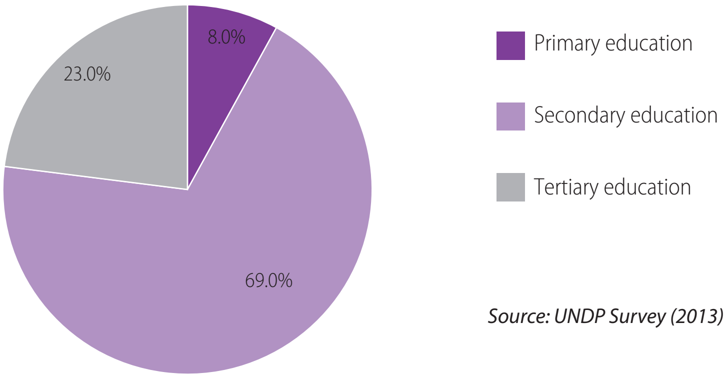


Source: UNDP Survey (2013)

5.2. Workforce skills

Around 70% of the workforce in the textile sector have secondary schooling as their highest level of educational attainment, and 23% have completed tertiary education (Figure 19).

Figure 19: *Structure of employees according to educational level*



Source: UNDP Survey (2013)

Around 40% of surveyed businesses identify the availability and cost of skilled workers as a problem. This is also stressed as the single most important problem by Kosovatex, as discussed in Box 1. Lack of vocationally educated graduates seems to be one specific problem identified in the survey, as well. However, the skills of current graduates (tertiary and vocational secondary) are also considered insufficient to meet the demands of the sector.

The textile-specific occupations that are most frequently cited as lacking professionals needed for the development of the sector are production management, quality control, leather and fur apparel processing, designers, stitchers, chemists and textile technologists. Other occupations reported as lacking an adequate workforce are management, IT and electrical mechanics.

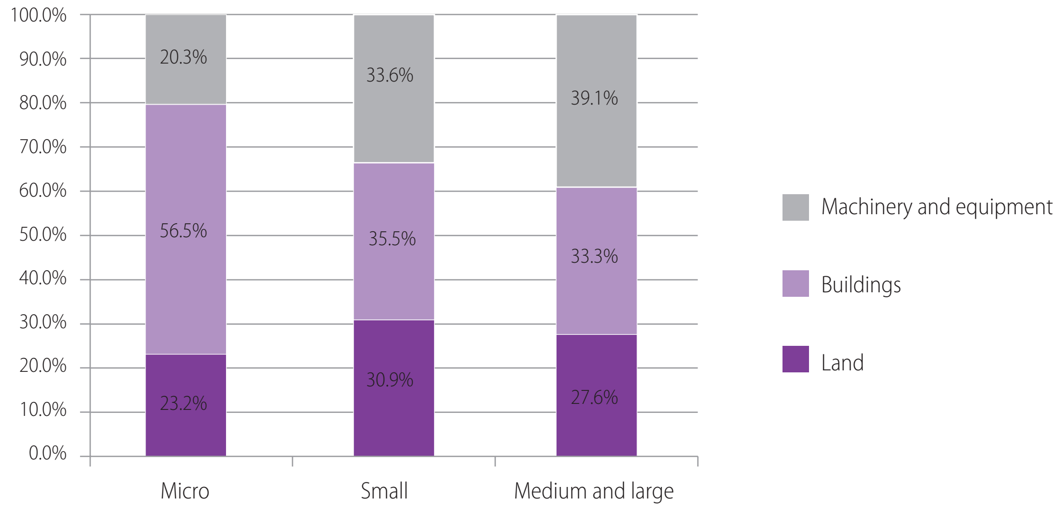
Similar to Kosovatex, discussed in Box 1, other textile firms seem to also revert to training provision to compensate for skill deficiencies. One in four firms reported to invest in workforce development through training provision. Training is predominantly provided on-the-job to enhance specific production skills. Other forms of training (e.g. classroom training) focused on production skills and training in general skills are not offered as frequently.

6. Assets, investment and innovation

The total value of assets of surveyed businesses in 2012 is estimated to have been €40 million. The average capital intensity ratio[6] was found to be 1.9. This was lower among small businesses (0.67)as compared to medium and large businesses (1.21) and micro ones (2.1).

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 20).

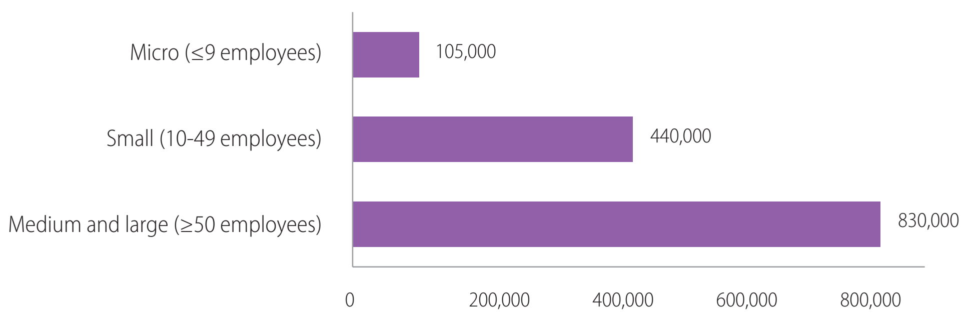
Figure 20: *Structure of assets by size class*



Source: UNDP Survey, 2013

Of the firms that reported assets, on average, micro firms have assets of €105,000, whilst small and medium/large firms have assets of €440,000 and €830,000, respectively.

Figure 21: *Average size of assets according to firm size (in €)*



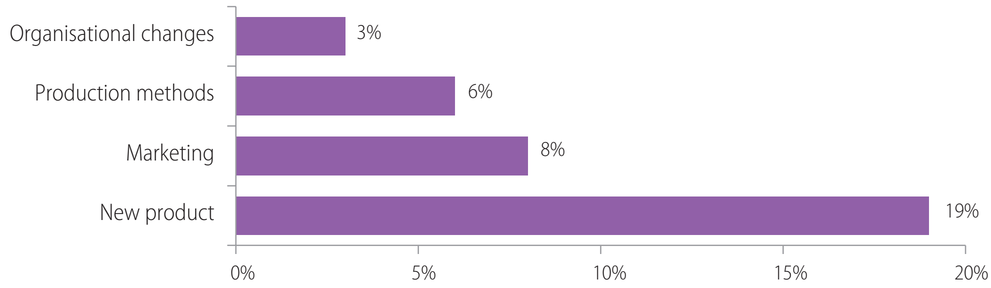
Source: UNDP Survey, 2013

6 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.

One in five interviewed businesses reported investing in 2012. The overall value of these investments was €3.2 million, and this investment was mainly focused on the acquisition of new machinery and equipment.

Textile businesses also reported undertaking product and process innovations (in marketing, production methods and organisation). Around one in five firms reported having invested in the introduction of a new product in 2012. Additionally, 8% of businesses introduced innovations in marketing, mostly focusing on improvements in the design and packaging of products (Figure 22). Six percent introduced new production methods, whilst 3% introduced organisational changes.

Figure 22: *Innovations*



Source: UNDP Survey, 2013

Around 83% 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 these surveyed. Below is a discussionof industrial property and patenting in Kosovo (Box 5).

Box 5: Industrial property and patenting in Kosovo

Intellectual property rights are registered and administered by the Agency for Property Rights which operates in the Ministry of Trade and Industry,

Trademarks are regulated by the Law on Trademarks (No. 042/L-2654). 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. The proprietor has the right to prevent third parties from using his/her trademark without his/her permission. 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. The trademark is registered for a period of 10 years and can be renewed for an unlimited time.

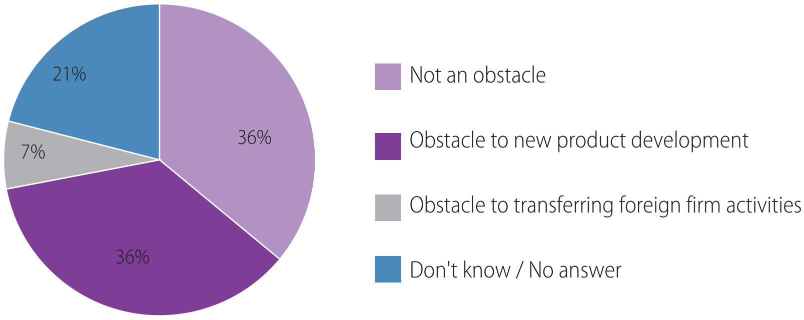
Industrial design is protected by the Law on Industrial Design (No. 04/L-028). The design is protected by law up to the point that it is still an innovation and has a specific character. Protection of the industrial design lasts five years and can be extended to a maximum of 25 years.

Patenting: are regulated by the Law on Patents (No. 04/L-029). 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.

The surveyed companies consider that procedures for patenting are simple.

However, over 40% of the surveyed businesses consider that the level of intellectual property rights (IPR) protection in Kosovo poses an obstacle to the development of firms in the textile industry (Figure 23). Specifically, 36% believe that (the lack of) IPR protection poses an obstacle to the development of new products, whereas only 7% consider that this is an ostacle to activitiesbeing outsourced by foreign firms.

Figure 23: *IPR protection effect for the development of the industry*



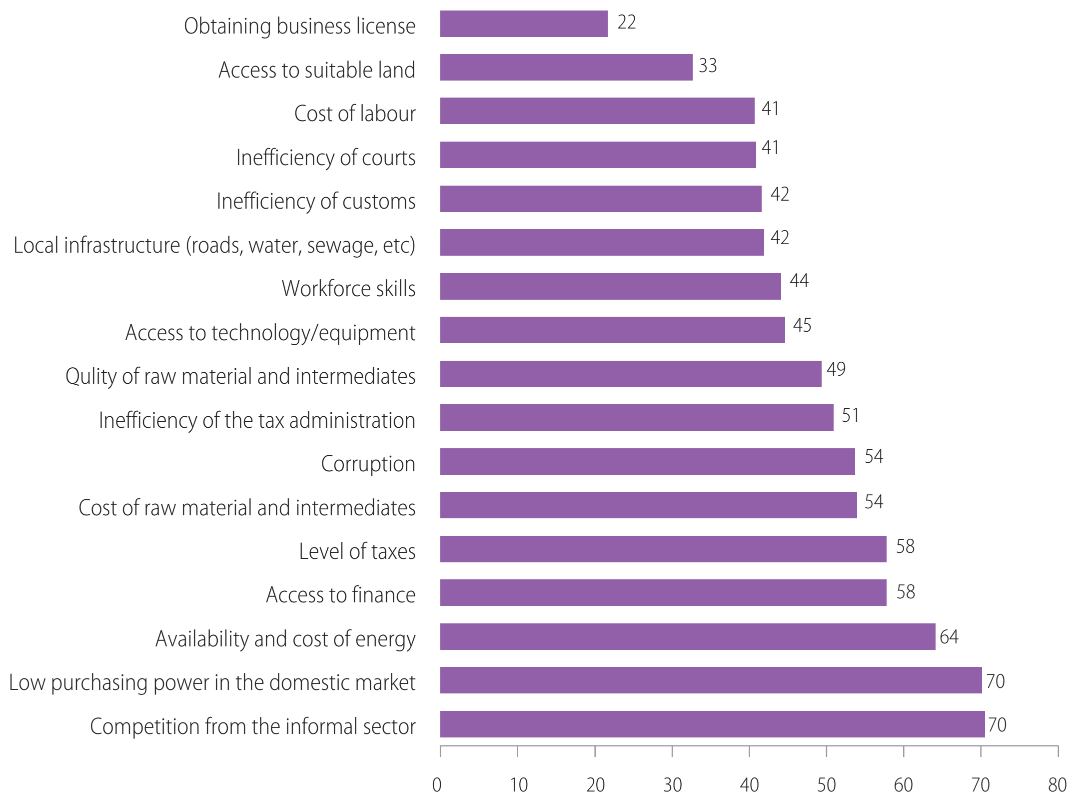
Source: UNDP Survey, 2013

7. Business environment

7.1. Barriers to business development: Business perceptions

The average intensity of barriers to businesses development reported by the surveyed textile businesses are presented below (Figure 24). Intensity is measured on a range of 0 to 100, 0 representing the lowest level of intensity and 100 representing the highest one. Competition from the informal sector, low demand in the local market, availability and cost of energy and access to finance are seen as the main barriers to their growth, whereas access to land, labour costs, customs efficiency and inadequate local infrastructure are among the lowest ranked barriers.

Figure 24: *Barriers to business development*



Source: UNDP Survey, 2013

There are only a few differences in the intensity of some perceived barriers among businesses with (at least one) women owner. These businesses assign a higher intensity (of around 10 percentage points) to the high level of corruption, the quality of local infrastructure and low demand in the domestic markets as barriers, compared to businesses owned solely by men. The quality of raw materials as an obstacle, on the other hand, is assigned a lower intensity (by around 13 percentage points) by (partly) women-owned businesses.

However, marked differences in the reported intensity of some barriers for business development exist among firms of different sizes (Figure 25).

Competition from the informal sector, for instance, appears to represent a more serious barrier for micro and small businesses than to medium and large businesses. This may be explained by 1) the fact that the latter are more likely to sell their products in foreign markets and/or 2) the inability of smaller informal firms to compete with the quality and quantity of larger firms' products.

Microenterprises assign a lower intensity to the **cost and quality of labour** than their small, medium and large counterparts, which is understandable considering that they are likely to be predominantly family businesses. As such, they are unlikely to strive to produce high-quality products for export.

In general, small firms are more likely to report a higher intensity for external barriers (i.e. barriers external to the firm). The intensity of **access to finance** as a barrier is the highest for small businesses, relatively lower for micro businesses and virtually nonexistent in the case of their medium and large counterparts. **Institutional-related barriers,** such as the level of corruption, inefficiency of courts and inefficiency of the tax administration, is seen as a more serious problem by small firms than by micro and medium/large firms.

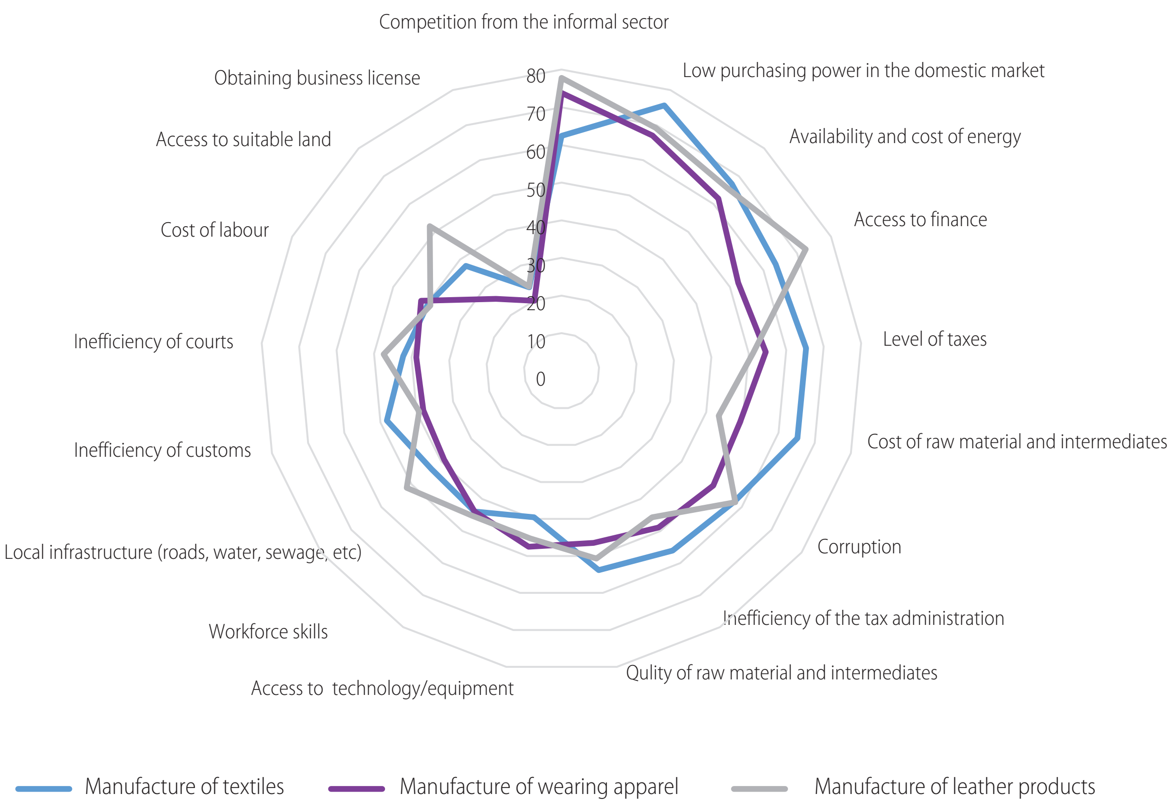
Figure 25: *Barriers to business development according to firm size*

Source: UNDP Survey, 2013

The larger likelihood of small firms to report higher intensities of barriers is likely to 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 businesses are presumably more ambitious in their expansion plans and, therefore, more affected by access to finance, land, and the availability and cost of energy. On the other hand, larger firms may be more able to obtain bank loans, but perhaps more importantly, they may report a smaller intensity of such barriers because 1) some of the larger firms in the sector are foreign- or Diaspora-owned and/or 2) they do not rely on external financing (from Kosovar banks), as is the case with Kosovatex, see Box 1 of this report.

Differences in the intensity of barriers to business development are less frequent and less pronounced across sectors (Figure 26). The cost of raw material and intermediate good, the level of taxes, inefficiency of customs and inefficiency of the tax administration are relatively stronger barriers for firms in the manufacture of textiles, whilst competition from the informal sector is a relatively less serious barrier for this sector. Local infrastructure, access to finance and access to land are assigned a higher intensity by firms in the leather sector compared to their textile and apparel counterparts.

Figure 26: *Barriers to business development by business activity*



Source: UNDP Survey, 2013

Boxes 6, 7, and 8 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 (information for foreign investors on starting a business, investment opportunities, potential business partners, etc.), 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.*
- *Textile Sector Association "K-Tex" (B2B meetings, advocacy for the sector, etc.)*

Box 7: Relevant sector-specific regulations[1]

- *Regulation No. 1/2012 on Methods for the quantitative analysis of ternary textile fibre mixtures*
- *Regulation No. 10/2012 on Labelling of the materials used in the main components of footwear for sale to the consumer*
- *Regulation No. 11/2012 on Contents of raw material and textile labelling.*
- *Regulation No. 12/2012 on Methods for the quantitative analysis of binary textile fibre mixtures.*

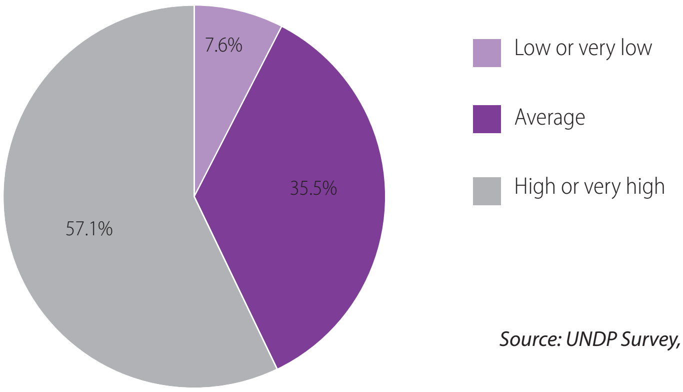
1 The relevant legal framework can be downloaded at http://www.mti-ks.org/sq/Legjislacioni

Box 8: List of relevant permits and certificates

- *Business Certificate*
- *VAT registration*
- *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;' however, only 16% rate taxes as 'very high' (Figure 27).

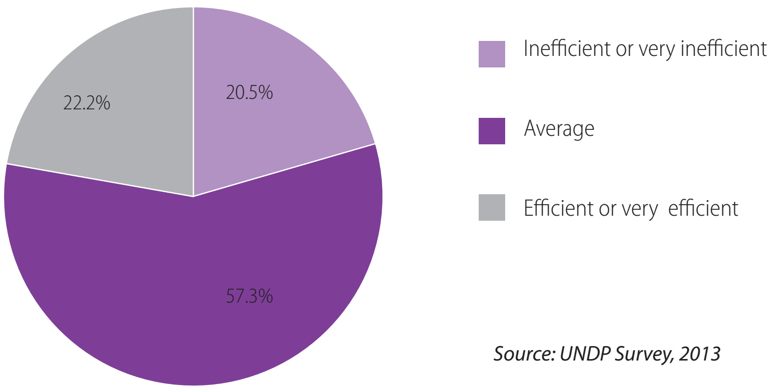
Figure 27: *Business perceptions of the level of taxes*



Source: UNDP Survey, 2013

One in five businesses rate the performance of the Tax Administration of Kosovo as 'inefficient' or 'very inefficient;' however, only 1.7% rate it a 'very inefficient' (Figure 28).

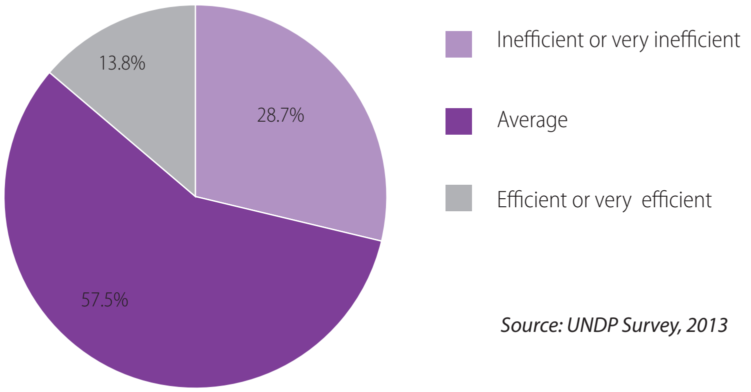
Figure 28: *Business perceptions of the performance of the Tax Administration*



Source: UNDP Survey, 2013

The share of those that rate the performance of the Customs Administration as 'inefficient' or 'very inefficient' is somewhat higher, at 29%; however, only 5.8% rate it 'very inefficient' (Figure 29).

Figure 29: *Business perceptions of the performance of the Customs Administration*



Source: UNDP Survey, 2013

Information on the level of relevant taxes and tax exemptions is provided below (Boxes 9 and 10).

Box 9: Relevant taxes

- *Corporate tax: 10%*
- *Personal income tax: €0-€80=0; €80-€250=4%; €250-€450=8%: €450 and more=10%*
- *VAT: 16%*
- *Customs: 10%*
- *Property tax: ranges between 0.05% and 1% of the market value of the property.*

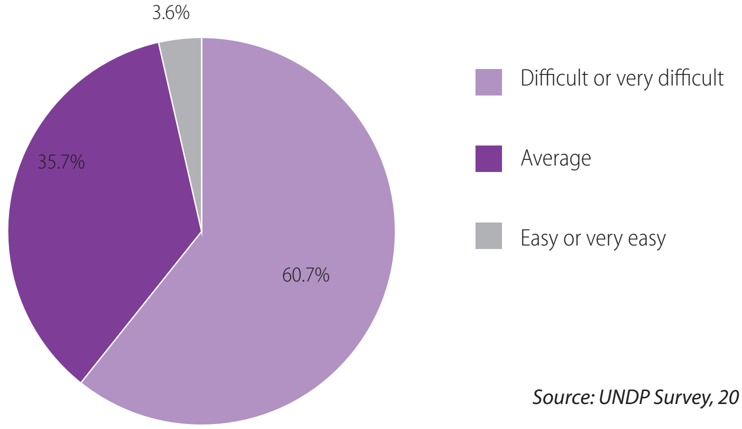
Box 10: Incentives for the sector

No specific incentives for the sector, but the following are generic ones:

- *No custom duties on imports of technology*
- *Through authorisation of a customs warehouse, there is a possibility for businesses to suspend payment of VAT in raw material until the period when goods are treated and in cases when imported goods are re-exported, no taxes are paid at all*
- *Possibility to defer payment of VAT on imports of selected plant and machinery for up to 6 months (to allow plant and machinery to be put into operation before VAT on its cost has to be paid)*
- *Export facilitation and export promotion arrangements designed to provide benefits to Kosovo businesses through relief of import duty for the manufacture of goods in Kosovo, which are then exported: drawback, inward processing and outward processing procedures. For inward processing and outward processing, the period of validity of an authorisation will not normally exceed three years.*

Sixty-one percent of interviewed businesses perceive that it is 'difficult' or 'very difficult' to obtain financing, a fourth of which believe that it is 'very difficult' (Figure 30).

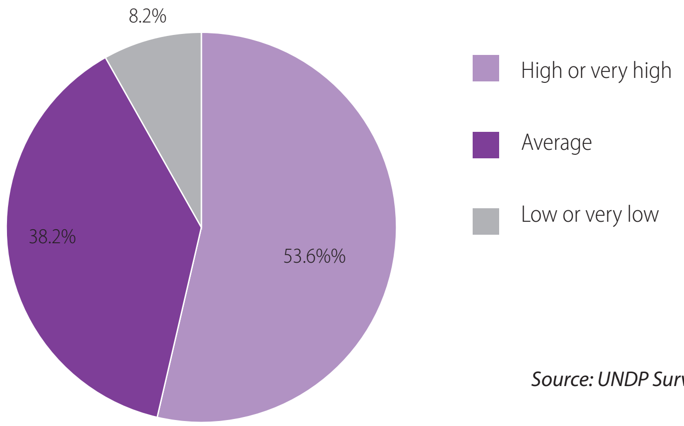
Figure 30: *Business perceptions of the ease of financing*



Source: UNDP Survey, 2013

Similarly, around 54% of firms think that the cost of financing is 'high' or 'very high,' out of which half rate it as 'very high' (Figure 31).

Figure 31: *Business perceptions of the cost of financing*



Source: UNDP Survey, 2013

Below is some information on the cost of financing in Kosovo (Box 11).

Box 11: Cost of finance and requirements for loans

- *No specific interest rates exist for the textile or manufacturing sector in general. As of October 2013, the effective interest rate on new loans was 11.7% (Central Bank of Kosovo, 2013). The effective interest rate on investment loans with maturity up to five years is lower at 10.2%. To obtain a loan, businesses need a Business Registration Certificate (issued by the Ministry of Trade and Industry), a VAT Certificate and information on the firm's financial data.*

Conclusions

The aim of this report was to provide a profile of the textile industry (including leather) and the barriers to its development, with particular focus on the barriers to export.

The textile and leather manufacturing firms in Kosovo are concentrated mainly in Prizren, Gjakovë/Đakovica and Prishtinë/Priština. Around half of the firms are active in the manufacture of wearing apparel, followed by the manufacture of textiles and leather products. However, manufacture of apparel and manufacture of textiles are of a similar size according to employment generation. Manufacture of leather products – including preparation and tanning of leather – on the other hand, is the smallest sector by both the number of firms and employment generation, but it is a leader in exports.

In 2012, the textile sector employed about 0.7% of registered employees in Kosovo. The share of women and men employees in the sector is equal. Around a quarter of the surveyed businesses are at least owned by women. Out of these, 54% are owned exclusively by women. Most of the employees (60%) in this sector are aged between 26 and 50. Kosovar Albanians make up 94% of this sector's workforce, whilst Turks and Gorans are the highest represented minorities. According to the survey results, the average wage in the textile and leather sector was €230 in 2012.

The estimated average value of output for the firms in this sector is €244,000. The sector is dominated by very small firms. In 2012, two-thirds of the businesses reported an output value of less than €25,000, whilst 10% reported a value of output between €100,000 and €10 million. The value of output in the sector increased by 18% from 2011 to 2012, and this seems to be driven by increases in the manufacture of textiles and leather products.

Employment in the sector has increased recently – by 36% in 2012 compared to the previous year – however, the growth has not been equally distributed across the sector. Merely a few large firms – some of which are foreign owned – accounted for the majority of jobs created in the sector during 2012. The average number of firm employees has grown from 10 in 2011 to 14 in 2012.

The intermediate goods and raw material used by Kosovar firms in the textile sector are predominantly imports. These imported inputs are primarily intermediate products such as cotton, wool and other fibres, leather and sewing threads. The average level of capacity utilisation in the textile and leather sector was 57% in 2011. Around 45%of the interviewed firms reported to sell their products exclusively to distributors/wholesalers or retailers, whilst another 22% sell their products exclusively to final consumers.

Around 10% of textile firms export to other countries. The sector's main exports are leather and footwear, woollen type and other fibres and wearing apparel (such as jeans and socks). The main destination countries for Kosovar textile exports are Italy (mainly for leather), Germany (mainly for fibres, wearing apparel and footwear), and the neighbouring countries of Albania, Bosnia and Herzegovina and Serbia (mainly for fibres and wearing apparel).As reported by the surveyed exporting firms, the highest-intensity barriers to exporting are high transportation costs, inefficient customs procedures, costly bank guarantees and difficulties in meeting international quality standards.

Surveyed firms do not consider the registering of patents as difficult or to pose an obstacle to business development. However, businesses do feel that the level of protection of intellectual property rights (IPR) poses an obstacle to the development of firms in the industry.

Around 40% of the surveyed businesses in the textile sector identify the availability and cost of skilled workers as a problem, including Kosovatex which cites this as the single most important obstacle to doing business in Kosovo. The sector-specific occupations that are most frequently cited as lacking professionals needed for the development of the sector are production management, quality control, leather and fur apparel processing, designers, stitchers, chemists and textile technologists.

Competition from the informal sector, access to finance and low domestic demand are considered as the main barriers to business growth, whereas access to land, labour costs, customs efficiency and local infrastructure are among the lowest ranked barriers. However, marked differences exist in the reported intensity of some of the barriers to business development, varying among firms of different sizes. Competition from the informal sector, for instance, appears to represent a more serious barrier for micro and small businesses than for medium and large businesses. The intensity of access to finance as a barrier is the highest for small businesses, relatively lower for micro businesses and virtually non-existent in the case of their medium and large counterparts. Micro-enterprises assign a lower intensity to cost and quality of labour as barriers compared to small, medium and large enterprises. Barriers such as the level of corruption, inefficiency of Courts and TAK, access to finance, availability and cost of energy, and access to land are considered as more serious impediments to growth by small firms than their micro and medium/large counterparts. Over 50% of the interviewed firms believe that the level of taxes is 'high' or 'very high.'

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