



Utilization of Natural Resources and Minimally Processed Goods in Kosovo

Manufacturing Value Added,
Import Substitution and
Export Competitiveness

2026



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May 2026



Published by:

Ministry of Industry, Entrepreneurship, Trade and Innovation

Rr. "Arbënor e Astrit Dehari", nr. 21. Sheshi i Spitalit 10000 Prishtinë,
Kosovë

zkip.mti@rks-gov.net

www.mint.rks-gov.net

Supported by:

This publication was carried out with the support of "Sustainable and Inclusive Growth in Kosovo" project, funded by the Grand Duchy of Luxembourg and implemented by the Ministry of Industry, Entrepreneurship, Trade and Innovation, and LuxDev, the Luxembourg Development Cooperation Agency.

Authors:

civitta



Gerd Meier zu Koecker – International Consultant

Ermal Lubishtani

Mimoza Mirashi

Alketa Buçaj

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List of Abbreviation

ATCG	Accreditation Body of Montenegro
BMOs	Business Membership Organisations
CAGR	Compound Annual Growth Rate
CE	Conformité Européenne (EU conformity marking)
CEFTA	Central European Free Trade Agreement
CH	Switzerland (country code, trade context)
CPR	Construction Products Regulation (EU)
CTH	Change of Tariff Heading
DAK	Kosovo General Accreditation Directorate
EA	European co-operation for Accreditation
EA MLA	European co-operation for Accreditation – Multilateral Agreement
EBRD	European Bank for Reconstruction and Development
EFTA	European Free Trade Association
EN Standards	European Norm Standards
EU	European Union
EUR.1	Movement Certificate used for Preferential Origin
EUTR	EU Timber Regulation
FSC	Forest Stewardship Council
FSSC 22000	Food Safety System Certification
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
HACCP	Hazard Analysis and Critical Control Points
HS	Harmonized System (product classification)
HS Code	Harmonized System Code
IAF	International Accreditation Forum
IDR	Import Dependency Ratio
IGU	Insulating Glass Unit
ILAC	International Laboratory Accreditation Cooperation
ISO	International Organization for Standardization
ITC	International Trade Centre
KAS	Kosovo Agency of Statistics
KIESA	Kosovo Investment and Enterprise Support Agency
LUXDEV	Luxembourg Development Agency
MAP	Medicinal and Aromatic Plants
MAFRD	Ministry of Agriculture, Forestry and Rural Development
MCDA	Multi-Criteria Decision Analysis
ME	Ministry of Economy

MESPI	Ministry of Environment, Spatial Planning and Infrastructure
MFN	Most-Favoured-Nation Tariff
MIET	Ministry of Industry, Entrepreneurship and Trade
MSME / SME	Micro, Small and Medium-sized Enterprise / Small and Medium-sized Enterprise
MVA	Manufacturing Value Added
NACE Rev. 2	Statistical Classification of Economic Activities in the European Community, Revision 2
NDS	National Development Strategy
NTM	Non-Tariff Measure
OECD	Organisation for Economic Co-operation and Development
PEM	Pan-Euro-Mediterranean Rules of Origin System
PPF	Production Possibility Frontier
PRODCOM	EU System of Production Statistics for Manufactured Goods
R&D	Research and Development
RCA	Revealed Comparative Advantage
RoO	Rules of Origin
RAS	Development Agency of Serbia
RVC	Regional Value Content
S3	Smart Specialisation Strategy
SAA	Stabilisation and Association Agreement (EU–Kosovo)
SEF / SPS	Slovenian Enterprise Fund
SID Bank	Slovenian Export and Development Bank
SIDBS 2030	Strategy for Industrial Development and Business Support 2030 (Kosovo)
SPS	Sanitary and Phytosanitary Measures
TBT	Technical Barriers to Trade
ToR	Terms of Reference
TRQ	Tariff Rate Quota
WB	Western Balkans
WB IVS	Western Balkans Innovation Voucher Scheme

EXECUTIVE SUMMARY

Executive Summary

Economic and Industrial Context in Kosovo

Kosovo's manufacturing sector is at a pivotal stage, characterized by a large number of SMEs and a small number of industrial producers. Key industries include construction materials, food processing, wood products, basic metals, and plastics – sectors that form the backbone of domestic manufacturing employment and output.

Manufacturing Value Added (MVA) remained roughly **16% of GDP** in recent years, stable yet below the 18–22% typical in peer economies. In 2025, manufacturing grew ~3.8% (Q1–Q3) as the sector recovered, yet its share in the economy did not increase. Despite overall GDP growth, manufacturing did not become the engine of economic transformation Kosovo needs.

The country's trade deficit remains very high (exceeding **47% of GDP** during 2022–2024) and widened from €4.2 to nearly €4.9 billion. This persistent trade imbalance underlines Kosovo's heavy reliance on imported goods, and underscores the urgency of boosting domestic manufacturing capacity.

Kosovo's frameworks recognize these issues. The *Strategy for Industrial Development and Business Support 2030 (SIDBS 2030)* and the *National Development Strategy 2030 (NDS 2030)* highlight the need for industrial upgrading, increased export competitiveness, and reduction of the structural trade deficit. In line with these strategies, this study addresses the gap between *existing* resource availability and *unrealized* domestic value creation. The goal is to find practical ways to utilize Kosovo's natural resources and minimally processed goods to increase MVA, promote import substitution, and strengthen export performance.

A core challenge is **limited value addition**: much of Kosovo's natural resource output and semi-processed goods are exported with minimal processing, while domestic industries import a high volume of inputs that could be sourced or processed locally. This leads to substantial “value leakage” – opportunities for domestic value creation are lost when raw materials are shipped out or when finished products are imported instead of made in Kosovo. As a result, increases in industrial output have not yielded proportional gains in productivity, export diversification, or reduced import dependency.

As such, this study was prepared to support the Ministry of Industry, Entrepreneurship and Trade (MIET) in identifying products with higher value added or a greater use of domestic raw materials. The aim is to reduce Kosovo's dependence on imports while strengthening the competitiveness of Kosovo's exports.

Methodology and Prioritization Approach

The methodology aimed to narrow a broad universe of products to a few high-potential priority groups through a structured three-step process, namely:

- **Broad Screening:** All manufacturing product groups were first screened using detailed trade data
- **Prioritization Funnel:** Each group was evaluated against scalability, demand, and value addition
- **Selection:** Quantitative analysis followed by consultation – best converging product selection

This approach ensured that Kosovo's industrial opportunities were evaluated in stages from initial scan to final selection, balancing data analysis with practical insights.

Key Findings

Based on the prioritization process, the study identified **three priority product groups** with strong potential to increase domestic value addition, reduce import dependency, and expand exports. Below is a high-level summary of findings for each priority group:

Product Group: Advanced Building Joinery

Product Categories:

- Manufacture of **aluminium windows and doors** with integrated thermal performance features (NACE 25.12)
- Manufacture of **façade and curtain wall elements** for energy-efficient building envelopes (NACE 22.23)
- Manufacture of **locks, hinges**, and functional metal fittings used in advanced joinery systems (NACE 25.72).

This is one of **Kosovo's most competitive** and export-oriented manufacturing segment. It includes aluminium and polymer-based doors, windows, and façades, with exports showing strong growth. Kosovo's advantage lies not in raw materials, but in fabrication, assembly, and **system integration**. Firms add value through precision engineering and the production of certified, energy-efficient systems. Even though inputs are imported, Kosovo captures value through downstream processing and assembly.

Opportunities

- Global demand for **energy-efficient building components** is growing, driven by **EU standards and renovation policies**.
- With improved production capabilities and certification, Kosovo can reduce imports and grow exports.
- Local firms are already competitive in regional markets and could scale further with the **right support**.

Challenges

- Many firms lack **advanced technical and design expertise** needed for integrated, high-performance products.
- Limited access** to modern processing and glazing equipment.
- There is no **internationally recognized national certification system**, forcing firms to rely on costly foreign services.
- Financing** for machinery, training, and certification is constrained by limited access to **affordable long-term credit**.

With the right investments and policy support, this sector offers strong potential to increase domestic value added and grow high-quality exports.

Product Group: Agro-Processed Products

Product Categories:

- Processed fruit and vegetable products**, including jams, spreads, pickled vegetables, and ready-to-use preparations (NACE 10.39)
- Medicinal and Aromatic Plants, and Non-Wood Products based products**, including dried herbs, extracts, and essential oils (NACE Rev. 2: 10.83, 10.89)
- Wine production**, with a focus on bottled, branded, and quality-differentiated wines rather than bulk output (NACE 11.02)

Agro-processing covers food and beverage products derived from **Kosovo's agriculture**, including preserves, teas, nutraceuticals, dairy, meats, juices, wines, and other processed goods. While **local demand and raw material substitution potential** are strong, much of the **value-added processing happens outside Kosovo**.

Opportunities

- The **value creation is strongest in midstream and downstream stages**, shifting from raw material sales to processing, packaging, and branding of shelf-stable products (e.g. ajvar, jams, teas, essential oils).
- Import substitution and niche exports are feasible** given rising demand for natural, minimally processed foods and Kosovo's access to CEFTA and EU markets, subject to quality compliance.

Challenges

- Unreliable raw material supply** due to fragmented farming, weak coordination, and limited grading, traceability, and long-term contracting, leading processors to rely on imports for consistency.
- Limited technical capacity in food safety and compliance**, with small firms struggling to meet international mandatory standards due to high costs and weak support systems.
- Limited investment in processing**, cold storage, and certification limits smaller processors' ability to scale or upgrade.

If these constraints are addressed through **supply chain coordination, skill-building, and improved compliance**, Kosovo can unlock substantial value in agro-processing. Doing so would strengthen domestic industry, **reduce food imports**, and **boost rural income** through stronger links between agriculture and manufacturing.

Product Group: Wood-Based Products

Product Categories:

- Manufacture of Other **Furniture** (NACE Rev. 2: 31.09)
- Manufacture of Other **Builders’ Carpentry and Joinery** (NACE Rev. 2: 16.23)
- Manufacture of **Assembled Parquet Floors** (NACE Rev. 2: 16.22)

This product group includes **furniture, interior furnishings, and wood construction elements**. Kosovo has a strong tradition in woodworking and a base of capable producers. While it exports basic wood products like chairs and simple furniture, **higher-value items** such as upholstered furniture, parquet flooring, and modular systems are largely **imported**. This signals clear potential for **industrial upgrading**.

Opportunities	•The most value lies downstream, particularly in design, finishing, and system integration. Promising directions include: •Engineered and modular furniture (e.g. kitchens, office systems). •Prefabricated wood construction components, such as panels and laminated beams. •Value-added flooring and panels, including parquet and engineered boards, where value is created through processing and surface quality, not just raw timber.
Challenges	•Unreliable timber supply is inconsistent in quality and lacks certification. Forest management and infrastructure are underdeveloped, and most firms import raw materials. •Design and product development capacity is limited. Many firms are small and lack access to professional design expertise or insights into international trends. •Certification and testing must often be done abroad, which increases costs and delays for firms seeking to meet export or construction standards. •Access to finance for upgrading equipment is limited. Firms struggle to invest in CNC machines, dryers, or finishing systems needed to ensure consistent quality.

Improving design, finishing, compliance with EU standards, and sustainable practices like **FSC certification** and **wood recycling** can help Kosovo’s wood industry **expand exports, reduce imports**, and access **green markets**. With stronger **supply chains**, local **certification infrastructure**, and better **financing**, the sector could become a leading source of **skilled jobs** and **high-value production**.

Importantly, the findings confirm that the shortlisted product groups and categories are commercially viable within Kosovo’s existing trade framework and offer realistic, firm-level upgrading pathways, anchored in existing industrial capabilities rather than greenfield industrialisation.

Policy Recommendations

To capitalize on these findings in advanced joinery, agro-processing, and wood-based manufacturing, the report outlines a portfolio of **concrete policy recommendations**. These are designed as an integrated package of measures to address key constraints identified and create a more conducive environment for domestic industrial growth. Below is a high-level summary of the recommended policy interventions:

1	Establishment of supplier – processor networks
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- **Set up a Supplier–Processor Network Support Programme (SPNS Kosovo)** to link local raw material suppliers and manufacturing processors in key sectors (such as food and wood processing). Provide co-funding and facilitation for partnerships that align domestic supply with industry demand.
- **Build long-term, trust-based relationships** by institutionalizing continuous interaction and information sharing between both sides of the value chain. Over time, this will strengthen reliability of domestic supply, upgrade suppliers' capabilities, and reduce reliance on imported inputs as local sourcing becomes more viable and efficient.

2

Clusters and sector associations support

- **Launch a Cluster Development Support Programme (CDSP Kosovo)** to fund collaborative projects by industry clusters and associations in priority value chains. Supported initiatives should enable match-making, shared training, collective branding, and export promotion to help firms upgrade together.
- **Provide performance-based support to existing or emerging cluster** with proven companies engagement. Prioritize clusters that align with domestic raw material use and manufacturing value chains, and require clear results to ensure accountability.

3

Investment Support for Machinery and Equipment

- **Establish a Machinery Investment Scheme** (e.g. a “TechInvest Kosovo” program) to help manufacturers acquire modern machinery and technology for higher value-added production. Under this scheme, eligible firms receive grants covering around 30% of equipment investment costs, incentivizing upgrades that they might not undertake on their own.
- **Prioritize high-impact upgrade projects** that deepen local processing, improve efficiency, and expand product value. Funding calls should favor proposals that clearly increase domestic value addition per unit, boost productivity, enable higher product quality/prices, or replace imported inputs. By targeting investments that move firms into more advanced manufacturing stages, the program will strengthen competitiveness and job creation in Kosovo's industrial base.

4

Setting-up an internationally recognised conformity assessment system

- **Implement the 2027–2029 EA–MLA action plan** for Kosovo's Accreditation Directorate (DAK), with a committed investment, to remove technical barriers to trade and unlock EU market access for domestic products in priority sectors like **joinery, furniture, and food**.
- **Complete key preparatory phases** by 2027, including a full gap analysis, mock peer evaluation, and submission of a compliant application package covering **ISO/IEC 17025, 17020, and 17065** standards.
- **Host and close the EA peer evaluation process in 2028**, addressing non-conformities and securing a positive recommendation from the EA Multilateral Agreement Council.
- **Operationalize MLA status latest in 2029**, enabling DAK to issue internationally recognized certificates, promoting their use among exporters and integrating them into **customs, trade facilitation, and market access policies**.

5

Innovation Support

- **Introduce Innovation Voucher Programme Kosovo (IVP Kosovo)** to spur early-stage innovation in products and processes. These small grants allow firms to access external expertise for feasibility studies, prototyping, and testing without shouldering full cost, by reducing the risk of trying new ideas. Vouchers support early-stage innovation by turning upgrade ideas into concrete project proposals.

- **Establish an Innovation Matching Fund Kosovo (IMF Kosovo)** that co-finance larger innovation projects aimed at higher value production (e.g. scaling a new product line or process improvement). This dedicated fund would provide sizeable matching grants for implementing innovation initiatives, so that companies with viable upgrade projects can obtain the capital needed to carry them out. By combining vouchers for idea development with grants for implementation, firms are supported from concept through commercialization

6

Streamline and Strengthen the Export Promotion Support Landscape

- **Operationalize the BIC within KIESA** over a 24-month horizon, beginning with formal mandate approval, staffing, and setup of internal governance, backed by a two-year work plan and budget.
- **Build core capabilities** by recruiting analysts, training staff on export standards and data tools, and licensing key databases (e.g. TradeMap, Eurostat, Statista) to deliver high-quality market insights.
- **Launch market intelligence services** including sector trend reports, country profiles, an export helpdesk, and tender monitoring delivered via a dedicated digital portal with SME-friendly access.
- **Integrate BIC services into voucher programs and SME outreach**, making market data a core requirement for KEV applications and guiding firms on how to use intelligence to succeed abroad.
- **Deploy advanced services** such as AI-enabled chatbots, automated alerts, and personalized dashboards, while tracking KPIs and scaling up based on SME uptake and impact.

7

Skills development through voucher system

- **Introduce a Knowledge Upgrade Innovation Voucher Programme (KU-IVP Kosovo)** that co-finance training and advisory services for manufacturers and raw material suppliers to develop needed technical and managerial skills. Eligible firms receive vouchers to purchase training from accredited providers (e.g. vocational centers, universities, industry experts), lowering the cost and risk of upskilling for higher-MVA production.
- **Partner with training institutes and industry experts** to deliver fast-track, sector-specific training addressing critical skill gaps (e.g. quality standards, new processing techniques for local materials).
- **Ensure the voucher program is SME-friendly**, with simple application processes and year-round availability, to maximize uptake by small firms.

8

Awareness-raising measures to promote the utilization of natural resources and higher-MVA products

- **Launch targeted awareness events** (sector- and product-specific workshops, forums) to demonstrate business benefits of using local raw materials and moving into higher-value manufacturing. These initiatives should clearly quantify cost savings, profit gains, and new market opportunities.
- **Host annual national conference** on value-chain upgrading and domestic sourcing, convening business leaders, ministries, and partners to keep local raw material use and high-MVA production at the forefront of the economic agenda. Use this platform to sustain public-private dialogue and reinforce the strategic importance of industrial upgrading.

The study concluded that Kosovo's core challenge is structural: **not lack of resources or markets, but insufficient capture of manufacturing value added**. Nevertheless, realistic upgrading pathways exist in the three identified product groups. Kosovo's opportunity lies not in competing on cost alone, but in building a manufacturing base anchored in higher value, certified, and market-oriented products, supported by strong institutions and targeted policy instruments. Future Success depends on moving toward a systemic policy framework that links skills, innovation, finance, quality infrastructure, and market access.

INTRODUCTION

1

1. Introduction

This report is prepared under Project KSV/023 – Sustainable and Inclusive Growth in Kosovo and consolidates the analytical work carried out under the assignment “Utilization of Natural Resources and Minimally Processed Goods in Kosovo.” The study supports the Ministry of Industry, Entrepreneurship and Trade (MIET) in identifying **concrete opportunities to increase Manufacturing Value Added (MVA), promote import substitution, and strengthen Kosovo’s export potential** through more effective and innovative use of domestic natural resources and semi-processed inputs.

Kosovo’s manufacturing ecosystem is characterized by a dual structure that combines a broad base of small and medium-sized enterprises with a limited number of capital-intensive and technologically more advanced producers. This structure reflects both resilience and fragmentation, with manufacturing activity concentrated primarily in **construction-related industries, food processing, wood products, basic metals, and plastics**. Together, these sectors form the **backbone of domestic industrial activity** and account for the largest share of employment and value added within the manufacturing sector.

From a macroeconomic perspective, manufacturing continues to play a stable but cyclical role in Kosovo’s economy. In 2025 (Q1–Q3), manufacturing value added grew at an average rate of approximately 3.8%, indicating a gradual recovery but remaining below earlier performance levels.¹ As a share of total gross value added, manufacturing accounted for **around 16.0% in 2025**, broadly in line with its historical contribution to the economy and confirming the sector’s **structural importance despite short-term volatility in growth rates**. A manufacturing share of around 13% of GDP places Kosovo broadly in line with several service-oriented small economies, but below the level typically associated with sustained industrial upgrading and export-led growth.² In peer economies that have successfully strengthened export competitiveness and reduced trade deficits, manufacturing often accounts for **18-22% of total value added**, with higher contributions coming from medium- and high-value manufacturing segments.³

The structural constraints of Kosovo’s manufacturing sector are well documented in the Strategy for Industrial Development and Business Support 2030. The strategy notes that despite relatively strong GDP growth, manufacturing has **not become a driver of economic transformation**, as its share in gross value added has remained broadly unchanged over the past decade. Manufacturing value added per capita **remains significantly below regional and EU benchmarks**, reflecting a concentration in low-technology activities, limited downstream processing of natural resources, and weak domestic value chains.⁴ Existing natural resources are often **exported as raw or minimally processed materials**, while several processing industries **rely heavily on imported inputs**, resulting in significant value leakage outside the domestic economy. These structural features explain why increases in output have not translated into proportional gains in productivity, export resilience, or reduced import dependence. This diagnosis points to a structural, rather than cyclical, challenge: growth is constrained not by the absence of resources or activity, but by how production is positioned within value chains and where value is ultimately captured.

It is precisely this **gap between existing resources and unrealized domestic value creation** that the present assignment addresses. This assignment is fully aligned with Kosovo’s strategic development framework, in particular the Strategy for Industrial Development and Business Support (SIDBS) 2030 and

¹ Kosovo agency of Statistics, National Account Data-Quarterly GDP by activities approach <https://askapi.rks-gov.net/Custom/c4cbb545-6ef7-4d5f-9fd9-e04f1b415b7c.pdf>

² Ibid

³ In peer European economies with stronger manufacturing bases (Germany, Slovenia, Italy, Hungary etc), *Manufacturing Value Added* typically accounts for **around 18-22% of GDP or more*, illustrating the scale of industrial contribution in diversified economies. Source: Manufacturing, value added (% of GDP)- World Development Indicators, World Bank. <https://data.worldbank.org/indicator/NV.IND.MANF.ZS>

⁴ Government of Kosovo (2023). *Strategy for Industrial Development and Business Support (SIDBS) 2030*. Ministry of Industry, Entrepreneurship and Trade

the National Development Strategy (NDS) 2030, both of which emphasize industrial upgrading, export competitiveness, and reduction of the structural trade deficit. While Kosovo possesses a diverse base of natural resources and production inputs, the manufacturing sector continues to rely heavily on imported raw materials and intermediate goods, resulting in lost opportunities for domestic value creation. This study responds directly to that challenge by identifying realistic pathways to transform locally available resources into higher-value manufactured products.

The report integrates the outputs of four interlinked analytical tasks into a single, coherent analysis. These tasks span the development of a **measurement and prioritization framework, detailed trade and manufacturing analysis, assessment of trade agreements and export destinations, and the formulation of actionable policy recommendations**. Rather than treating these tasks as standalone components, the report presents them as a continuous analytical process that moves from evidence generation to market validation and, ultimately, to policy action.

OBJECTIVES

2

2. Objectives

The overall objective of this study is to support the MIET in identifying practical and evidence-based pathways to increase MVA, promote import substitution, and strengthen Kosovo's export competitiveness through more effective utilization of domestic natural resources and minimally processed goods. More specifically, the study aims to:

- 1 **Establish an analytical measurement framework** that enables MIET to systematically identify, assess, and prioritize resource-based and semi-processed product categories with potential for higher value addition, import substitution, and export growth, and that can be reused for future analytical and policy work.
- 2 **Analyse Kosovo's trade flows and manufacturing structure** to identify raw materials and minimally processed goods that are currently imported in significant volumes, as well as exported products where Kosovo demonstrates a competitive or emerging Revealed Comparative Advantage (RCA) in global markets, and to assess where realistic opportunities exist to scale up production, increase manufacturing value added, and strengthen export performance through further processing, innovation, and improved integration into regional and global value chains.
- 3 **Assess the export potential of shortlisted product categories** under Kosovo's existing trade agreements, by examining preferential market access conditions, rules of origin, non-tariff requirements, and market trends, in order to identify priority export destinations and realistic entry points into regional and international markets.
- 4 **Formulate concrete, actionable policy recommendations that support MIET** in advancing industrial development objectives under the SIDBS 2030 and NDS 2030, with a focus on strengthening domestic supply chains, reducing import dependency, enhancing firm-level competitiveness, and supporting investment in higher manufacturing value added.

Taken together, these objectives ensure that the study moves beyond descriptive analysis and delivers practical, market-linked, and policy-relevant guidance to inform industrial policy implementation and future programming in Kosovo.

METHODOLOGY

3

3. Methodology

The methodology applied in this study is designed to support a comprehensive and policy-relevant assessment of how Kosovo can better utilize natural resources and minimally processed goods to increase manufacturing value added, promote import substitution, and strengthen export competitiveness. The analytical approach integrates desk research, quantitative trade analysis, value-chain assessment, and policy analysis in a coherent framework that moves from evidence generation to market validation and policy formulation.

Rather than treating individual analytical components as standalone exercises, the methodology follows an integrated logic in which product identification, trade performance, market access conditions, and policy implications are examined in a mutually reinforcing manner. This ensures consistency across analytical steps and allows findings from one component to directly inform subsequent stages of the analysis.



Developing a Measurement framework and report outline

- The first phase focused on reviewing existing research and setting up a practical framework for MIET that can be used not just for this assignment, but also in future studies. This includes excel templates, research tools, and ways to measure impact.



Analysing Trade Flows and MVA for Innovative, Substitutable, and Exportable Products

- The second one involved a thorough analysis of trade data and manufacturing potential, identifying which locally available materials could be transformed into new, innovative products, replacing some imports and boosting exports.



Analysing Trade Agreements and Export Destinations

- The subsequent phase moved into the policy space, exploring Kosovo's existing trade agreements to find the most promising international markets for the proposed products.



Developing Policy Actions Recommendations

- The last phase brought everything together in the form of specific and actionable policy recommendations. These follow the SMART format and support MIET in delivering on its strategic goals.

Throughout the entire study, **stakeholder engagement** was treated as a cross-cutting methodological principle rather than a standalone activity. Targeted stakeholder interviews and structured validation workshops were conducted at key points of the analytical process to ensure that findings remained grounded in market realities and policy constraints. Participants included representatives from relevant government institutions, business associations, individual firms across the analysed sectors, export support organisations, and other ecosystem stakeholders. These interactions served to validate analytical assumptions, refine product prioritization, test feasibility of upgrading pathways, and assess the practicality of proposed policy actions. The iterative consultation and validation process strengthened the robustness, credibility, and policy relevance of the results, and ensured alignment with MIET's strategic priorities under SIDBS 2030 and NDS 2030. Overall, the methodological approach combines **desk research, quantitative trade analysis, value chain assessment, stakeholder consultations, and validation workshops**, ensuring that findings are analytically robust, market-relevant, and aligned with MIET's policy priorities under SIDBS 2030 and NDS 2030.

Measurement Framework, Report Structure, and Research

The analytical foundation of the study is built on the consolidation of existing evidence and the development of a practical measurement framework that can support both the current analysis and future policy work by MIET. This includes a structured review of sector-specific value-chain studies, and relevant analytical and policy documents related to industrial development, innovation, and trade.

A central methodological element is the funnel approach to **product prioritization**, which applies progressive filtering to move from the broad universe of traded products to a focused set of high-potential product categories. The approach combines quantitative trade indicators with qualitative criteria related to scalability, innovation potential, and the convergence between natural resources and manufacturing capabilities. This ensures that product selection is not based solely on historical trade performance, but also reflects future value-addition and innovation pathways.

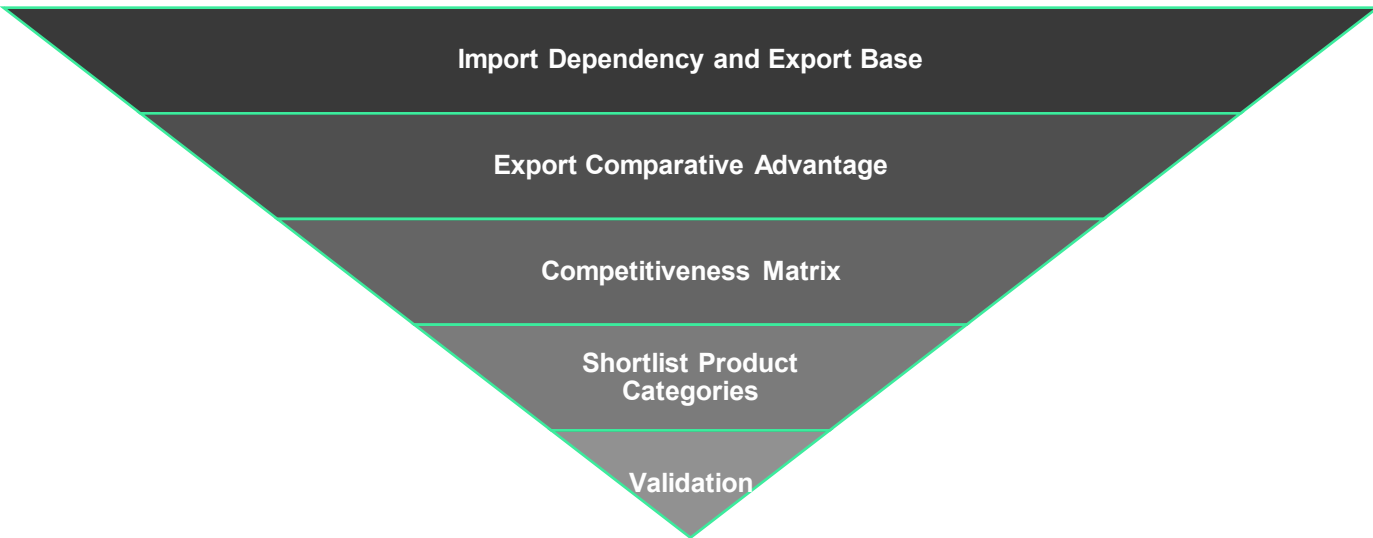


Figure 1. Funnel Process for Product Shortlisting and Validation

Trade Flows and Manufacturing Value Added Analysis

Building on the measurement framework, the analysis of trade flows focuses on trade flows for years 2019-2024, identifying products with **strong potential for import substitution, export expansion, and increased manufacturing value added**. The analysis relies primarily on detailed trade data at the HS six-digit level, complemented by international trade databases to enable benchmarking against global trends.

Key analytical tools include the calculation of **Import Dependency Ratios** (trade based proxy), **assessment of export performance**, **analysis of Revealed Comparative Advantage** (RCA), and **world demand through world imports**, to identify products where Kosovo demonstrates competitive or emerging strengths in international markets that could be further scaled up.⁵ These indicators were combined in a competitiveness matrix that links export growth dynamics with comparative advantage, allowing products to be classified according to both current performance and future potential.

Following quantitative screening, shortlisted product categories were assessed against weighted criteria that consider scalability, global demand trends, potential uplift in manufacturing value added, and the extent

⁵ **Import Dependency Ratio (IDR)**-This proxy measures the relative dominance of imports within total trade flows for a given product. It does not represent apparent consumption, but it is a useful indicator of import intensity where domestic production data is unavailable. **Export performance** refers to trends in export values, volumes, and growth rates over time. **Revealed Comparative Advantage (RCA)** is a commonly used trade indicator that compares a country’s export share of a product with the corresponding share in global exports; an RCA value above 1 indicates a relative export advantage.

to which production can be anchored in domestic resources. The selected product categories groups were then examined through value-chain mapping and expert input to assess feasibility, innovation pathways, and processing potential at the NACE Rev. 2 four-digit level as well as product derivatives CPA / PRODCOM (6-digit) level.

Trade Agreements and Export Destinations

The export potential of shortlisted product categories is assessed within the framework of Kosovo's existing trade agreements, including the **EU–Kosovo Stabilisation and Association Agreement, CEFTA, EFTA, and the Free Trade Agreement with Turkey**. The methodology applies a layered analysis that examines preferential tariff treatment, transition periods, and quota provisions, alongside applicable rules of origin, including pan-Euro-Mediterranean cumulation.

The analysis also considers non-tariff measures, such as technical standards, SPS and TBT requirements, certification obligations, and conformity-assessment procedures, to assess export readiness and compliance costs. These elements are integrated with market-trend analysis to determine the relative export advantage of each product category and to identify priority export markets where Kosovo producers can realistically compete.

Policy Actions and Recommendations

The final analytical component synthesizes findings from the trade, value-chain, and market-access analysis into concrete and actionable policy recommendations aimed at promoting import substitution and strengthening manufacturing value added. The focus is on translating analytical insights into practical interventions that can be implemented within existing institutional and resource frameworks.

Policy recommendations are formulated in line with the SMART principle and address both supply-side and demand-side constraints, including raw-material availability, firm capabilities, investment and innovation needs, market-access conditions, and regulatory and institutional support. Particular attention is given to product groups with a high concentration of manufacturing value added and realistic innovation pathways, ensuring that recommendations directly support MIET's strategic objectives under SIDBS 2030 and NDS 2030.

**STATUS QUO OF
UTILIZATION OF NATURAL
RESOURCES AND
MINIMALLY PROCESSED
GOODS IN KOSOVO**

4

4. Status Quo of Utilization of Natural Resources and Minimally Processed Goods in Kosovo

Kosovo possesses a diverse base of natural resources, including limestone, clay, decorative stone, quarry aggregates, and agricultural outputs, which provide a structural basis for domestic manufacturing.⁶ However, the current utilization of these resources remains limited in terms of value addition. In many cases, natural resources are either exported in raw or minimally processed form or substituted by imports of higher-value finished products.

In construction-related sectors, Kosovo imports large volumes of cement, ceramic tiles, processed stone products, and construction minerals, despite having domestic deposits capable of supporting local production. The main bottleneck is **not resource availability but insufficient processing capacity, outdated technology, and limited certification infrastructure**. As a result, value-added activities such as cutting, polishing, glazing, compositing, and product standardization are frequently performed outside the country, leading to significant leakage of potential manufacturing value added.

A similar pattern is observed in the use of minimally processed industrial inputs. Kosovo imports substantial volumes of **semi-finished metal products, plastic profiles, wood-based panels, and chemical preparations** that could, in principle, be **further processed domestically**. While local firms are active primarily in downstream activities such as assembly, mixing, and finishing, upstream integration remains limited. Recycling of metals and plastics is emerging as a more prominent topic only recently, and existing recycling activities remain small in scale and weakly linked to domestic manufacturing. As a result, the potential of recycled materials to serve as industrial inputs is largely untapped, and integration of circular inputs into manufacturing value chains is still at an early stage of development.

Based on agricultural land utilisation data from the Kosovo Agency of Statistics, Kosovo's agricultural structure is characterised by a **strong dominance of livestock-related land use**. Meadows and pastures account for approximately **51.5% of total agricultural land**, indicating that more than half of agricultural activity is oriented toward grazing and cattle production. **Arable land** represents **44.9%**, while **permanent crops** account for **only 3.3%**, pointing to a limited use of land for fruit, vineyard, and nursery cultivation.

A closer examination of arable land use reveals **low intensity and limited diversification**. Vegetables grown in open fields and greenhouses together account for **less than 5% of arable land**, while orchards, vineyards, nurseries, and gardens together represent **roughly 8–9%**.⁷⁸ As a result, more than four-fifths of arable land is devoted to extensive uses, fodder crops, or remains underutilised from an economic value-added perspective. This suggests that Kosovo's agricultural constraint lies less in land availability and more in the limited intensity and structure of land use.

Despite this structural pattern, Sector A provides a **diversified base of biological inputs relevant for value-added manufacturing**. Fruit production, including apples, pears, quinces, and plums, shows stable yields and sufficient volumes to support small and medium-scale processing into juices, purées, jams, dried fruit, and confectionery inputs. Berry cultivation has expanded notably in recent years, particularly for raspberries, blueberries, blackberries, and aronia, supporting both frozen fruit exports and higher-value processing opportunities aligned with growing global demand for antioxidant-rich products.

⁶ Independent Mining Commission Annual Report. <https://kosovo-mining.org/kpmm/raportet-vjetore/>

⁷ Kosovo Agency of Statistics. Agriculture Household Survey Data <https://askdata.rks-gov.net/pxweb/en/ASKdata/>

⁸ Kosovo Agriculture in Numbers 2023 https://www.mbpzhr-ks.net/repository/docs/Kosovo_Agriculture_in_numbers_2023.pdf

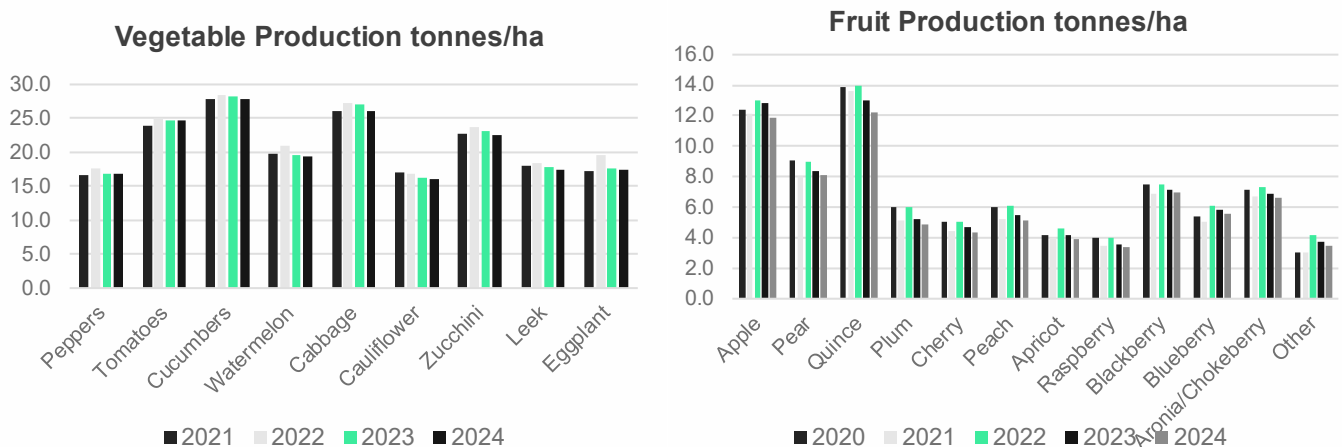


Figure 2. Fruit and Vegetable production in tonnes per ha. **Source:** Kosovo Agency of Statistics

Medicinal and aromatic plants (MAPs) further strengthen the **resource base**. According to the Organika-KS inventory, cultivated MAPs cover **more than 400 hectares**, with production **exceeding 670 tonnes**, supplemented by regulated wild collection. While these products are currently exported mainly in dried or semi-processed form, substantial value-added potential remains untapped in extracts, essential oils, nutraceuticals, and natural cosmetics.

Forestry resources provide inputs for carpentry and furniture production, although quality, drying capacity, and **standardisation constraints** limit substitution of imported panels and semi-finished wood products. Taken together, Kosovo's agricultural and forest resources offer sufficient scale and diversity for selective upgrading, particularly in SME-based, niche, and premium processing segments, rather than large-scale industrial production.

Overall, the status quo points to significant unrealized opportunities for deeper domestic utilization of natural resources and minimally processed goods. Stakeholder assessments emphasize that improving processing capacity, strengthening supply-chain integration, and aligning investment incentives toward value-added production would allow Kosovo to retain a greater share of economic value from its existing resource bases.

RECENT TRENDS IN KOSOVO'S MANUFACTURING IMPORTS AND EXPORTS

5

5. Recent Trends in Kosovo's Manufacturing Imports and Exports

Recent trends in Kosovo's **manufacturing imports and exports** reflect a production structure that remains heavily dependent on imported raw materials, semi-processed inputs, and finished goods, alongside a relatively narrow but gradually strengthening export base. Manufacturing continues to play an important role in the economy, accounting on average for **around 16% of total gross value added in 2025**, a level broadly comparable to previous years but **still below the potential implied by Kosovo's resource base and industrial ambitions**.⁹

These structural characteristics are clearly reflected in Kosovo's external balances. Based on official statistics published by the Central Bank of Kosovo, over the period 2022–2024, the goods trade deficit **consistently exceeded 47% of GDP**, widening in absolute terms from €4.2 billion to nearly €4.9 billion.¹⁰ This persistent deficit is the dominant driver of the current account imbalance and highlights Kosovo's **strong reliance on imported goods, including manufactured products** that could, in principle, be at least partially substituted through domestic processing. While the services balance has expanded steadily, reaching **more than 17% of GDP in 2024**, and provides an important stabilising effect, it remains insufficient to offset the structural gap in goods trade. Preliminary data for 2025 confirms that this pattern persists, with a large goods deficit continuing to outweigh gains from services exports.

On the import side, Kosovo records high import dependence across most manufacturing subsectors. Imports are dominated by **processed food products, semi-finished metal products, plastic profiles, wood-based panels, chemical preparations, and construction-related materials**. In many cases, these imports are technologically comparable to products that could be assembled or further processed domestically. The analysis shows that while domestic firms are active in downstream activities such as assembly, mixing, finishing, and packaging, **upstream integration into raw-material processing and intermediate production remains limited**, constraining domestic value capture.

Whereas, Kosovo's manufacturing exports are concentrated in a **relatively small number of product categories**, including construction-related components, metal products, selected plastic goods, wood products, and agro-processed foods. Several of these categories exhibit competitive or emerging revealed comparative advantage in regional and selected EU markets, indicating that Kosovo has already established a foothold in segments where entry barriers are manageable and learning-by-doing effects are strong. However, the export basket remains skewed toward **semi-processed goods and lower-complexity products**, with limited penetration into higher-value, certified, and system-based product segments.

A key feature of recent trade trends is the **disconnect between domestic resource availability and trade structure**. In agriculture and forestry, Kosovo produces fruits, vegetables, berries, medicinal and aromatic plants, and timber in quantities sufficient to support small and medium-scale processing. Yet imports of processed food products, wood panels, and furniture components remain high, reflecting **constraints in supply-chain organisation, quality consistency, and processing capacity rather than raw-material scarcity**. A similar pattern is observed in industrial inputs: while recycling of metals and plastics is emerging as a topic of growing interest, recycling streams remain limited to support domestic manufacturing.

Overall, recent trade trends underline that Kosovo's main challenge is not market access, but the limited ability of firms to capture higher value-added stages of production and to substitute imported finished goods with domestically processed alternatives. The persistence of a large goods trade deficit, despite a growing services surplus, reinforces the strategic importance of policies aimed at increasing manufacturing value added, strengthening domestic production linkages, and scaling export-oriented manufacturing where competitive advantages already exist.

⁹ Kosovo Agency of Statistics. National Accounts. Quarterly GDP by production approach. <https://askapi.rks-gov.net/Custom/c4cbb545-6ef7-4d5f-9fd9-e04f1b415b7c.pdf>

¹⁰ Central Bank of Kosovo. Balance of Payment- External Sector timeseries. <https://bqk-kos.org/statistikat/serite-kohore/>

FINDINGS

6

6. Findings

The trade-based analysis and stakeholder consultations demonstrated that Kosovo’s manufacturing challenge is not rooted in a lack of trade activity or domestic production capacity, but rather in the **limited depth of value addition within existing manufacturing segments**. While imports remain structurally high and exports relatively concentrated, the joint assessment of import intensity, Import Dependency Ratios, and Revealed Comparative Advantage highlighted a limited number of manufacturing activities where domestic capabilities, market demand, and upgrading potential converge.

Building on these findings, the analytical focus in this section shifts from a broad trade-based screening to a **targeted product-level assessment**, aimed at identifying **concrete manufacturing categories where upgrading can realistically occur within Kosovo’s current industrial ecosystem**. This transition follows a structured, funnel-based logic as given in the methodology.

At the **first stage**, the full universe of manufacturing product categories was assessed at the **HS-6 level**, allowing for a granular **comparison of import values, export growth, trade balances, IDR, RCA, and world demand** through imports across all manufactured goods. This step revealed strong import concentration in a relatively small number of product groups, many of which overlap with areas where Kosovo already exhibits some degree of production or export activity. These overlaps signaled opportunities not for greenfield industrialisation, but for incremental upgrading within existing manufacturing bases.

In the **second stage**, closely related HS-6 products were consolidated into **composite product groups** based on similarities in **production processes, value chains, and end markets**. This step reduced analytical fragmentation and enabled a strategic view of manufacturing segments rather than isolated tariff lines. Eight such composite product groups emerged as relevant, combining measurable trade significance, alignment with domestic capabilities, and exposure to stable or growing international demand. These include:

Advanced Building Joinery
Green Building Materials
Precision Fluid Transfer Systems
Advanced Paints and Coatings
Conveyor Belts and Industrial Rubber Products
Wood Products
Granite and Marble Processing
Food Spreads and Processed Agro-Food Products

The **eight composite groups** were identified because they simultaneously demonstrate measurable trade relevance, scope for manufacturing value added, and alignment with Kosovo’s domestic resource base and existing industrial capabilities. This reduced longlist was presented during the validation workshop involving representatives from government institutions, sector associations, and other key stakeholders, to facilitate structured feedback and initial prioritisation.

Figure 3 visualises the positioning of these eight composite product groups by plotting their export competitiveness (RCA) against global demand growth (CAGR of world imports). The matrix distinguishes between emerging opportunities, mature segments, and high-potential “star” categories, providing a transparent basis for prioritisation.

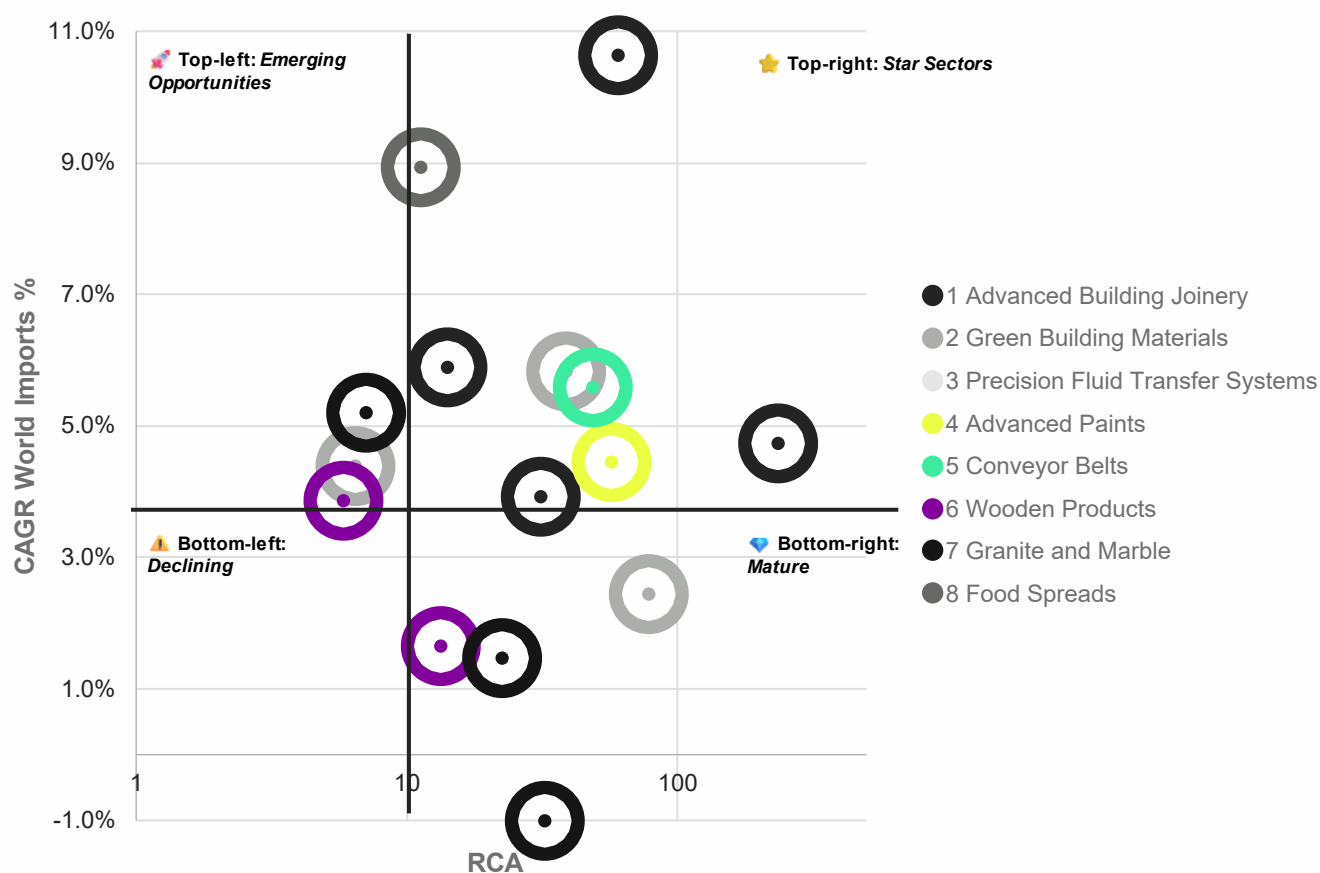


Figure 3. Bethesda Matrix, Source: Author's Calculations

Building on this validation step, the selection of the final **three priority product categories** followed a two-layered approach.

First, the eight groups were assessed against a weighted set of analytical criteria, designed to capture both economic potential and implementation feasibility. These criteria included: scalability within the existing industrial structure, global demand prospects, market access conditions, potential uplift in manufacturing value added, and the degree of anchoring in domestic resources and supply chains. Each criterion was assigned a weight reflecting its relevance for industrial upgrading objectives, and product groups were scored accordingly to ensure a transparent and comparable assessment.

Scalability (30%)	Global Demand (20%)	Trade Access & Trade Related Affairs (10%)	Manufacturing Value-Added (MVA) Uplift Potential (30%)	Domestic Resource Anchoring & Import Substitution (10%)
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Second, the results of the weighted scoring were discussed and validated through stakeholder consultations, ensuring that quantitative findings were cross-checked against market realities and policy priorities. This combined analytical and consultative process resulted in the selection of three priority product categories, representing the strongest convergence of competitiveness, upgrading potential, and stakeholder consensus.

Therefore, the three selected categories, **advanced building joinery, agro-processed products, and advanced wood-based products**, are not isolated niches, but anchor segments that connect multiple upstream suppliers, downstream users, and adjacent industries. Together, they account for a meaningful

share of Kosovo's manufacturing imports and exports, while offering realistic upgrading pathways driven by processing, system integration, design, certification, and branding rather than by scale alone.

To operationalise this prioritisation, the analysis in Section 6 moves from strategic groupings to concrete product categories, applying a consistent classification framework. Specifically, the assessment transitions from HS-identified products to NACE Rev. 2 four-digit manufacturing categories, and subsequently to PRODCOM six-digit product definitions where relevant. This approach ensures that the analysis aligns with industrial policy instruments, statistical reporting systems, and firm-level production realities, while allowing for a detailed examination of derivative products through which upgrading can materialise.

Finally, in depth interviews with selected companies already operating in the identified product categories were interviewed in order to better understand what kind of investment would be needed to move to higher MVA products in the respective product categories.

6.1. Product Group: Advanced Building Joinery

6.1.1. Current Market Trends

Advanced building joinery, encompassing **aluminium- and polymer-based doors, windows, and façade systems**, emerges from the analysis as the most competitive and export-oriented manufacturing segment in Kosovo. Trade data demonstrates sustained export growth over multiple years, accompanied by consistently high revealed comparative advantage values, particularly in regional CEFTA markets and selected EU destinations.¹¹ This performance reflects the presence of an established industrial base, accumulated know-how in fabrication and assembly, and close integration with regional construction supply chains.

From a cross-sector perspective, advanced building joinery stands out because it combines **relatively high manufacturing value added with realistic upgrading potential**, despite continued reliance on imported primary inputs. The analysis shows that competitiveness in this category is not driven by access to raw materials but by firms' ability to perform higher-value processing stages and to deliver integrated, performance-based systems. As a result, this category occupies a strategically favourable position in the manufacturing landscape, where import substitution and export growth can occur simultaneously.

Demand-side dynamics further reinforce the strategic relevance of this category. International market trends show strong and **growing demand** for energy-efficient building envelopes, driven by tightening EU regulations on thermal performance, air-tightness, and renovation standards. Large-scale renovation programmes, public investment in energy efficiency, and rising private-sector demand for higher-performance buildings are translating into **increased consumption of advanced joinery systems**.¹²¹³¹⁴ These trends favour producers capable of delivering certified, system-based solutions rather than basic frames or components. At the same time, the domestic market remains dependent on imports of finished joinery products.¹⁵ This indicates that import dependence is not rooted in technological infeasibility or lack of industrial capability, but rather in **gaps related to system integration, certification, and market positioning**. This dual pattern, export competitiveness alongside continued domestic import reliance, highlights advanced building joinery as a priority category for targeted industrial upgrading.

¹¹ Kosovo Agency of Statistics. Trade data (2019-2024).

¹² European Commission – Energy Performance of Buildings

https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficient-buildings/energy-performance-buildings-directive_en

¹³ https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/renovation-wave_en

¹⁴ Each individual Western Balkan country **Reform Agenda**, adopted under the EU **Reform and Growth Facility**, includes energy efficiency and implementation of building performance reforms, notably the *Energy Performance of Buildings Directive* and steps toward implementing the *Building Renovation Strategy* and *Nearly Zero-Energy Buildings Plan*. These are described as commitments to improve energy efficiency in existing buildings, including public renovations targets aligned with EU directives.

¹⁵ Kosovo Agency of Statistics. Trade Data

6.1.2. Opportunities and Barriers

The current market trends reveal that this product group possess **high potential for Kosovar manufacturer**, especially for MVA products, like high quality or thermal insulating windows.

However, several binding constraints limit firms’ ability to move into higher-value segments. A key barrier is **insufficient technical and systems-level knowledge** related to integrated joinery solutions. Advanced systems require precise coordination of multiple components, performance testing, and compliance with evolving standards. Many firms lack the engineering depth and market intelligence needed to align production with these requirements.

Equipment and machinery constraints further limit upgrading. While basic cutting and assembly equipment is widespread, more advanced machinery required for precision processing, glazing integration, and performance optimisation is less common. This constrains firms’ ability to internalise high-value stages and reinforces dependence on imported semi-finished components.

A particularly critical constraint identified in the analysis is the **absence of an internationally recognised conformity assessment system**. Testing, certification, and accreditation are mandatory market-entry requirements rather than optional quality enhancements. Without recognised domestic testing laboratories and certification bodies, firms must rely on foreign services, which significantly increases costs, extends lead times, and complicates compliance. This institutional gap weakens export competitiveness, discourages investment in higher-end systems, and limits firms’ ability to fully exploit their existing production capabilities.

Access to finance further constrains upgrading. Investments required for machinery, tooling, certification, skills development, and process optimisation are capital-intensive and long-term, while the domestic financial system remains oriented toward short-term, low-risk lending. High collateral requirements and limited tailored instruments reduce firms’ capacity to invest in MVA-oriented upgrading. Together, these barriers slow the pace at which advanced building joinery can substitute imported finished systems and scale export activity.

6.1.3. In-Depth Assessment of Selected Product Categories

Following the product group level assessment (Advanced Building Joinery) presented in Sections 6.1.1 and 6.1.2, the analysis moves from the strategic category level to a targeted examination of selected product categories within the advanced building joinery category. This step translates the evidence from trade data analysis and stakeholder consultations into concrete manufacturing activities where higher manufacturing value added can realistically be generated within Kosovo’s current industrial structure.

The selection of products for deeper analysis is the result of a combined assessment of **quantitative trade indicators and qualitative inputs from stakeholder consultations** conducted with producers, business associations, and relevant public institutions. Together, these inputs confirmed that upgrading opportunities are concentrated not at the level of basic frames or raw materials, but in downstream and system-related components of the joinery value chain.

Based on this joint analytical and consultative process, three product categories within advanced building joinery were selected for in-depth analysis:

Manufacture of aluminium windows and doors with integrated thermal performance features (NACE 25.12)	Manufacture of façade and curtain wall elements for energy-efficient building envelopes (NACE 22.23)	Manufacture of locks, hinges, and functional metal fittings used in advanced joinery systems (NACE 25.72).
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These product categories were identified as those where Kosovo firms already demonstrate production capability or supplier presence, where trade data shows both **export activity and continued import dependence**, and where stakeholders highlighted clear scope for **upgrading through technology, precision processing, certification, and system integration**.

The **innovation potential** for these product categories is assessed as **high**, as firms can progressively upgrade product specifications within existing production structures, without requiring large-scale upstream investment. Innovation is primarily technology- and process-driven, focusing on tighter tolerances, improved component integration, enhanced durability, and compliance with increasingly demanding energy-efficiency and safety standards. The integration of higher-performance glazing, advanced sealing systems, precision hardware, and certified fittings enables producers to command price premiums and access more demanding export markets. Over time, this supports a structural shift from volume-based competitiveness toward value-based competitiveness, strengthening export positioning while reducing reliance on imported finished systems.

Sustainability considerations further reinforce the relevance of these product categories. Advanced joinery products directly contribute to reduced energy consumption in buildings, improved thermal performance, and longer product lifecycles. In the case of fittings and hardware, durability and performance improvements reduce replacement cycles and material waste. These characteristics align closely with EU renovation policies and energy-efficiency regulations, creating sustained demand for compliant, high-performance solutions.

Import substitution potential is assessed as **medium to high**. While certain upstream inputs, such as aluminium profiles, specialised glazing, or high-spec components, remain imported, a substantial share of manufacturing value is created domestically through machining, assembly, finishing, testing, and certification. Strengthening these downstream stages allows Kosovo firms to substitute imported finished joinery systems and fittings with locally produced alternatives, while maintaining flexibility in sourcing raw and semi-processed inputs.

The following sub-sections therefore examine each of the selected product categories in more detail, focusing on presenting specific innovative derivative product types, their positioning along the value chain, their innovation and sustainability characteristics, and the concrete opportunities they offer for increasing manufacturing value added and deepening domestic integration.

Information Box 1: Convergence of materials for Advanced Building Joinery

Material convergence is a defining structural trend across advanced building joinery and related manufacturing categories analysed in this section. Modern building components are no longer produced from single materials, but instead combine metals, polymers, glass, coatings, and, increasingly, recycled inputs into integrated, performance-driven systems. Value creation arises from the engineered interaction of these materials rather than from the properties of any single input.

In **advanced aluminium doors, windows, and façade systems (NACE Rev. 2: 25.12)**, convergence is most evident in the integration of aluminium structural frames with polymer-based thermal breaks, wood interior structure, multi-layer insulated glazing, advanced sealing systems, and durable surface treatments. These combinations enable high thermal performance, airtightness, acoustic insulation, and durability, allowing products to meet increasingly stringent energy-efficiency and renovation standards. In this context, aluminium serves primarily as a structural backbone, while performance is determined by the coordinated function of multiple material classes.

In **builders' ware of plastic (NACE Rev. 2: 22.23)**, convergence occurs through the combination of plastics with mineral systems, metals, fibres, and recycled polymers. High-precision plastic components used in

construction increasingly interact directly with concrete, steel reinforcement, or utility systems, enabling material efficiency, reduced carbon intensity, and modular construction solutions. The growing use of recycled polymer inputs further reinforces circular-economy principles, while system compatibility and certification determine market access and value added.

In **locks, hinges, and functional hardware (NACE Rev. 2: 25.72)**, convergence is reflected in the shift from single-metal components toward composite solutions combining steel or aluminium with polymers, damping elements, and advanced surface coatings. These combinations improve load-bearing performance, corrosion resistance, durability, and user functionality, while ensuring compatibility with high-performance joinery systems and energy-efficient building envelopes.

Across all product categories, material convergence shifts competitiveness away from raw material availability toward **engineering capability, system integration, process control, and compliance with performance standards**. For Kosovo, this trend is particularly relevant, as it enables firms to capture higher manufacturing value added in mid- and downstream stages of production despite continued reliance on imported primary inputs. By strengthening capabilities in precision fabrication, assembly, quality assurance, and certification, domestic manufacturers can effectively position themselves within innovation-driven, system-based value chains aligned with regional and EU market demand.

6.1.3.1. Product Category: Manufacture of doors and windows of metal (NACE Rev. 2: 25.12)

Products classified under NACE 25.12 include metal-based doors, windows, façade elements, and integrated building-envelope systems used in residential, commercial, and public buildings. Advanced aluminium window systems are used as a representative example, reflecting their strong alignment with energy-efficiency regulations, green construction requirements, and large-scale renovation programmes in Kosovo and export markets.

Innovation in this category is increasingly system-based. Modern products integrate aluminium frames with polymer thermal breaks, multi-layer glazing systems, advanced sealing materials, and durable surface treatments. These solutions respond to rising demand for improved thermal insulation, airtightness, acoustic performance, and long service life. As a result, derivative products are evolving from basic protective elements into multifunctional systems that contribute actively to building energy performance and occupant comfort.

While aluminium profiles and certain high-performance components remain imported, the analysis shows that most economic value is generated downstream. Precision machining, frame fabrication, glazing installation, hardware integration, and final system assembly are the primary sources of MVA. These stages align well with Kosovo’s existing metalworking and assembly capabilities, making incremental upgrading technically and economically feasible.

Information Box 2: Innovative Derivative Products under NACE Rev. 2: 25.12 Category

There is a wider set of products classified under *Manufacture of doors and windows of metal (NACE 25.12)*. They increasingly reflect innovation through system integration, material convergence, and performance optimisation. Examples of innovative product types include:

1	Energy-efficient aluminium window systems (25.12.10)	High-performance window units incorporating thermal breaks, multi-layer glazing, and airtight sealing systems to meet low-energy and near-zero-energy building standards. These systems are increasingly demanded in renovation and new construction markets driven by energy-efficiency regulations.
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②	Hybrid aluminium-clad window systems (25.12.10)	Composite solutions combining aluminium exterior frames with timber or polymer interior components. These products integrate the durability and weather resistance of aluminium with the insulation properties and aesthetics of wood or advanced plastics, illustrating material convergence and higher value-added design.
③	Metal doors (25.12.20)	Modern doors increasingly integrate smart access control (biometrics, remote locking, building-management connectivity) and enhanced performance features such as improved thermal insulation, acoustic damping, fire/smoke resistance, and security—turning doors from passive building elements into active, system-integrated components. Prefabricated window and façade modules that integrate frames, glazing, shading elements, and ventilation components into a single system.
④	Façade and building-envelope elements (25.12.30)	Façade and building-envelope elements under NACE 25.12 are increasingly multifunctional: they combine load-bearing aluminium structures with thermal insulation, integrated shading, ventilation, and smart sensors to improve energy performance and indoor comfort. In addition, modern envelope systems serve as architectural and climate-active components, enabling modular construction, circular design, and integration of photovoltaics or adaptive façades.

These derivative products illustrate a shift from component-based manufacturing toward integrated, performance-driven building systems, where value is created through engineering, certification, and system compatibility rather than raw materials.

MVA and Points of Domestic Integration

Manufacturing value added in advanced aluminium window systems as an example of (NACE 25.12) is not concentrated in raw materials, but rather in the engineering, fabrication, and system-integration stages. Primary aluminium production captures a significant share of global value but is not accessible domestically. In contrast, thermal break integration, frame fabrication, glazing installation, and hardware integration account for a large share of value added through labour intensity, precision processing, and compliance with performance standards.

Additional value is generated in quality control and testing, where products must meet airtightness, thermal insulation (U-value), water resistance, and durability requirements, particularly for export markets. Packaging, logistics, and market preparation further contribute to value added by enabling access to construction projects and international buyers.

Kosovo's comparative advantage lies in capturing midstream and downstream MVA, where capital requirements are lower than upstream metallurgy, skills can be developed incrementally, and proximity to regional construction markets supports competitiveness. By contrast, remaining limited to basic fabrication or installation services would capture only a fraction of available MVA.

Value-Chain Stage	Description of Value Added	MVA Potential	Calculated MVA Contribution	Kosovo Fit
Raw Material Production	Upstream alumina refining & primary aluminium smelting; heavy capex, energy-intensive, commodity margins.	LOW	10%	LOW

Profile Extrusion / Surface Treatment	Forming window profiles, anodizing or powder-coating; medium–high technical depth, good differentiation.	MEDIUM	15%	MEDIUM
Thermal Break Integration	Inserting polyamide thermal barriers; increases efficiency; mid-capex but strong energy-performance value added.	MEDIUM	12%	MEDIUM
Profile Machining, Fabrication & Frame Assembly	Cutting, milling, corner-joining and assembling frames; labour-intensive, customization-rich.	HIGH	20%	HIGH
Glazing Unit Production & Installation	IGU (insulated glazing unit) manufacturing and integration; strong contribution to final product performance.	HIGH	18%	MEDIUM
Hardware Integration	Installation of hinges, locks, handles, multi-point systems; medium complexity, high product differentiation.	MEDIUM	7%	HIGH
Quality Control & Performance Testing	Air-tightness, thermal, acoustic and mechanical testing; certification adds trust and price premium.	MEDIUM	8%	MEDIUM
Packaging & Logistics	Protective packaging, delivery systems, last-mile installation logistics; important but low value density.	LOW	5%	HIGH
Maintenance & End-of-Life Recycling	After-sales service, repair, aluminium recycling (high scrap value); sustainability and circularity benefits.	LOW	5%	LOW

Table 1. MVA analysis for Aluminium Windows
Calculations based on data analyses, expert opinions and own research

The table confirms that Kosovo's comparative advantage lies in midstream and downstream activities, where entry barriers are manageable and value capture is highest.

6.1.3.2. Product Category: Manufacture of builders' ware of plastic (NACE Rev. 2: 22.23)

Products classified under *Manufacture of builders' ware of plastic (NACE 22.23)* include a range of plastic construction components used in structural, insulating, and material-efficiency applications. Within the scope of this analysis, **high-precision plastic construction components**, such as hollow plastic spheres or modular elements were selected as a representative example due to their role in reducing material intensity, enabling lower-carbon construction, and integrating into advanced building systems.

Information Box 3: Innovative Derivative Product Types under NACE Rev. 2: 22.23

Products classified under *Manufacture of builders' ware of plastic (NACE Rev. 2: 22.23)* show strong innovation potential where plastic components move beyond generic applications and are integrated into performance-driven systems. Most relevant examples for this kind of category include:

①	High-precision hollow plastic modules (22.23.11)	Engineered hollow plastic components used within reinforced concrete slabs to reduce material intensity while maintaining structural performance. These products derive value from precision moulding, welding, and mandatory certification, rather than from plastic content alone. Demand is driven by low-
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		carbon and resource-efficient construction, and products can generate substantially higher manufacturing value added than ordinary plastic goods.
2	Modular plastic access chambers and utility components (22.23.11)	Plastic access chambers, ducts, and covers used in water, drainage, and utility networks. Innovation lies in modularity, ease of installation, corrosion resistance, and long service life. These products are widely used in infrastructure and industrial applications, offer stable export demand, and allow value capture through moulding precision and system compatibility¹⁷.
3	Protective plastic housings and enclosures for industrial and energy equipment (22.23.19)	Plastic housings and protective enclosures used for electrical panels, control systems, and energy or industrial equipment. These products derive value from functional design, environmental resistance (moisture, chemicals, UV), and compliance with safety standards. Innovation is driven by precision manufacturing and system compatibility rather than construction use, making them suitable for industrial, energy, and infrastructure markets.

These derivative products illustrate a shift from generic plastic goods toward precision-engineered, performance-driven construction components, where value creation is concentrated in material formulation, moulding accuracy, certification, and system compatibility rather than in plastic content alone. Competitiveness increasingly depends on the ability to integrate plastic components into structural and infrastructure systems that deliver material efficiency¹⁸, durability, and regulatory compliance.

¹⁶ Source: AI-generated image, used for illustrative purposes only.

¹⁷ Ibid

¹⁸ The sustainability rationale underpinning this upgrading pathway is supported by documented construction-sector evidence on void-former systems made from recycled plastics. For example, a commercial and residential development in Mannheim (Germany) using a patented recycled-plastic void-former system reported material savings of approximately 35 percent of reinforced concrete in slab structures, allowing reduced slab depth without compromising structural integrity. According to project data, void formers were applied to around 60 percent of slab surface area, resulting in total savings of approximately 1,613 tonnes of concrete and the avoidance of an estimated 136 tonnes of CO₂ emissions during construction. This case illustrates how high-precision plastic construction components derive value from **structural performance and material efficiency**, rather than from plastic

MVA and Points of Domestic Integration

The MVA profile of advanced plastic construction components is strongly concentrated in midstream production stages, rather than in raw material sourcing. rPP sourcing contributes a relatively small share of total value added, reflecting its commodity nature, even though domestic pelletising improves capture modestly. In contrast, compounding, moulding, welding, and quality assurance collectively account for the majority of manufacturing value added.

Moulding alone represents one of the highest MVA stages due to its capital intensity, precision requirements, and direct influence on product performance. Welding and assembly further increase value by transforming semi-finished parts into certified structural components. Quality assurance and certification preparation represent the single largest value-added block, reflecting the premium associated with certified, high-precision construction components in regulated markets.

Kosovo's strongest fit lies in the middle of the value chain, where MVA potential is highest and entry barriers are manageable. This aligns well with the country's cost structure, labour availability, and proximity to EU construction markets, positioning Kosovo as an attractive near-shore supplier for European manufacturers and contractors.

Value Chain Stage	MVA	Calculated MVA contribution	Kosovo Fit
rPP sourcing	LOW	5%	MEDIUM
Compounding	MEDIUM	15%	HIGH
Moulding	HIGH	20%	VERY HIGH
Welding/Assembly	HIGH	20%	HIGH
QA / Certification	HIGH	30%	MEDIUM
Packaging/Logistics	LOW	10%	MEDIUM

Table 2. MVA analysis for Manufacture of builders' ware of plastic (NACE Rev. 2: 22.23)

Note: Calculations based on data analyses, expert opinions and own research

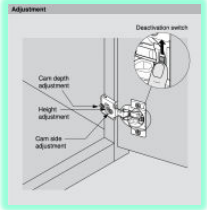
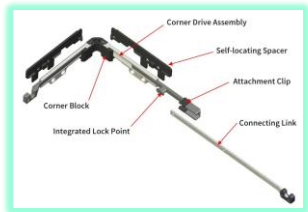
6.1.3.3. Product Category: Manufacture of Locks and Hinges (NACE Rev 2: 25.72)

Within the metal products category, *Manufacture of locks and hinges* (NACE Rev. 2: 25.72) represents a category with upgrading potential through precision manufacturing, system integration, and quality differentiation. Hinges were selected as a representative product since they, in particular, play a critical functional role in doors, windows, furniture, and modular building systems, positioning them in the mid-to-downstream segment of the value chain where manufacturing value added is higher than in basic metal processing.

Information Box 4: Innovative Derivative Product Types under NACE Rev. 2: 25.72

Products classified under *Manufacture of locks and hinges* (NACE Rev. 2: 25.72) increasingly reflect innovation through functional upgrading, precision engineering, and system compatibility. Key innovative product examples include:

content alone, reinforcing the rationale for higher value-added capture compared to ordinary plastic products. See: <https://www.globalconstructionreview.com/air-instead-concrete-plastic-bubbles-take-1600-ton/>

①	Soft-close and damped hinges (25.72.11)	Hinges incorporating spring or hydraulic damping mechanisms that enable controlled closing and improved user comfort. These products are widely used in quality furniture, modular interiors, and premium doors, and command higher prices due to added functionality and durability.   19
②	Integrated locking mechanisms for aluminium window and door systems (25.72.12)	Precision-engineered hinges integrated within door or window frames, offering improved aesthetics, load-bearing performance, and multi-axis adjustability. These hinges are increasingly required in energy-efficient buildings and high-quality joinery systems.  20
③	High-load hinges (25.72.11)	Concealed, load-bearing hinge systems designed specifically for aluminium window and door frames. These hinges support heavier insulated glazing units, enable multi-axis adjustment, and maintain airtightness and thermal performance in energy-efficient building envelopes. Value is created through precision machining, tight tolerances, corrosion-resistant coatings, and compatibility with aluminium joinery systems.   21

These derivative products reflect a transition from commodity metal fittings toward performance-driven hardware components, where value creation is concentrated in precision machining, coatings, and functional upgrading rather than raw material inputs. This positions locks and hinges as enabling components within higher-value building and furniture systems, supporting incremental industrial upgrading and selective import substitution.

6.1.4. Key Export Markets

The trade and trade agreements analysis identifies **Germany and Switzerland as the principal high-value export destinations for advanced building joinery products**. These markets combine strong and sustained demand for energy-efficient construction solutions with predictable regulatory environments and

¹⁹ Source: AI-generated image, used for illustrative purposes only.

²⁰ Ibid

²¹ Ibid

full tariff-free access under existing trade agreements. Export performance in these markets is supported by Kosovo's ability to meet EU-aligned construction standards and by its cost-competitive manufacturing base, allowing firms to compete in higher-specification segments rather than on price alone. **Regional CEFTA markets, particularly Albania, North Macedonia, and Montenegro**, play a complementary role by providing stable demand, lower logistics costs, and faster market access. These markets support production continuity, learning-by-doing, and cash-flow stability, and often serve as entry points for firms upgrading product quality before targeting more demanding EU and EFTA destinations.

In parallel, project-based markets such as **Kazakhstan** have generated episodic but substantial export volumes, especially for aluminium doors, windows, and insulating glass units. While these markets offer significant upside, export performance is highly volatile and driven by large, contract-based orders rather than repeat demand. As such, they should be viewed as opportunistic complements rather than core anchor markets. Across all priority destinations, the analysis confirms that tariffs are not a binding constraint for advanced building joinery exports. Instead, market access is determined primarily by compliance with technical standards, certification requirements, and firms' ability to deliver system-level solutions. This reinforces the strategic importance of upgrading manufacturing value added and conformity-assessment capacity to sustain and expand export performance

Rank	Destination	Rationale for Advantage	Cost-Benefit & Elasticity
1	Germany	Strong and sustained demand for energy-efficient construction products; zero tariffs under SAA; alignment with EN 14351 and green building directives; existing export volumes	High benefit / Medium cost; demand relatively inelastic for compliant products
2	Switzerland (EFTA)	High purchasing power; premium pricing; strong demand for quality; zero tariffs under EFTA FTA; proven furniture/joinery import patterns	High benefit / High compliance cost; low elasticity
3	Albania (CEFTA)	Proximity; low logistics cost; repeat demand; minimal NTMs; cultural and business familiarity	Medium benefit / Low cost; medium elasticity
4	North Macedonia & Montenegro (CEFTA)	Stable construction demand; duty-free access; lower standards burden than EU	Medium benefit / Low cost; high elasticity
5	Kazakhstan (project market)	Large episodic contracts; no tariff barrier but high volatility; outside FTA framework	High upside / High risk; high elasticity & volatility

Table 3. Ranked Export Destinations²²

6.1.5 Investment Pattern

The transition toward higher MVA products belonging to this product group would result in a broader structural shift in Kosovo's manufacturing sector, from standardised, cost-driven production toward higher-performance, knowledge-intensive, and market-oriented solutions. While products from this product group are already export-oriented and technologically capable²³, their pathways to MVA significantly in terms of where and how value is created. At the same time, they share a common requirement: upgrading is only possible through the simultaneous alignment of capital, skills, certification, and supplier networks.

²² Kosovo Agency of Statistics. Trade Data

²³ There are no hinges manufacturers operating in Kosovo yet, but those companies currently operating in the windows and facades sector being interested in moving to the MWA hinges sector confirm a similar investment pattern for hinges like for windows and facades.

A key similarity across the products belonging to this product category is the central role of capital investment as a primary enabler. Firms face substantial investment needs to move into higher-value segments, and access to finance emerges as the most binding constraint. In the window industry, capital investment is primarily directed toward advanced CNC machinery and digital integration, enabling the transition from semi-automated production to fully integrated, design-driven manufacturing systems (around € 2 – 3 million capital investments). This allows companies to deliver customised, project-specific solutions from low batch to mass production with higher precision and consistency, significantly increasing value added. In contrast, the hollow plastic sector requires capital investment of a fundamentally different nature. Here, the production process itself is already highly automated and efficient, but MVA upgrading depends on introducing entirely new infrastructure for recycling and material processing. This involves investments exceeding € 3 million in dedicated recycling lines and system upgrades to handle recyclates. Thus, while both sectors are capital-intensive, the window industry focuses on upgrading production technologies, whereas the plastic sector requires a structural transformation of the input base and production model.

A second key similarity lies in the importance of skills development, although the nature of required skills differs. Existing workforce capabilities are sufficient for current production but insufficient for higher-value activities. In window production, the main gaps are in automation, digital manufacturing, and quality control, reflecting the shift toward precision-based and customised production. In hollow plastic modules, the skills challenge is more technical and science-driven, focusing on material processing, quality management of recyclates, and laboratory testing capabilities. The common denominator is that MVA increasingly depends on specialised, knowledge-intensive skills, but while windows require stronger engineering and process integration capabilities, plastics require deeper expertise in material science and variability management.

Certification represents another shared pillar of upgrading, acting as both a market access requirement and a value signal. In the window sector, certification is highly formalised and mandatory, particularly through CE marking and compliance with EU standards related to thermal performance, airtightness, and structural integrity. In the hollow plastic sector, certification is currently less of a barrier, as basic ISO management standards are already in place. However, with the shift toward recycled materials, certification becomes increasingly relevant in terms of environmental performance and sustainability compliance. The difference is therefore not in importance, but in function: in windows, certification is a prerequisite for market entry, while in plastics it becomes a strategic tool for differentiation in sustainability-driven markets.

A fundamental difference between the product categories lies in the role of inputs and materials. In the window and hinges industry, upgrading is driven by the integration of higher-quality components, such as advanced aluminium profiles, high-performance glass, and improved hardware systems. These inputs enhance product performance and enable compliance with technical standards, but they are largely sourced from established international suppliers. In contrast, in the hollow plastic sector, the transition to MVA is almost entirely defined by a shift in the type of input used, namely from virgin plastic to recyclates. This represents a qualitative transformation of the production model, as value is created not only through processing but through material recovery and circular use.

This difference is closely linked to the role of supplier networks, which in both sectors act as critical enablers but evolve in distinct ways. In the window industry, supplier networks are already well established at the international level, providing access to high-quality, certified materials. The upgrading pathway involves strengthening these relationships and, over time, potentially expanding local supplier capabilities. In the hollow plastic sector, however, supplier networks for recyclates are largely absent. As a result, companies must actively contribute to the creation of entirely new supply chains, including partnerships with waste collection systems and recycling operators.

In summary, the interviews demonstrate that moving toward higher MVA of products belonging to this product groups require a systemic upgrading approach, where multiple investment dimensions must be addressed simultaneously. The similarities lie in the need for capital, skills, certification, and stronger supplier integration.

6.2. Product Group: Agro-Processed Products

6.2.1. Current Market Trends

Agro-processed products based on domestic agricultural inputs represent a category with **steady but underexploited potential for both import substitution and export upgrading**. Kosovo continues to import significant volumes of processed foods and plant-based functional products, while exports remain concentrated in a limited set of products that are often positioned at relatively low levels of processing and differentiation.²⁴ At the same time, international demand is shifting toward natural, origin-based, and health-positioned products, including minimally processed fruit and vegetable products, functional plant-based preparations, and premium, branded beverages.

Kosovo's proximity to CEFTA markets and preferential access to EU destinations provides a favourable external environment. The persistent gap between strong import demand, modest export penetration, and the availability of domestic raw materials indicates that constraints are primarily supply-side and institutional rather than market-access related. This positions agro-processing as a priority category where domestic value capture can increase through deeper processing, standardisation, and stronger market positioning.

6.2.2. Opportunities and Barriers

The analysis confirms that Kosovo's strongest opportunities for value creation in agro-processing lie in **mid- and downstream stages of production**, where processing depth, quality consistency, packaging, branding, and compliance determine competitiveness. Processing activities such as cooking, blending, preservation, extraction, formulation, and compliant packaging allow products to move beyond commodity agricultural outputs into higher-value, shelf-stable goods that can substitute imports and access export niches without requiring complex or capital-intensive technologies.

However, **stable raw-material supply** is the central bottleneck across most agro-processing sub-segments. Domestic agricultural production remains fragmented and seasonally volatile, with weak alignment to industrial processing needs.^{25,26} Standardised grading, traceability, and predictable delivery volumes are often missing, while long-term contractual relationships between processors and farmers are underdeveloped.²⁷ As a result, processors frequently rely on imported inputs to maintain stable quality and year-round production even where domestic supply exists in principle. Similar constraints apply in the Medicinal and Aromatic Plants (MAPs) and Non-Wood Forest Products (NWFPs) segment. Production relies heavily on **wild collection** rather than organised cultivation, causing volatility in supply volumes and limiting planning, certification, traceability, and compliance with export market requirements. Weak post-harvest handling and insufficient standardisation reduce scalability and discourage longer-term investment in higher-value downstream activities such as extraction, blending, and formulation.

Based on stakeholder consultations, **knowledge and capability gaps** further constrain upgrading. Many firms lack sufficient technical know-how and quality-management capacity to meet food safety and labelling requirements consistently.

²⁴ Ibid

²⁵ Kosovo Agency of Statistics. Agriculture Household Survey Data <https://askdata.rks-gov.net/pxweb/en/ASKdata/>

²⁶ Kosovo Agriculture in Numbers 2023 https://www.mbpzhr-ks.net/repository/docs/Kosovo_Agriculture_in_numbers_2023.pdf

²⁷ Source: stakeholder consultations

Certification and compliance impose fixed costs that are difficult for smaller producers to absorb, while informality and weak sector organisation reduce incentives for formal investment and coordinated supply-chain upgrading. Limited access to finance reinforces these constraints, as processors often require longer-term capital for cold storage, processing lines, laboratory testing, packaging equipment, and certification readiness.

6.2.3. In-Depth Assessment of Selected Product Categories

Following the product-category level assessment presented in Sections 6.2.1 and 6.2.2, the analysis moves from a strategic overview of agro-processing to a focused examination of selected product groups where higher manufacturing value added can realistically be achieved within Kosovo’s existing agri-food ecosystem. This step translates trade data findings and stakeholder inputs into concrete processing activities that offer scope for upgrading beyond primary agricultural production.

The selection of products for deeper analysis is based on a combined assessment of quantitative trade indicators and qualitative insights from consultations with producer associations and public institutions. This joint assessment confirmed that Kosovo’s strongest opportunities in agro-processing lie both in expanding raw agricultural output, but in strengthening downstream processing, quality differentiation, and market positioning.²⁸

Based on this analytical and consultative process, three product categories within agro-processing were selected for in-depth analysis:

Processed fruit and vegetable products, including jams, spreads, pickled vegetables, and ready-to-use preparations (NACE 10.39)	Medicinal and Aromatic Plants, and Non-Wood Products based products, including dried herbs, extracts, and essential oils (NACE Rev. 2: 10.83, 10.89)	Wine production, with a focus on bottled, branded, and quality-differentiated wines rather than bulk output (NACE 11.02)
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These product categories were identified as those where Kosovo already demonstrates **measurable export activity alongside continued import dependence in higher-value segments**, and where stakeholders highlighted **clear upgrading potential through processing depth, certification, branding, and market diversification**.²⁹

Across these segments, **manufacturing value added** is concentrated in formulation, processing, quality control, compliant packaging, certification, and branding rather than in raw agricultural production. These stages enable product differentiation, shelf-life extension, and access to higher-value retail, HoReCa, and niche export markets, while simultaneously supporting rural incomes through stronger and more stable backward linkages to farming and collection systems.

Innovation potential in agro-processing is assessed as **medium**, driven primarily by process refinement and market-oriented upgrading rather than radical technological change. Innovation takes the form of improved production processes (digitalization), recipes, controlled fermentation, enhanced preservation techniques, varietal selection and blending (in wine), advanced drying and extraction methods (for MAPs), and packaging and labeling innovations aligned with destination-market requirements.³⁰ While capital intensity remains moderate, these innovations allow firms to move from commodity-type products toward higher-margin, differentiated offerings.

²⁸ Author’s calculations based on Kosovo Customs, KAS, UN Comtrade; stakeholder consultations
²⁹ MIET value chain studies; stakeholder consultations.
³⁰ International Trade Center SME Competitiveness Outlook (2025) <https://www.intracen.org/file/itcsmeco2025pdf>

From a **sustainability perspective**, these product groups exhibit **medium to high sustainability potential**. Agro-processing supports more efficient use of domestic agricultural outputs, reduces post-harvest losses, and encourages longer-term investment in land quality and cultivation practices.³¹ In MAPs and wine in particular, upgrading is closely linked to improved traceability, controlled sourcing, and certification schemes, which strengthen environmental stewardship and market credibility.

Import substitution potential is assessed as **medium**. While Kosovo already produces these goods domestically, imports remain significant in higher-value, branded, and premium segments, particularly in the HoReCa and retail markets. Strengthening domestic processing, consistency, and branding would allow local producers to substitute imported products in these segments while expanding exports into EU and EFTA niche markets

The following sub-sections therefore examine each of the selected agro-processing product categories in more detail, focusing on specific innovative derivative product types, their value-chain positioning, innovation and sustainability characteristics, and the concrete opportunities they offer for increasing manufacturing value added and deepening domestic integration.

Information Box 5: Convergence of materials for Agro-Processed Foods

Material convergence in agro-processed foods reflects the integration of agricultural raw materials, food science inputs, packaging materials, and quality-control systems into unified, market-ready products. Value creation arises not from the agricultural input alone, but from the coordinated interaction of ingredients, processing methods, preservation techniques, and packaging solutions.

In processed fruit and vegetable products (NACE Rev. 2: 10.39), convergence occurs through the combination of fresh produce with stabilising agents, controlled heat treatment, fermentation processes, and packaging technologies that extend shelf life while preserving taste and nutritional value. Products such as ajvar, jams, and pickled vegetables derive value from recipe formulation, processing precision, and branding rather than raw material cost.

In medicinal and aromatic plant products (NACE Rev. 2: 10.83) and essential oils (C20.53), convergence is driven by the integration of plant materials with extraction technologies, solvents, carriers, and formulation systems. Standardisation, purity control, and traceability are essential to ensure compatibility with pharmaceutical, cosmetic, and functional food applications.

In wine production (NACE Rev. 2: 11.02), convergence combines agricultural inputs (grapes) with fermentation agents, aging materials (barrels), bottling systems, and branding elements. Product performance and market value emerge from the interaction between viticulture practices, cellar operations, packaging, and storytelling rather than from grape production alone.

Across all agro-processing categories, material convergence shifts competitiveness away from raw agricultural abundance toward processing capability, quality control, packaging, and market positioning. This trend is particularly favourable for Kosovo, as it enables higher manufacturing value added through mid- and downstream activities that build on existing agricultural production without requiring upstream industrialisation.

6.2.3.1. Product Category: Other processing and preserving of fruit and vegetables (NACE Rev 2. 10.39)

Other processing and preserving of fruit and vegetables (NACE Rev. 2: 10.39) is a core agri-processing category linking domestic farm output with higher value-added manufacturing. It includes shelf-stable

³¹EU Farm to Fork Strategy https://food.ec.europa.eu/horizontal-topics/farm-fork-strategy_en

products where value is created through processing depth, formulation, packaging, quality assurance, and market positioning rather than through raw material production alone. For Kosovo, this category is particularly relevant because a substantial share of fruits and vegetables is still sold fresh or semi-processed, while many comparable processed products are imported despite domestic production potential.

Methodological note. Unlike categories where one representative product is sufficient to illustrate upgrading dynamics, NACE 10.39 includes heterogeneous products with distinct raw-material requirements, processing technologies, and value-addition pathways. The analysis therefore applies two illustrative product examples, ajvar and jams, to reflect the category’s internal variation while maintaining a consistent analytical structure.

Ajvar was selected due to strong linkage to Kosovo’s agricultural base, recognised regional product identity, and clear upgrading potential through processing and branding. Jams were selected due to diversified domestic fruit availability, relatively low processing complexity, and clear scope for import substitution and export upgrading through quality and differentiation.

Information Box 6: Innovative Derivative Product types under Other processing and preserving of fruit and vegetables (NACE Rev. 2: 10.39)		
1	Fruit and vegetable purées and spreads (10.39.11)	Smooth or textured purées from apples, pears, pumpkins, carrots, or mixed fruit–vegetable blends. Innovation is driven by clean-label formulations, health positioning, and flexible formats for retail and foodservice markets. Baby-food purées represent a high-value subcategory: almost all baby food (fruit & vegetable) sold in Kosovo is imported, with local production only emerging recently in one small company (BebaBuk) which is currently relatively new operating since December 2024 and mainly through online deliveries and fresh produce. A widely distributed importer present in Kosovo is HiPP organic baby food (though not domestically produced). In terms of market-entry, a stable local demand from Kosovo parents and successful regional businesses (e.g., Baby Food Factory in Serbia producing Nutrino brand products for multiple markets) show there is regional precedent for assembling supply chains and meeting standards for baby food production. Here also ajvar, is a key product that has potential to be further automated and upgraded.   32
2	Dried and semi-dried fruit and vegetables (10.39.21) (10.39.22)	Low-temperature dried fruit slices, soft dried fruits, and vegetable chips produced from apples, plums, pears, berries, beetroot, or carrots. These products enable valorisation of second-grade produce, reduce post-harvest losses, and target high-value snack and ingredient markets.

³² Source: AI-generated image, used for illustrative purposes only.

			33
3	Pickled and fermented vegetables (10.39.31) (10.39.32)	Naturally fermented or lightly pickled vegetables such as peppers, cabbage, carrots, and mixed vegetable assortments. Product upgrading is achieved through controlled fermentation, reduced salt or vinegar use, and probiotic or functional positioning. 	34

Overall, innovation in NACE 10.39 should be understood as **incremental but commercially significant**, focusing on quality, health attributes, sustainability, and market positioning rather than on complex or capital-intensive technologies. These innovation pathways are well aligned with Kosovo's existing capabilities and offer realistic routes to higher manufacturing value added and export competitiveness.

These derivative products illustrate a shift from seasonal, low-margin sales of fresh produce toward shelf-stable, specification-driven products where value is created through formulation, processing control, packaging compliance, and brand positioning rather than raw agricultural input alone.

MVA and Points of Domestic Integration

A) The manufacturing value-added analysis shows that processing and cooking account for the largest share of total value creation, capturing approximately half of the final product value. This reflects the importance of roasting, peeling, grinding, cooking, and formulation activities in transforming raw peppers into a differentiated, shelf-stable product. Kosovo demonstrates a very strong fit at this stage, supported by available labour, existing know-how, and proximity to raw materials.

Cultivation and harvesting together contribute also a significant share of total value, as their relative prices have increased in the recent years³⁵. Packaging and quality assurance contribute smaller but necessary shares of value, while distribution and branding generate a meaningful share of final value but are currently weaker domestically, particularly for export markets.

Overall, the MVA structure confirms that **ajvar production** offers a highly favourable upgrading pathway for Kosovo, as the stages generating the highest value added are fully feasible domestically. Expanding industrial processing capacity therefore allows Kosovo to capture a substantially larger share of the value chain while strengthening linkages between agriculture and manufacturing.

³³ Ibid

³⁴ Ibid

³⁵ Average prices in farm, last 3 years were 0.64 Eur/kg. Green Report 2023.

Value Chain Stage	MVA	Calculated MVA contribution	Kosovo Fit
Cultivation	MEDIUM	30%	HIGH
Harvesting	LOW	5%	HIGH
Processing & Cooking	HIGH	40%	VERY HIGH
Packing	LOW	5%	MEDIUM
Quality Assurance	MEDIUM	10%	MEDIUM
Distribution / Branding	MEDIUM	10%	LOW

Table 4. MVA analysis for Ajvar: Other processing and preserving of fruit and vegetables (NACE Rev 2. 10.39)
Note: Calculations based on data analyses, expert opinions and own research

B) The jam value chain includes cultivation and raw material sourcing, pre-processing and preparation, formulation and cooking, filling and pasteurisation, and packaging and logistics. The MVA analysis shows that value creation is concentrated in formulation, cooking, and filling stages, while primary production contributes a smaller share of final value.

Value Chain Stage	MVA	Calculated MVA contribution	Kosovo Fit
Cultivation / Harvesting	MEDIUM	30%	VERY HIGH
Pre-processing & Preparation	HIGH	15%	HIGH
Formulation & Cooking	HIGH	30%	MEDIUM
Filling, Sealing & Pasteurization	MEDIUM	15%	MEDIUM
Packaging / Logistics	MEDIUM	10%	MEDIUM

Table 5. MVA analysis for Jam: Other processing and preserving of fruit and vegetables (NACE Rev 2. 10.39)
Note: Calculations based on data analyses, expert opinions and own research

Kosovo shows good fit in raw material sourcing, reflecting domestic fruit availability, and a strong position in pre-processing activities such as sorting, washing, crushing, and batching. Processing and formulation stages offer substantial value capture but require investment in equipment, quality control, and standardisation to fully realise export potential.

6.2.3.2. Product Category: Medicinal and Aromatic Plants, and Non-Wood Products (NACE Rev. 2: 10.83, 10.89)

Medicinal and Aromatic Plants (MAPs) and Non-Wood Forest Products (NWFPs) represent a product category with **strong upgrading potential through standardisation, extraction, formulation, and branded downstream products**. Kosovo's current positioning is largely in upstream and basic midstream activities, with processing dominated by drying and, to a lesser extent, freezing. While these activities extend shelf life and enable exports, they capture only modest value added and leave substantial downstream value-formulation, standardised extracts, and branded consumer products, to be captured abroad. As such, current export structures remain dominated by raw or minimally processed products, resulting in lost domestic value. According to sector data, in 2022 Kosovo collected 3,666 tonnes of NWFPs and cultivated over 400

hectares of MAPs producing nearly 680 tonnes, with the sector generating €16.4 million in total sales, largely export-oriented.³⁶

The importance of upgrading Kosovo’s MAP sector toward formulated herbal products is underscored by the **scale and growth of imports**. Based on trade data, imports of finished products (herbal blends, nutraceutical products, and food supplements) increased from **EUR 67.3 million in 2023 to EUR 75.4 million in 2024**, reflecting strong and expanding domestic demand for processed, branded, and functional plant-based products.³⁷ These imports consist largely of exactly the product types that could be developed from Kosovo’s existing MAP base, standardised herbal blends, food supplements, functional preparations, and nutraceutical-type products, yet are currently supplied by foreign producers. This indicates a clear **import substitution opportunity** and a **significant opportunity cost associated with exporting MAPs in raw or semi-processed form** (e.g. dried or frozen), while higher-value formulation, blending, and branding occur abroad. Moving into more value-added products would allow Kosovo to retain a substantially larger share of manufacturing value added, reduce exposure to commodity price volatility, and align MAP production with fast-growing consumer segments focused on wellness, functional nutrition, and natural products.

Innovation potential is assessed as **medium**, driven primarily by process upgrading rather than radical technological change. Differentiation arises through improved post-harvest handling, active-compound profiling, blending, formulation, and compliance with international standards. **Sustainability potential is high**, given low-input production and compatibility with organic and regenerative practices, provided that wild collection is regulated and traceable. Import substitution potential is medium, as primary plant material is locally available but many higher-value formulated products are imported.

Information Box 7: Innovative Derivative Product Types under Medicinal and Aromatic Plants (MAPs) and Non-Wood Forest Products (NWFPs)

Products derived from Medicinal and Aromatic Plants (MAPs) and Non-Wood Forest Products (NWFPs) show strong innovation potential when value creation shifts from raw or dried plant materials toward **standardised, formulated, and branded products**. Innovation in this category is primarily process- and application-driven rather than technology-intensive, relying on improved extraction, formulation, quality control, and traceability.

1 Standardized herbal extracts and essential oils (20.25.10)	Concentrated extracts and essential oils produced through controlled drying, distillation, or extraction processes. These products are used as inputs in cosmetics, nutraceuticals, functional foods, and wellness products. Value is generated through standardisation, consistency, and compliance with quality and safety requirements, rather than through volume of raw material.  38
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³⁶ Sector data on production volumes, export structure, processing capacity, and value-chain constraints for medicinal and aromatic plants (MAPs) and non-wood forest products (NWFPs) in Kosovo are based on: **ORGANIKA – Kosovo Association of Medicinal and Aromatic Plants**, *Studimi i sektorit të Produkteve Pyjore Jo-Drusore (PPJD) dhe Bimëve Medicinale dhe Aromatike (BMA)*, Pristina, 2022; and **ORGANIKA**, *Inventory of Non-Wood Forest Products in Kosovo*, Pristina, 2019.

³⁷ Kosovo Agency of Statistics. Trade Data.

³⁸ Source: AI-generated image, used for illustrative purposes only.

2	Functional herbal blends and food supplements (10.89.19)	Formulated mixtures of MAPs, including teas, powders, capsules, and liquid supplements designed for specific functional uses such as immunity, digestion, or relaxation. Innovation lies in formulation, dosage control, and market positioning, allowing products to move beyond bulk herb sales into higher-margin consumer markets. 
3	Processed wild mushrooms and forest products (10.39.26)	Value-added products derived from wild mushrooms and other forest products, including dried, frozen, or powdered mushrooms and extracts. These products benefit from Kosovo's forest ecosystems and traditional collection knowledge, with innovation driven by improved post-harvest handling, preservation, and packaging for export and premium markets. 

MVA and Points of Domestic Integration

Manufacturing value added in MAPs and NWFPs is concentrated in standardisation, formulation, and product manufacturing, rather than in raw plant material. Commodity raw herbs represent a small share of final value, while consistency, purity, and compliance determine pricing. Firms limited to drying and bulk exports capture only a fraction of potential MVA. By contrast, producers that integrate blending, extraction, and formulation can access higher-margin segments such as nutraceuticals, functional foods, and natural cosmetics. Kosovo's competitive advantage lies in labour-intensive processing, low production costs, and proximity to EU markets, rather than in scale. Integration with domestic aggregators and export-oriented processors strengthens supply chain coordination and quality assurance.

Value Chain Stage	MVA	Calculated MVA contribution	Kosovo Fit
Cultivation	LOW	5%	VERY HIGH
Harvesting	LOW	5%	HIGH
Post-Harvesting	MEDIUM	15%	HIGH
Standardization	HIGH	30%	MEDIUM
Product Manufacturing	HIGH	35%	MEDIUM
Packaging / Logistics	MEDIUM	10%	MEDIUM

Table 6. MVA analysis for Medicinal and Aromatic Plants, and Non-Wood Products (NACE Rev. 2: 10.83)

Note: Calculations based on data analyses, expert opinions and own research

³⁹ Ibid

⁴⁰ Ibid

6.2.3.3. Product Category: Manufacture of Wine (NACE Rev. 2: 11.02)

Within the processed food group, wine production (NACE Rev. 2: 11.02) represents a product category with **significant upgrading potential through quality differentiation, branding, geographic indication, and integration with tourism and hospitality services**. Wine sits firmly in the mid-to-downstream segment of the agri-food value chain, where manufacturing value added is substantially higher than in primary agricultural production alone. In Kosovo, wine production builds on a long viticulture tradition and a concentrated production base, particularly in the Dukagjini region, with growing orientation toward bottled and branded wines rather than bulk output.⁴¹

Innovation potential in the wine sector is assessed as **medium**. Competitiveness is shaped less by technological change and more by process refinement and quality upgrading, including improved vineyard management, controlled fermentation, varietal selection, blending, barrel aging, and the development of premium and niche wine segments. Additional differentiation is achieved through packaging, labelling, storytelling, and wine tourism, enabling producers to move away from commodity wine sales toward higher-margin, experience-based products.

While Kosovo produces wine domestically, a significant share of higher-value bottled and premium wines consumed locally remains imported, particularly in the HoReCa segment. Strengthening quality consistency and branding would allow domestic producers to substitute imports in these segments. Kosovo’s competitive advantage lies in mid- and downstream activities, vinification, aging, bottling, branding, and marketing, rather than in expanding vineyard area alone.

The opportunity cost in the wine sector stems from continued reliance on bulk and low-differentiation wines instead of higher-quality, branded products. Export data illustrate this clearly: Kosovo exported over 7,000 tonnes of wine in both 2021 and 2022, yet total export values reached only €4.2–4.4 million, implying low average export prices per litre consistent with bulk or entry-level wines. This indicates that rising production volumes have not translated into proportional increases in manufacturing value added.

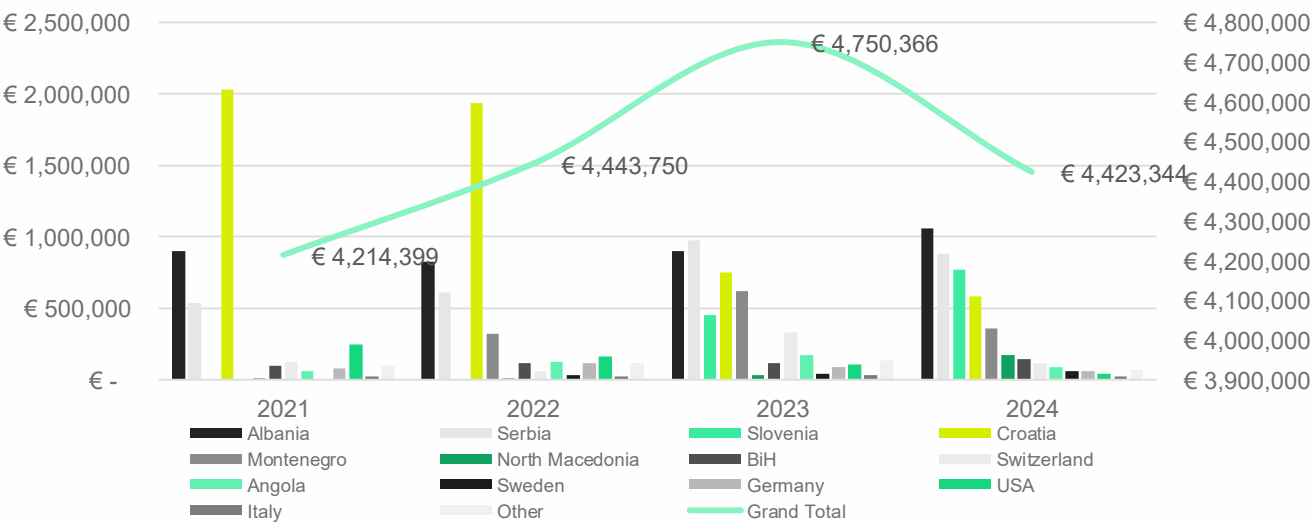


Figure 4. Wine Exports by Destination and Total Export Trend (2021–2024)

This export structure reflects volume-driven competitiveness, characterised by limited branding, minimal aging, and low differentiation, exposing producers to price competition and demand volatility in regional markets. By contrast, wines incorporating controlled vinification, selective grape sourcing, aging, and

⁴¹ Kosovo Viticulture and Winery- 2023. https://www.mbpzhr-ks.net/repository/docs/Kosovo_Viticulture_and_Winery_2023.pdf

stronger branding achieve significantly higher prices per litre and access premium channels such as HoReCa, direct-to-consumer sales, and wine tourism. Maintaining production in low-value segments therefore entails a clear opportunity cost, as it displaces value capture at stages where Kosovo already has, or can feasibly build, capabilities.

This opportunity cost is reinforced by domestic import patterns. Despite rising local production, wine imports increased from approximately 880 tonnes (€3.6 million) in 2021 to around 922 tonnes (€4.0 million) in 2022, indicating sustained demand for higher-priced and differentiated wines not fully supplied by domestic producers. Shifting capacity toward higher-value wines would strengthen backward linkages with grape growers, deepen integration with tourism and services, and support a transition from volume-based to value-based competitiveness.

Overall, wine production represents an established agri-food value chain underpinned by a vineyard base of approximately 3,472 hectares, mainly in Rahovec, Suhareka, and Gjakova. While export patterns remain dominated by bulk wines, recent emergence of premium domestic wines retailing at €17–20 per bottle demonstrates that quality upgrading is feasible. Further progress toward certification, branding, wine tourism, and targeted exports would allow Kosovo to increase value added per litre without proportional increases in volume, reinforcing its position as a value-oriented wine-producing origin.

Information Box 8: Innovative Derivative Product Types under Manufacture of Wine (11.02)

Products classified under Manufacture of Wine (NACE Rev. 2: 11.02) exhibit innovation potential where wine production moves beyond bulk output toward differentiated, quality-driven, and system-integrated products. Innovation in this category is primarily process-, branding-, and market-oriented rather than technology-intensive, with value creation concentrated in vinification, aging, certification, and commercialization stages rather than in primary grape production. Key innovative product types include:

1	Premium bottled wines with controlled vinification and aging (11.02.10)	Wines produced through controlled fermentation, selective grape sourcing, and barrel or extended bottle aging. These products derive value from consistency, sensory quality, and compliance with oenological standards rather than volume. Demand is driven by HoReCa channels, specialty retailers, and export markets seeking origin-linked and premium products.
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Manufacturing Value Added and Points of Domestic Integration

Manufacturing value added in wine production is distributed across several stages, with a clear concentration in midstream and downstream activities. Vinification and primary processing account for approximately 30 percent of total value added, followed by grape production at around 20 percent. Bottling and packaging contribute a further 15 percent, reflecting the importance of presentation and compliance with market standards.

Additional value is generated through branding, marketing, and wine tourism, which together represent a meaningful share of total value added and are key to achieving price premiums. Distribution completes the value chain, while compliance and quality control, although smaller in value share, are critical for market access and credibility.

Value Chain Stage	MVA	Calculated MVA contribution	Kosovo Fit
Grape production (viticulture)	HIGH	20%	HIGH
Collection & logistics	LOW	5%	HIGH

Vinification & primary processing	HIGH	30%	VERY HIGH
Aging & quality upgrading	MEDIUM	10%	MEDIUM
Bottling & packaging	MEDIUM	10%	MEDIUM
Compliance & quality control	LOW	5%	MEDIUM
Branding, marketing & wine tourism	MEDIUM	10%	MEDIUM
Distribution	MEDIUM	10%	MEDIUM

Table 7. MVA analysis for Manufacture of Wine (NACE Rev. 2: 11.02)

Kosovo's strongest fit lies in capturing value at the processing, quality upgrading, and commercialization stages, supported by existing winery capacity and growing recognition of domestic wines. Strengthening linkages between wineries, tourism operators, and export channels can further increase retained value and reduce exposure to bulk-wine competition.

6.2.4. Key Export Markets

Kosovo's agro-processed food products benefit from extensive preferential market access under **CEFTA, the EU–Kosovo Stabilisation and Association Agreement (SAA), EFTA agreements, and the FTA with Turkey**. As a result, tariffs are not a binding constraint for plant-based processed foods, herbal products, essential oils, and wine, provided that rules of origin and certification requirements are met.

Exports display a two-track market pattern. Regional CEFTA markets, particularly **Albania, North Macedonia, Montenegro, and Serbia**, provide **stable, repeat demand** for jams, vegetable preparations, pickles, and beverages. These markets offer low logistics costs, limited non-tariff barriers, and high price elasticity, supporting production continuity and scale.

At the same time, selective EU and EFTA markets, notably **Germany and Switzerland**, play a strategic role in margin expansion and product upgrading. Germany shows strong and rapidly growing demand for vegetable preparations and ethnic, organic, and specialty foods, while Switzerland offers premium niche demand for MAPs, specialty foods, and wines. These markets are characterised by higher compliance costs but lower price elasticity, making them attractive for higher-quality and certified products.

Product-specific patterns reinforce this structure. Wine exports remain regionally anchored, with EU and EFTA destinations primarily supporting branding rather than volume. Jams and fruit spreads show strong concentration in CEFTA markets, with **Romania** emerging as a significant EU destination. Vegetable preparations display the strongest EU scaling potential, particularly in **Germany and Switzerland**. Dried MAPs (HS 1211) represent the most stable and scalable export line, while essential oils and extracts remain small and volatile, reflecting early-stage market development rather than structural weakness.

Overall, Kosovo's comparative advantage in agro-processing lies in plant-based, origin-linked products with strong regional identity, supported by zero tariffs across key markets. CEFTA markets anchor volume and learning-by-doing, while Germany and Switzerland provide pathways to higher value added through compliance, certification, and premium positioning. Scaling exports will depend less on trade policy and more on investments in certification, standardisation, branding, and production consistency.

Rank	Destination	Rationale for Advantage	Cost–Benefit & Elasticity
1	Germany	Strong demand for ethnic, organic, and specialty foods; zero tariffs under SAA; rapid growth in veg. preparations	High benefit / Medium SPS cost; medium elasticity
2	Switzerland (EFTA)	Premium niche demand; strong MAPs and specialty food imports; high margins	High benefit / High compliance cost; low elasticity
3	Albania & North Macedonia (CEFTA)	Core volume markets for jams, pickles, ketchup; zero tariffs; low SPS barriers	Medium benefit / Low cost; high elasticity
4	Romania	Emerging demand for jams and spreads; EU market with lower entry thresholds than DE/CH	Medium benefit / Medium cost; medium elasticity
5	Serbia	Dominant buyer for certain jam lines; stable but highly concentrated	Short-term benefit / Concentration risk; medium elasticity

Table 8. Ranked Export Destinations⁴²

6.2.5 Investment Pattern

The transition toward higher MVA in this product group follows a common pattern: in all three cases, Kosovo already has a relevant resource base, an existing production tradition, and some degree of market access, but value creation remains constrained because production is still too strongly anchored in basic processing, limited differentiation, and insufficient scale or consistency. Moving toward higher MVA therefore does not mean starting from scratch. It means deepening processing, improving quality control, strengthening branding and market positioning, and building more resilient supply systems around products that already have a foothold in domestic and export markets. At the same time, the analysis shows that the three segments differ significantly in the way value is created and in the investment priorities required to unlock that value.

A first important similarity is that all three product categories are fundamentally resource-based, meaning that the quality, availability, and consistency of the raw materials remain decisive for higher-value production. Yet the way this challenge plays out differs. **In the MAP sector**, raw material sourcing is already partly local but remains dependent on imports for certain plants, seedlings, and quality-sensitive inputs, especially where export-oriented or premium products are concerned. The sector's biggest opportunity lies in moving beyond basic oil extraction toward higher-value, differentiated products, including small-batch essential oils, cosmetic applications, and products derived from by-products and residues. In this case, value creation is closely linked to the ability to process a wider range of raw materials more flexibly and with better quality control, while also preserving freshness and enabling production outside the harvest season through drying and storage solutions.

As far as **other processing and preserving of fruit and vegetables (NACE Rev. 2: 10.39)** (e.g. **ajvar production**) is concerned, the situation is different. Here, most of the process is already automated or semi-automated, and the product itself is already well established in domestic and regional markets. The MVA opportunity is therefore less about inventing a new product and more about industrial scaling, process standardisation, and improved consistency. Higher value can be generated through larger and more efficient production systems, better hygiene and cleaning technologies, improved packaging, and more robust

⁴² Kosovo Agency of Statistics. Trade Data

control systems. The underlying raw material issue is not so much technological as agricultural: supply of peppers and related vegetables remains exposed to seasonal and climatic variability, which means that firms seeking to scale up MVA production must secure more reliable and higher-quality sourcing arrangements, potentially including additional supply links in neighbouring countries. In other words, ajvar upgrading is primarily a question of transforming a successful traditional product into a more scalable and standardised industrial product without losing its quality identity.

In wine, the MVA pathway is again different. The sector already has the core raw material, grapes, and does not require fundamentally new inputs to move up the value chain. The challenge lies instead in shifting from lower-value wine production toward premium bottled wines with controlled vinification, aging, and stronger market positioning. Here, value is created not only in production but in quality upgrading, barrel aging, packaging, branding, and reputation building. The move toward MVA therefore depends on a combination of better grape selection, more advanced fermentation control, expanded aging capacity, improved bottling and labeling, and stronger differentiation in the market.

Across all three product categories, access to finance emerges as the most important common bottleneck. In MAPs, financing is needed to modernise the machine parks, including larger and smaller distillators, drying facilities, and packaging upgrades, which together would enable more flexible and year-round production. In ajvar, financing needs are larger and more industrial in nature, with investment requirements in the range of several million euros for high-capacity cleaning, cooking, filling, and process control systems. In wine, the scale of required investment varies more strongly with the ambition level, but can range from 100.000 for smaller premium production to € 1 million capital investments several million euros for larger, more automated and professionally branded operations.

A second strong commonality lies in the role of quality management, certification, and hygiene compliance. In MAPs, this dimension is particularly pronounced. The sector's transition toward higher MVA is directly linked to certification requirements such as ISO standards, organic compliance, or cosmetic related regulations. These standards are not a side issue; they are central to entering higher-value segments such as cosmetics, health products, and export-oriented consumer goods. In ajvar, certification is more focused on food safety and industrial process control, with ISO 22000 already in place and FSSC 22000 representing the next step for stronger international positioning. In wine, certification plays a less formalised role in the documents provided, but quality recognition, tasting standards, and compliance with sector-specific frameworks remain important. More broadly, wine relies not only on formal certification but also on market trust, sensory quality, and brand positioning, which function as informal quality signals in premium segments. Thus, while all three sectors require quality assurance, MAPs are the most certification-intensive, ajvar is the most process-control driven, and wine is the most branding- and reputation-dependent.

The role of skills and human capital slightly differs the product categories. In MAPs, skills are closely related to laboratory analysis, product development, quality control, and market-oriented product management. The sector's MVA potential depends not only on extraction, but on the ability to create new products from residues, diversify the product portfolio, and align products with customer expectations in export markets. In ajvar, skills are less of a primary bottleneck because the production process is already relatively standardised and automated. Additional capabilities are mainly needed to operate new machinery and manage larger-scale, more consistent industrial production. In wine, the central skills issue is less about cellar operations, which are already relatively strong, and more about viticulture and vineyard management, where labour shortages and weak upstream workforce availability create a structural vulnerability. This means that the MAP sector is the most knowledge-intensive in terms of product innovation, ajvar is the least skills-constrained of the three, and wine depends heavily on securing and organising reliable upstream labour and farm-level capabilities.

Another important common feature is the strategic role of supplier and sourcing networks. In MAPs, stronger and more reliable supply chains are needed to secure quality plant material, diversify inputs, and build closer links with farmers and regional suppliers. In ajvar, supplier networks are critical mainly to ensure a stable and high-quality pepper supply, which is vulnerable to climate conditions and seasonality. In wine, the issue is more upstream and structural: maintaining and expanding vineyards, ensuring quality grape supply, and supporting farmers to sustain production capacity over time. In all three sectors, higher MVA requires stronger integration between processors and primary producers, but the direction differs: MAPs need broader and more diversified sourcing systems, ajvar needs more stable and scalable vegetable supply, and wine needs deeper investment in vineyard ecosystems and grower support.

6.3. Product Group: Wood-Based Products

6.3.1. Current Market Trends

Advanced wood-based products in Kosovo are characterised by **moderate export competitiveness combined with persistent dependence on imports of semi-finished and engineered wood products.**⁴³ While Kosovo exports a range of wood and furniture products, exports remain concentrated in lower-value and labour-intensive segments, whereas higher-end furniture systems, engineered components, and prefabricated elements are predominantly imported.

Trade and market analysis indicates growing demand in European markets for sustainable materials, eco-design, modular furniture, and prefabricated wood-based construction solutions. These trends are driven by climate objectives, circular-economy policies, and rising demand for off-site construction and flexible interior systems. While Kosovo is well positioned geographically and benefits from preferential market access, current export structures capture only a limited share of this demand.

The observed pattern, export presence in basic products alongside import reliance for higher-specification goods, mirrors dynamics seen in other manufacturing categories and points to untapped upgrading potential, particularly in downstream design-, finishing-, and system-integration stages.

6.3.2. Opportunities and Barriers

Opportunities for increasing manufacturing value added in advanced wood-based products are concentrated in downstream stages, where design, finishing quality, system integration, and compliance with sustainability standards determine competitiveness. Moving beyond basic carpentry toward engineered furniture systems and prefabricated components offers potential for differentiation and export upgrading.

The analysis highlights **domestic raw-material supply as a constraint.** Although domestic forest resources exist, forest management practices and infrastructure are not designed to deliver timber in the quality grades, dimensions, and volumes required for industrial manufacturing. **Absence of forest certification, and weak logistics** force firms to rely on imported timber, panels, and semi-finished components, constraining local value creation.⁴⁴ **Knowledge and capability gaps** further limit upgrading. Many firms lack design expertise, process engineering know-how, and market intelligence needed to move into higher-value segments. Limited exposure to end customers restricts learning about evolving market trends and performance requirements. As in other product categories, the absence of an internationally recognised conformity assessment system increases certification costs and delays market entry, while limited access to finance constrains investment in modern equipment, finishing technologies, and capacity expansion.

⁴³ Author's analysis based on RCA and IDR calculations from trade data

⁴⁴ Stakeholder consultations and MIET (2023) – Industrial Development and Business Support Strategy 2030 (SIDBS) stating that wood processors rely on imported timber, panels, and semi-finished inputs due to supply and quality constraints.

6.3.3. In-Depth Assessment of Selected Product Categories

Following the product- group level assessment presented in Sections 6.3.1 and 6.3.2, the analysis moves from a strategic overview of wood-based manufacturing to a focused examination of selected product categories where higher manufacturing value added can realistically be achieved within Kosovo’s existing industrial and resource context. This step translates trade data findings and stakeholder inputs into concrete categories that offer scope for upgrading beyond basic wood processing and primary carpentry.

The selection of products for deeper analysis is based on a combined assessment of quantitative trade indicators and qualitative insights from consultations with industry associations and public institutions. This joint assessment confirmed that Kosovo’s strongest opportunities in wood-based manufacturing lie not in expanding raw timber extraction, but in **strengthening downstream processing, system integration, finishing quality, and compliance with construction and sustainability standards.**

Based on this analytical and consultative process, three product categories within wood-based manufacturing were selected for in-depth analysis:

Manufacture of Other Furniture (NACE Rev. 2: 31.09)	Manufacture of Other Builders’ Carpentry and Joinery (NACE Rev. 2: 16.23)	Manufacture of Assembled Parquet Floors (NACE Rev. 2: 16.22)
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These product categories were identified as those where Kosovo already demonstrates measurable export activity alongside continued import dependence in higher-specification and branded segments, and where stakeholders highlighted clear upgrading potential through design, finishing, certification, and integration into construction and interior fit-out value chains.

Across these segments, **manufacturing value added** is concentrated in **design execution, precision machining, surface finishing, assembly, and system integration**, rather than in basic sawing or milling of timber. These stages enable differentiation through quality, modularity, durability, and compliance with EU construction, safety, and sustainability standards, allowing firms to access higher-value residential, commercial, and export markets. At the same time, they support domestic employment and skill upgrading without requiring full upstream integration into forestry or primary wood production.

Innovation potential in advanced wood-based products is assessed as **medium**, driven primarily by incremental and process-oriented upgrading rather than radical technological change. Innovation pathways include digital design and CNC machining, modular product architectures, improved upholstery and finishing techniques, engineered layering in flooring systems, and standardisation for prefabrication. While capital intensity is higher than in basic carpentry, these innovations allow firms to move from price-based competition toward specification- and quality-based competitiveness⁴⁵.

From a sustainability perspective, these product groups exhibit **medium to high sustainability potential**. Wood-based products benefit from the renewable nature of timber, long product lifecycles, and high recyclability, particularly when combined with certified sourcing, material efficiency, and modular design. Prefabrication and engineered flooring further reduce material waste and improve energy performance in buildings. However, sustainability gains remain constrained by limited domestic forest certification and reliance on imported semi-processed inputs.

Import substitution potential is assessed as **medium**. While Kosovo already produces furniture, carpentry, and flooring products domestically, higher-end systems, branded furniture likes sofas, and

⁴⁵ OECD SME and Entrepreneurship Outlook; ITC SME Competitiveness Outlook

engineered flooring remain largely imported.⁴⁶ Strengthening downstream processing, finishing quality, and certification would allow domestic producers to substitute imported finished products in both the domestic and regional markets, while continuing to source selected raw or semi-processed inputs externally where economically efficient.

The following sub-sections therefore examine each of the selected wood-based product category in more detail, focusing on specific innovative derivative product types, their value-chain positioning, innovation and sustainability characteristics.

Information Box 9: Convergence of materials for Wood-Based Products

Manufacture of Assembled Parquet Floors (NACE Rev. 2: 16.22)

The manufacture of assembled parquet flooring is based on the integration of multiple material streams. While wood remains the core material, modern parquet systems combine hardwood wear layers with engineered wood cores, specialised adhesives, and surface treatments such as oils and lacquers to achieve dimensional stability, durability, and consistent design quality. Manufacturing value is therefore generated through layer engineering, bonding precision, and surface finishing rather than raw wood volume alone.

Additional auxiliary materials, including fillers, abrasives, and packaging, further shape product quality and market readiness. Increasingly, low-emission adhesives, bio-based coatings, and recycled or sustainably sourced inputs are incorporated to meet environmental standards and buyer expectations. As a result, parquet flooring under NACE 16.22 is a technology- and process-driven product, where performance and sustainability outcomes depend on how effectively diverse materials are combined within a controlled manufacturing process, rather than on wood content alone.

In the manufacture of other builders' carpentry and joinery, particularly sofas, prefabricated timber houses and modular building elements, material convergence is even more pronounced. Engineered timber and solid wood provide the primary structural framework, while insulation materials, such as mineral wool, cellulose, or wood fibre, ensure thermal and acoustic performance. These components are complemented by metal connectors, fasteners, and structural fittings that enable precise assembly, load-bearing capacity, and compliance with safety standards.

Products under NACE 16.23 are characterized by strong material convergence, reflecting their function as integrated building components rather than single-material wood products. While wood and wood-based panels (solid timber, laminated wood, plywood) remain the structural core, value creation increasingly depends on combining wood with complementary materials. Metals (steel and aluminium) could be integrated for reinforcement, frames, hinges, and locking systems, improving structural performance and compliance. Chemical inputs—adhesives, coatings, sealants, and finishes—enable engineered structures and durability, while plastics and composites are used to improve the functional behaviour.

6.3.3.1. Product Category: Manufacture of Other Furniture (NACE Rev. 2: 31.09)

There are four main sets of products belonging to this product category. First, upholstered seatings, like sofas and couches. Second non-upholstered household furniture, like living room or bedroom furniture. Third, furniture for special uses like garden and outdoor furniture. And, finally, furniture parts and components. The manufacture of other furniture, particularly upholstered furniture such as sofas, represents an established wood-based manufacturing activity in Kosovo and is considered for further analyses. Upholstered furniture is positioned in the mid-to-downstream segment of the value chain, where **manufacturing**

⁴⁶ Kosovo Agency of Statistics: Kosovo trade data analysis

value added is driven primarily by **design execution, upholstery quality, assembly precision, and production reliability** rather than by the intrinsic value of raw wood.

Kosovo already exports sofas and other upholstered furniture to EU and regional markets, indicating the presence of operational production capabilities, a skilled workforce, and established buyer relationships. At the same time, a substantial share of upholstered furniture sold on the domestic market remains imported, particularly in higher-end and branded segments, unlike kitchen furniture and other custom-designed products that are more commonly produced locally.⁴⁷⁴⁸

Innovation potential in this product category is assessed as **medium**. Differentiation is driven mainly by incremental process improvements, including digital pattern design, CNC cutting of wood frames and foam, improved sewing accuracy, and modular product architecture, rather than by radical product innovation. While upholstery remains labour-intensive, selective automation improves consistency, reduces waste, and enables higher throughput. **Sustainability potential** is also **medium**, reflecting gradual improvements in material efficiency, increased use of domestic wood panels, and opportunities to incorporate recycled foams and textiles. **Import substitution** potential is assessed as **medium**, as wooden frames can be locally sourced, but key inputs such as fabrics, foams, adhesives, and mechanisms remain largely imported, even though the majority of manufacturing value is generated during transformation and assembly.

Information Box 10: Innovative Derivative Product Types under Manufacture of Other Furniture (NACE Rev. 2: 31.09)		
Products classified under Manufacture of Other Furniture (NACE 31.09) demonstrate innovation potential where furniture moves beyond basic household items toward system-based, modular, and performance-oriented solutions . Innovation in this category is primarily incremental and design-led, focusing on process optimisation, material combinations, and functionality rather than radical product change.		
1	Modular upholstered sofa systems (31.09.11)	Sofas designed with interchangeable modules, adjustable layouts, and replaceable covers. These products allow flexibility in use, easier transport, and customisation for residential, hospitality, and contract markets. Value is created through design coordination, production precision, and efficient assembly rather than raw material input. 
2	Contract-grade seating for hospitality and offices (31.09.11)	Upholstered seating designed to meet higher durability and safety standards required in hotels, offices, and public spaces. Innovation arises from reinforced frame construction, high-performance foams, and abrasion-resistant fabrics, enabling access to higher-margin contract and institutional markets. 

⁴⁷ Kosovo Agency of Statistics. Trade Data.

⁴⁸ Stakeholder Consultations

3	Furniture components with integrated textile and foam solutions (31.09.19)	Seating products that integrate advanced upholstery techniques, layered foams, and technical textiles to improve comfort, longevity, and aesthetics. These products benefit from close linkages with the textile and garment sector and allow differentiation through craftsmanship, finishing quality, and functional design. 
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Manufacturing Value Added and points of domestic integration

Manufacturing value added in upholstered furniture like sofas is concentrated in downstream processing stages rather than in raw material inputs. Design execution, upholstery quality, and assembly precision determine final product value and pricing.

Value Chain Stage	MVA	Calculated MVA contribution	Kosovo Fit
Product design & specification	MEDIUM	10%	MEDIUM
Frame production & preparation	MEDIUM	15%	HIGH
Digital cutting & foam shaping	MEDIUM	15%	MEDIUM
Upholstery & sewing	HIGH	25%	HIGH
Assembly	HIGH	10%	HIGH
Quality control & compliance	MEDIUM	10%	MEDIUM
Packaging & logistics	LOW	5%	HIGH
Buyer coordination & aftersales	MEDIUM	10%	MEDIUM

Table 9. MVA analysis for upholstered furniture NACE Rev. 2: 31.09 Manufacture of Other Furniture

Upholstered furniture in Kosovo operates in the mid-to-downstream segment of the value chain, where value creation is driven mainly by design execution, upholstery quality, assembly precision, and production reliability rather than raw material inputs. Kosovo already exports sofas to EU and regional markets, indicating solid production capabilities, skilled labour, and established buyer linkages, but higher-end and branded segments of the domestic market remain largely import-driven. The sector's innovation and sustainability levels are medium, with progress coming primarily from incremental process upgrades such as digital design, CNC cutting, improved sewing accuracy, and modular product concepts. Manufacturing value added is concentrated in downstream stages, especially upholstery, sewing, assembly, and frame preparation, where Kosovo shows a strong competitive fit. The main strategic risk lies in remaining focused on low-spec, price-driven models, which limits margins, slows capability upgrading, and increases exposure to cost-based competition. Shifting production toward higher-specification sofas would enable greater value capture, stronger market positioning, and improved import substitution in both export and domestic markets.

6.3.3.2. Product Category: Manufacture of Other Builders’ Carpentry and Joinery (NACE Rev. 2: 16.23)

Manufacture of builders’ carpentry and joinery under NACE 16.23 includes structural and semi-structural wooden components used in construction, with prefabricated housing systems representing a high-value downstream application. These products are treated as derivative products due to their integration into construction systems, reliance on precision manufacturing, and performance-based standards rather than on raw wood content alone.

Within this analysis, prefabricated timber houses, incl. modular walls and roof elements, were used as representative examples. These products derive value from off-site industrial production, system integration, and compliance with energy-efficiency and safety standards, positioning them in the mid-to-downstream segment of the value chain where **manufacturing value added is substantially higher** than in basic sawn timber or carpentry elements.

Innovation potential in this product category is assessed as **medium**. Innovation is driven primarily by process standardisation, CNC machining, digital design, and modular construction techniques rather than by new materials. **Sustainability potential is high**, as prefabrication reduces construction waste, improves material efficiency, and enables better quality control compared to on-site construction. **Import substitution potential is medium**, since timber elements can be processed locally, while complementary inputs such as insulation systems, membranes, fasteners, and MEP components remain largely imported.

Information Box 11: Innovative Derivative Product Types under NACE Rev. 2: 16.23		
①	Prefabricated timber housing modules (16.23.20)	Factory-produced wall, floor, and roof modules integrating structural timber, insulation, vapor barriers, and service channels. Value is generated through precision manufacturing, reduced construction time, and compliance with energy-performance standards.
②	Engineered timber components for modular construction (16.23.11)	Structural beams, cross-laminated panels, and load-bearing assemblies used in residential and commercial buildings. These products capture value through dimensional accuracy, system compatibility, and certification.
③	Decorative and precision components from veneer sheets (16.23.13)	Veneer-based wall panels, façade elements, and interior decorative components used in high-end residential, commercial, and automotive interiors. These products derive value from surface quality, design, and integration with composite substrates rather than from veneer volume.

Manufacturing Value Added and points of domestic integration

Manufacturing value added is concentrated in machining, assembly, and system integration rather than in raw timber sourcing. Kosovo’s strongest fit lies in downstream and midstream activities, where precision, labour, and process control determine value.

Value Chain Stage	MVA	Calculated MVA contribution	Kosovo Fit
Architectural design & engineering	MEDIUM	15%	MEDIUM
Timber preparation & conditioning	HIGH	10%	MEDIUM-HIGH

CNC cutting & component production	HIGH	15%	MEDIUM
Module and panel assembly	MEDIUM	25%	HIGH
System integration & pre-installation	MEDIUM	10%	MEDIUM
Quality control & certification	MEDIUM	10%	MEDIUM
Transport & installation	LOW	15%	MEDIUM

Table 10. MVA analysis for prefabricated timber houses

6.3.3.3. Product Category: Manufacture of Assembled Parquet Floors (NACE Rev. 2: 16.22)

Manufacture of parquet flooring under NACE Rev. 2: 16.22 includes engineered wood flooring products used in residential, commercial, and hospitality interiors. Within this analysis, three-layer engineered parquet flooring is used as the representative derivative product. This product is positioned in the mid-to-downstream segment of the wood value chain, where **manufacturing value added** is driven by **precision processing, surface treatment, and system compatibility** rather than by raw wood content alone.

Three-layer parquet consists of a hardwood wear layer bonded to softwood or composite core layers, offering dimensional stability, consistent quality, and compatibility with modern construction systems such as underfloor heating. The product is treated as a derivative product because its value is created through layer engineering, surface finishing, and certification, rather than through primary wood processing. Compared to solid wood flooring, engineered parquet allows higher material efficiency and more predictable performance, which supports export-oriented production.

Innovation potential in this product category is assessed as **medium**. Innovation is driven primarily by process optimisation, CNC profiling, surface finishing technologies, and product standardisation rather than by new materials. **Sustainability potential is high**, as three-layer parquet uses less hardwood per square metre, enables the use of fast-growing softwood or recycled substrates, and supports longer product life cycles. **Import substitution potential is medium**, as Kosovo can integrate strongly in downstream processing stages while continuing to import logs or semi-processed timber where necessary.

Information Box 12: Innovative Derivative Product Type under NACE Rev. 2: 16.22

Three-Layer Engineered Parquet Flooring (16.22.11)

Three-layer parquet flooring consists of a hardwood top layer, a stabilising middle layer (typically softwood), and a backing layer. Manufacturing value is generated through precision bonding, profiling, sanding, and surface treatment rather than raw material volume. These products are widely used in mid- to high-end residential and commercial interiors and command price premiums due to dimensional stability, consistent appearance, and compliance with EU construction and safety standards.

Key value drivers include surface quality, durability, locking systems, and compatibility with energy-efficient building solutions. Compared to basic solid wood planks, three-layer parquet captures significantly higher manufacturing value added per cubic metre of wood.

Manufacturing Value Added and points of domestic integration

Manufacturing value added in parquet flooring is concentrated in downstream processing rather than in raw timber sourcing. While full upstream integration is technically possible, the most feasible and economically efficient strategy for Kosovo is to focus on processing imported logs or semi-finished wood into finished parquet systems, where value capture is highest.

Value Chain Stage	MVA	Calculated MVA contribution	Kosovo Fit
Log sourcing & basic sawmilling	LOW	5%	LOW-MEDIUM
Drying & conditioning	MEDIUM	10%	MEDIUM
Engineered core / blank production	HIGH	20%	MEDIUM
Precision machining & profiling	HIGH	25%	MEDIUM
Surface finishing & design effects	HIGH	20%	MEDIUM
Quality control & certification	MEDIUM	10%	MEDIUM
Packaging & logistics	MEDIUM	10%	HIGH

Table 11. MVA for for parquet flooring

6.3.4. Key Export Markets

Kosovo's wood-based products sector, particularly furniture and prefabricated wooden elements, has emerged as one of the country's most dynamic export segments. Export performance between 2021 and 2024 shows strong and sustained growth, driven primarily by furniture manufacturing (NACE Rev. 2: 31.09) and advanced carpentry and prefabricated construction elements (NACE Rev. 2: 16.23). This expansion reflects increasing integration into European value chains and a gradual shift toward higher value-added, design- and prefabrication-oriented products.

Trade agreements provide a highly favourable market-access framework. Under the EU–Kosovo Stabilisation and Association Agreement (SAA), CEFTA, and the Free Trade Agreement with Turkey, wood furniture and related products enter key regional and European markets **duty-free**. Rules of origin are not a binding constraint: furniture and prefabricated wood products qualify as originating where substantial transformation, such as machining, assembly, finishing, or upholstery, takes place in Kosovo. This allows producers to combine imported timber, panels, fabrics, and fittings with domestic processing while retaining preferential access to export markets.

Export trends highlight a clear differentiation across product lines. Wooden furniture (HS 9403) more than doubled in value between 2021 and 2024, **exceeding €43 million in 2024**. Growth is anchored in **Switzerland and Germany**, with additional demand from **Austria, Belgium, Italy**, and selected CEFTA markets. Upholstered furniture with wooden frames (HS 940161), including sofas and couches, expanded steadily to approximately €6.0 million in 2024, confirming Kosovo's competitive positioning in mid- to higher-quality seating segments. Exports are concentrated in **Switzerland, Germany, Belgium, and neighbouring regional markets**.⁴⁹

Prefabricated wooden buildings and modular elements (HS 940610) represent a rapidly growing but more volatile export line, increasing from approximately **€5.9 million in 2021** to around **€13.7 million in 2024**. Germany and Switzerland dominate demand, supplemented by episodic project-based exports to the United States and other third markets. Volatility reflects the contract-driven nature of prefabricated construction rather than underlying competitiveness constraints. By contrast, parquet flooring and engineered wood flooring products (HS 4408) remain niche, with exports below €0.15 million annually, concentrated in **Switzerland, France, Italy, and neighbouring CEFTA countries**.

Across all wood-based products, tariffs are not a binding constraint. Instead, market access is determined primarily by compliance with non-tariff requirements, including EU chemical safety rules (e.g. adhesives, finishes, and emissions), product safety standards, sustainability expectations, and labelling requirements.

⁴⁹ Kosovo Agency of Statistics. Trade Data

While these requirements impose compliance costs, they are increasingly manageable for Kosovo producers with established export relationships, particularly in furniture and prefabricated systems.

Overall, **Switzerland and Germany** emerge as structurally favourable anchor markets for value-added wood-based exports, combining strong demand, premium price segments, and predictable regulatory environments. **Austria and Benelux countries** provide complementary opportunities for design-oriented furniture, while CEFTA markets, especially **Albania and North Macedonia**, remain important for volume absorption, production smoothing, and cash-flow stability. Project-based markets outside Europe, such as the United States, offer selective upside but should be treated as opportunistic rather than core destinations.

The export performance of wood-based products demonstrates Kosovo's ability to leverage trade agreements and mid-to-downstream manufacturing capabilities to compete in higher-value market segments. Continued upgrading in design, finishing quality, certification, and sustainability compliance will be critical to sustaining growth and reducing exposure to price-driven competition.

Rank	Destination	Rationale for Advantage	Cost–Benefit & Elasticity
1	Switzerland (EFTA)	Largest value market; premium positioning; strong demand for furniture and prefab wood; zero tariffs; proven exporter track record	Very high benefit / Medium cost; low elasticity
2	Germany	Large and diversified demand; EU single market; SAA zero tariffs; strong sustainability orientation	High benefit / Medium compliance cost; low–medium elasticity
3	Austria & Benelux	Design-oriented markets; logistics proximity; similar standards to DE	Medium–high benefit / Medium cost; medium elasticity
4	Albania & North Macedonia (CEFTA)	Volume demand; minimal NTMs; strong regional ties	Medium benefit / Low cost; high elasticity
5	United States (niche/project)	Opportunistic prefab and furniture orders; outside FTA; higher logistics cost	Selective benefit / High cost; high elasticity

Table 12. Ranked Export Destinations

6.3.5 Investment Pattern

The transition toward higher MVA in parquet, prefabricated timber houses, and sofa systems follows a coherent upgrading logic: all sectors (with the exception of parquet) are already established within Kosovo's manufacturing base, yet value creation remains constrained by limited automation, insufficient digital integration, and relatively weak differentiation in higher-value market segments. A key common feature across all three product categories is the importance of targeted capital investment, although the scale and purpose differ significantly. In parquet production, the product itself is already relatively advanced, and upgrading is primarily about improving precision, efficiency, and finishing quality. Investments focus on CNC cutting, profiling, and automated finishing lines, enabling more complex designs and consistent product quality. The required investment is moderate, typically in the range of €250,000–500,000, and is mainly aimed at modernising the machine park rather than transforming the entire production system.

In sofa systems, investment needs are similarly moderate but more diversified. Here, MVA upgrading depends on improving design capability, finishing processes, and production standardisation. Investments in CAD/3D tools, finishing technologies such as spray booths, and semi-automated cutting systems enable firms to move from standard furniture toward customised, higher-quality products. While the financial scale

is comparable to parquet, the impact is more strategic, as it allows firms to reposition themselves toward design- and export-driven markets.

Manufacture of Other Builders' Carpentry and Joinery (e.g. prefabricated timber housing modules), by contrast, require a more systemic and capital-intensive upgrade. Moving toward higher MVA involves the digitalisation and automation of the entire production process, from architectural design to fabrication and assembly. Investments include CNC machinery with CAD/CAM integration, automated panel assembly systems, and digital workflow tools. Although investment levels are around €1 million, the transformation is substantial, as it shifts production toward fully integrated, high-performance construction systems. Thus, while all three sectors depend on machinery investment, parquet focuses on incremental efficiency gains, sofas on upgrading design and finishing, and prefabricated housing on end-to-end production transformation.

A second shared feature is the increasing importance of skills development, though the nature of required skills differs. In parquet, skills gaps are relatively limited and concentrated around automation, CNC operation, and digital quality control, supporting more precise and flexible production. In sofa production, skills play a broader role, as higher value depends on a combination of design, production, finishing, and product development capabilities, including CAD/3D modelling and market-oriented product positioning.

In prefabricated housing, skills requirements are the most advanced and multidisciplinary. Higher MVA depends on capabilities in architectural design, BIM/CAD integration, production planning, and automated fabrication, reflecting the complexity of the product system. The common pattern is clear: while all three sectors require skills upgrading, parquet is primarily technical, sofas combine technical and creative skills, and prefabricated housing demands integrated engineering and digital coordination capabilities.

Differences between the product categories become more pronounced when considering the role of inputs and supplier networks. In parquet, the input structure is relatively stable. High-quality wood is already sourced from established suppliers in countries such as Croatia and Austria, and the move toward MVA does not require fundamentally new materials. The focus is therefore on improving processing rather than transforming inputs. In sofa systems, inputs become a key driver of value creation. Higher-value products require premium fabrics, foams, adhesives, and accessories, many of which must be imported. As a result, upgrading depends on establishing more reliable and standardised supplier relationships, ensuring consistent quality and enabling product differentiation. Prefabricated housing lies between these two extremes but with greater complexity. It requires a wide range of inputs, including structural timber, insulation, cladding, windows, and technical components, many of which must meet strict performance standards and are sourced internationally. This makes supplier management a strategic function, as product quality depends on the integration of multiple high-performance components. Compared to parquet and sofas, prefabricated housing is the most dependent on coordinated and high-quality supply chains.

The importance of certification further differentiates the product categories. In parquet, certification is not a major constraint, as quality assurance is largely embedded in supplier standards. In sofa systems, certification becomes more relevant in the context of export markets and quality assurance, but remains secondary compared to design and input quality. In prefabricated housing, however, certification is central. Compliance with CE marking, structural timber standards, energy performance regulations, and fire safety requirements is essential for market access and product performance. This makes prefabricated housing the most standards-driven and compliance-intensive of the three sectors.

If these investment areas are addressed, all three product categories have strong potential to increase domestic value creation and strengthen their position in export markets. The upgrading process does not require radical structural change, but rather a systematic deepening of existing capabilities, enabling firms to move from standard production toward more differentiated, higher-quality, and value-driven products.

6.4. Cross-Category Conclusions

Across the analysed product categories, Kosovo's upgrading potential is concentrated in mid- and downstream manufacturing stages, where value creation depends on processing depth, system integration, certification, and market positioning rather than on raw-material extraction alone. However, the nature of innovation and competitiveness differs significantly across categories, requiring differentiated upgrading pathways.

In **agro-food processing**, wine, and most wood-based products, manufacturing value added is generated primarily through process optimisation, quality upgrading, packaging, branding, and compliance with buyer standards. Innovation in these sectors is largely incremental and market-driven, focusing on recipe development, preservation techniques, surface finishing, modularisation, and design refinement. These pathways are well aligned with Kosovo's labour profile and capital constraints and allow upgrading without high R&D intensity. In these categories, the main bottlenecks are scale, consistency, certification capacity, and access to higher-value export markets, rather than technological feasibility.

By contrast, **advanced building joinery** represents a distinct upgrading pathway in which innovation is predominantly technology- and engineering-driven. Competitiveness in this category depends on R&D, system design, performance testing, and compliance with demanding technical standards, particularly related to thermal insulation, air-tightness, acoustic performance, durability, and system compatibility. Unlike traditional carpentry or furniture production, value creation in advanced joinery is determined by the ability to develop and certify integrated building systems, positioning the sector closer to knowledge-intensive manufacturing. Sustained upgrading therefore requires investment in engineering capabilities, testing infrastructure, and applied product development.

A common structural feature across all categories is the growing importance of **material and process convergence**. Products previously perceived as single-material or low-complexity, such as food preparations, parquet flooring, furniture, joinery elements, or wine, have evolved into multi-input, system-oriented outputs. In agro-processing, value is created through the integration of agricultural inputs with packaging, preservation technologies, certification systems, and branding. In wood-based products and construction elements, competitiveness increasingly depends on combining wood with metals, chemicals, composites, insulation systems, and digital manufacturing processes. In wine, differentiation is driven by controlled vinification, aging, packaging, certification, and tourism integration rather than grape production alone.

Import substitution and export upgrading are closely linked across all analysed sectors. In agro-food processing and wine, Kosovo continues to import higher-value finished products due to high domestic demand. In wood-based products and furniture, Kosovo has already demonstrated strong export performance in EU and EFTA markets where downstream processing and design capabilities are well developed. This confirms that upgrading feasibility is stage-specific rather than sector-specific: when firms control downstream and system-level stages, value capture increases substantially.

Trade policy frameworks provide a favourable external environment across all categories. **Zero tariffs** under CEFTA, the EU–Kosovo SAA, EFTA agreements, and the FTA with Turkey remove tariff barriers, while rules of origin generally support domestic value creation even when imported inputs are used. As a result, non-tariff measures, certification, testing, sustainability compliance, and buyer requirements, constitute the primary competitiveness thresholds, particularly for advanced joinery and export-oriented food and wine products. The analysis indicates that Kosovo's industrial upgrading strategy should be differentiated by innovation intensity. For agro-food processing, wine, and most wood-based products, priorities lie in scaling downstream processing, strengthening certification and branding, and improving market access. For advanced building joinery, upgrading requires targeted support for engineering capacity, applied R&D, testing infrastructure, and system-level product development. Aligning policy instruments with these distinct innovation profiles is essential for shifting from volume-based competitiveness toward sustained, value-driven industrial growth.

**POLICIES AND
INTERVENTIONS
TOWARD CONDUCTIVE
FRAMEWORK CONDITIONS**

7

7. Policies and Interventions Toward Conducive Framework Conditions

Policy recommendations and interventions are intended to improve the framework conditions for **promoting import substitution and value-added products, in particular by addressing key binding constraints**. The following policy recommendations should not be understood as a set of individual or standalone measures. Rather, they are largely interlinked and should be implemented as part of a holistic approach. Many of these recommendations fully or partially align with measures included in the SIDBS activity plan currently being developed by the MIET. In some cases, they complement and further strengthen these measures.

The policy recommendations are structured along a sequential and interlinked logic that reflects the typical transformation pathway of firms toward MVA and greater use of domestic raw materials. First, businesses need to understand the **strategic relevance and economic benefits of increasing local raw-material use and moving toward MVA-oriented production**. Once this awareness is established, access to appropriate knowledge and skills (particularly regarding how to implement such changes in practice) becomes essential.

Given that most firms are small and lack sufficient internal capacities, the **promotion of cooperation and partnerships along relevant value chains** (with whom) is a critical next step. Collaborative approaches enable firms to share risks, pool resources, and jointly develop new solutions that would be difficult to achieve individually. Subsequently, improved access to finance and mechanisms to de-risk innovation and investment activities are required to translate intentions into concrete actions.

Finally, once advanced products have been developed, **effective commercialization** becomes crucial. Support for market access and export promotion therefore represents the final building block of the holistic policy approach presented in this chapter. Together, these recommendations form an integrated framework designed to guide firms from awareness and capability building through innovation and investment to successful market entry.

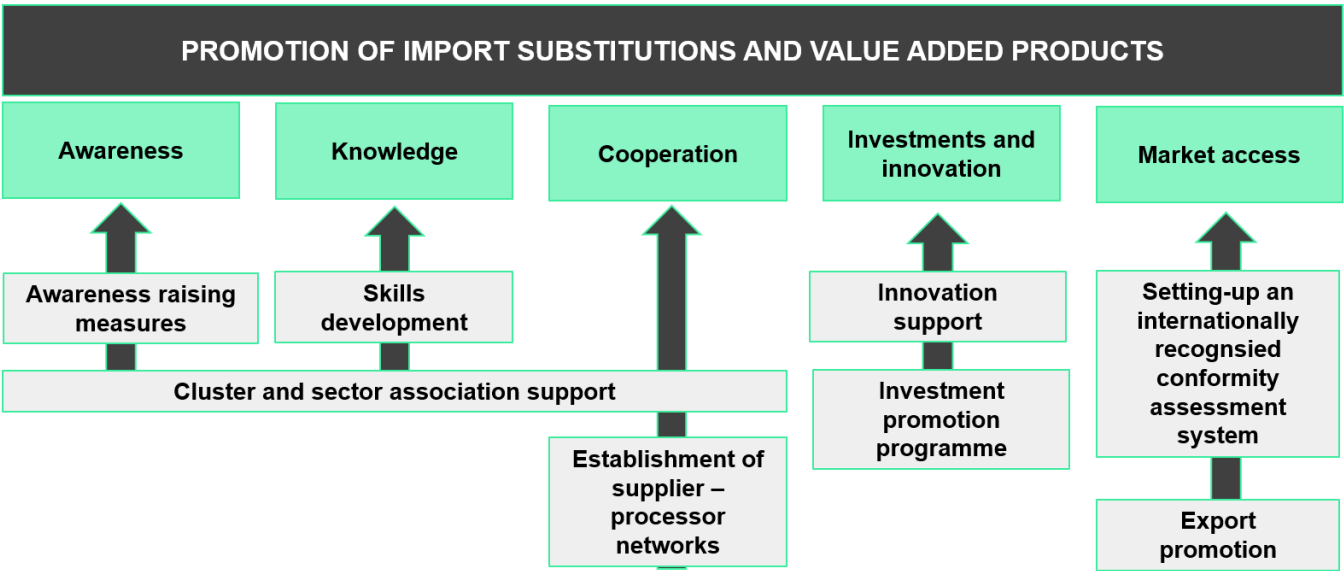


Figure 5. Portfolio of interventions to increase utilization of natural resources and MVA goods in Kosovo

7.1. Recommendation 1: Awareness-raising measures to promote the utilization of natural resources and higher-MVA products

	Recommendation 1: Awareness-raising measures to promote the utilization of natural resources and higher-MVA products
Rationale	From a manufacturer's perspective, increasing the use of domestic natural resources or shifting toward products with higher MVA involves perceived commercial and operational risks. The potential benefits are not immediately evident to many local firms, which often rely on established production routines, long-standing supplier relationships, and fixed product specifications defined by existing customers. As a result, companies frequently underestimate the strategic opportunities associated with moving toward higher value-added production. In many cases, however, an orientation toward MVA is not optional but a critical pathway to maintaining competitiveness in increasingly demanding regional and international markets.
Objectives	The objective is to implement product-category-specific awareness-raising measures that clearly demonstrate why greater use of domestic natural resources and/or a transition toward higher value-added products can generate tangible business benefits. These benefits include reduced raw-material costs, lower administrative burdens due to fewer import requirements, improved profit margins through higher manufacturing value added, and access to new customer segments and markets.
Implementation approach	To increase awareness of improved natural resource utilization and MVA-oriented production, the existing institutional landscape—particularly chambers of commerce and industrial associations—should be mobilised as central multipliers of the MVA narrative. Due to their close proximity to industrial target groups, these organisations are well positioned to shape perceptions, strategic priorities, and business discourse in those sectors where increased use of local resources and higher value-added production are most relevant. They should therefore be formally mandated to act as strategic communicators. Awareness-raising activities may include thematic events, position papers, good-practice documentation, and public statements issued by these supporting institutions to sensitise industry stakeholders to the economic rationale of MVA-oriented upgrading. Additional instruments should include benchmarking and comparative analyses that make the advantages of local sourcing and higher value creation visible and measurable. Successful business cases and role models can be disseminated through publications, business forums, technical conferences, and targeted media partnerships in order to highlight both risks and opportunities associated with value-chain upgrading. Selected chambers and associations should also serve as conveners of strategic dialogue. The MIET can co-host high-level industry roundtables and national conferences together with chambers, industrial associations, and relevant stakeholders, focusing explicitly on value-chain positioning and industrial upgrading. These forums should bring together business leaders, ministries, and international partners and ensure that local raw-material sourcing and MVA development remain permanent items on the economic policy agenda. The objective is not technical training, but sustained and visible attention from both the public and private sectors.

In doing so, the intervention supports structural transformation, enhances domestic value creation, and contributes directly to national industrial, export, and economic diversification objectives.

GOOD PRACTICE BENCHMARK

Chamber of Commerce of North Macedonia (North Macedonia):

A good benchmarking example can be found in North Macedonia between approximately 2018 and 2022, when the Chamber of Commerce of North Macedonia (CCNM), together with sectoral business associations, launched a structured effort to reposition industrial competitiveness around MVA and value-chain upgrading.

This initiative was closely linked to the country’s participation in the EU Smart Specialisation Strategy (S3) process, which required North Macedonia to identify priority sectors and shift from cost-based production toward higher-value activities. Within this framework, the Chamber developed a business dialogue platform as a permanent forum for awareness raising and strategic discussion. From 2019 onward, the Chamber organised a series of high-level industry forums and sector roundtables focused on key manufacturing sectors such as automotive components, metal processing, and advanced manufacturing . These events deliberately reframed competitiveness away from low wages and basic subcontracting toward value-chain positioning, certification, product differentiation, and system integration. Rather than providing technical training, the discussions targeted CEOs and senior managers and addressed strategic questions such as:

Parallel to these dialogue platforms, the Chamber produced public reports and sector outlooks highlighting the gap between North Macedonia and peer economies in terms of export sophistication and domestic value creation. These publications were disseminated through business media, Chamber newsletters, and national conferences, creating a common reference point for industrial upgrading in public debate.

A particularly influential element was the Chamber’s visibility campaign for domestic role models. Between 2020 and 2022, selected companies that had successfully transitioned from simple assembly to certified production and export-oriented manufacturing were showcased at national Chamber events and in business newspapers. These firms were presented as concrete examples of how moving up the value chain led to higher margins, more stable contracts, and stronger international partnerships. This created peer pressure within industrial communities and helped replace the narrative of “cheap production location” with that of “reliable industrial supplier”.

The North Macedonia case demonstrates that chambers and industrial associations can influence industrial upgrading without providing technical training or financial incentives. By acting as conveners, communicators, and agenda setters, they can reshape how firms understand competitiveness and create a shared national narrative around value creation. For Kosovo, a similar approach could be implemented through structured sector dialogues, public benchmarking reports, and systematic promotion of domestic upgrading success stories - anchoring MVA as a central concept in both business strategy and industrial policy debate.

7.2. Recommendation 2: Skills development

	Recommendation 2: Skills development
Rationale	There is a significant shortage of skilled workers on both the raw-material supply side and the MVA production side. On the supply side, knowledge gaps persist regarding

	the quantities, quality standards, and infrastructure requirements of natural resources needed by manufacturers and processors. On the processing side, shifting raw-material sourcing (for example, from imported to domestic suppliers) requires new competencies. Likewise, producing higher-MVA products demands additional expertise related to technical specifications, market requirements, and production processes. The national education and training system is currently not able to provide enough qualified workers within a short timeframe. Even with increased efforts to modernize curricula and upgrade the infrastructure of vocational training centers and universities, results would take time to materialize. Moreover, it remains uncertain to what extent these institutions could deliver the highly specialized skills and practical support required by companies moving toward higher value-added production.
Objectives	The objective of the proposed intervention is to facilitate access to essential technical and managerial knowledge for companies seeking to increase the use of domestic natural resources or to move further up specific value chains through MVA-oriented production. Relevant knowledge already exists within the country, but it is fragmented and not easily accessible to firms. In addition, workforce training is costly and associated with business risks, particularly for small and medium-sized enterprises. Training therefore also has a financial dimension that discourages companies, especially smaller firms, from investing sufficiently in the skills development of their employees.
Implementation approach	To address skills gaps in a flexible and demand-driven manner, a Skills Voucher Scheme should be introduced as a central instrument to support companies in acquiring the technical and managerial competencies required for higher-MVA production and increased use of domestic natural resources. Under this scheme, eligible companies would receive vouchers that can be used to purchase training and advisory services from accredited providers, such as vocational training centers, universities, private training institutions, or qualified industry experts. The main beneficiaries would be suppliers and manufacturers who could receive advisory support in formulating internal skills development plans, as well as financial assistance for training measures through training vouchers. The vouchers would be targeted at priority product categories and value chains where upgrading toward higher MVA and local resource utilization is strategically relevant. The voucher system should focus on practical and applied competencies, including: ▪ technical skills related to processing and quality requirements of domestic raw materials, ▪ production and engineering skills for higher value-added products, ▪ knowledge of standards, certification, and market requirements, and ▪ managerial skills related to production planning, quality management, and value-chain integration. By allowing firms to choose training providers according to their specific needs, the scheme ensures that skills development is market-oriented rather than supply-driven. This approach also makes existing national expertise more visible and accessible, helping to mobilize fragmented knowledge already present within the country. However, choosing international training providers and experts shall be eligible as well. To reduce financial barriers and risk for companies—especially SMEs—the vouchers

should cover a substantial share of training costs, while requiring a modest co-financing contribution from firms to ensure commitment and relevance. Priority access can be given to companies that demonstrate a concrete plan to shift toward higher-MVA production or increased use of domestic raw materials.

Finally, the Skills Voucher Scheme should be designed as a fast and flexible instrument with simplified administrative procedures and short approval cycles, enabling companies to respond quickly to changing skill requirements along their value chains. The scheme should cover 70% of the eligible costs for acquiring relevant knowledge and skills, while the remaining 30% should be contributed by the beneficiaries.

By directly linking skills development support to strategic upgrading objectives, the scheme strengthens enterprise competitiveness, productivity, and innovation capacity, while supporting structural transformation of priority value chains.

GOOD PRACTICE BENCHMARK

Slovenian Enterprise Fund (Slovenia)

Slovenia's Small Value Incentives through Vouchers programme, administered by the Slovenian Enterprise Fund (SEF), is a voucher-based support scheme aimed at encouraging micro, small and medium-sized enterprises to strengthen competitiveness, competencies, and innovation in areas tied to business needs — including skills development, certification, digitalisation, and internationalisation⁵⁰. The voucher schemes are an ongoing programme, and they have been available since 1 January 2019, with public calls open throughout the year and continuing as long as funds are available

Under this programme SMEs can access vouchers covering up to 60 % of eligible costs for services that improve business competencies, including employee and management training as well as other value-adding services. The Voucher values range up to EUR 9,999.99, making them highly accessible for smaller firms. Eligible uses include training, certification, consultancy, strategy development and other actions that directly strengthen managerial and technical capabilities⁵¹.

Public calls remain available “throughout the year” and continue until funds are exhausted, with the e-voucher system in place to simplify applications. Free advisory support is available through Slovenia's SPOT Business Point network to help SMEs prepare applications and access vouchers.

In 2023–2025, the SEF has repeatedly re-embedded voucher calls (e.g., for participation in economic delegations and for certification). This programme is widely referenced in EU policy briefs on voucher schemes that support SME competitiveness and skills development, and Slovenia's model has been cited as a good practice in the EU for delivering training and competence-enhancing services through vouchers⁵².

The Slovenian experience offers concrete lessons for the design of a Kosovo Skills Voucher Scheme, particularly regarding administrative simplicity, accessibility for SMEs, and alignment with strategic upgrading objectives.

⁵⁰ <https://www.gov.si/en/topics/small-and-medium-sized-enterprises>

⁵¹ <https://www.podjetniskisklad.si/en/notice-for-companies-with-a-voucher-co-financing-agreement/>

⁵² <https://www.gov.si/en/topics/small-and-medium-sized-enterprises>

7.3. Recommendation 3: Clusters and sector associations support

	Recommendation 3: Clusters and sector associations support
Rationale	The national landscape of business member organisations, sector associations, and cluster initiatives in Kosovo remains embryonic and fragmented. By contrast, such intermediaries are playing an increasingly important role across Europe as instruments for strengthening competitiveness, networking, experience exchange, innovation, and internationalisation. A review of the European cluster landscape indicates that around 1.500 cluster initiatives are currently active, demonstrating the strategic relevance of network-based approaches for upgrading value chains and improving sector performance⁵³. These initiatives provide platforms for collaboration, shared services, and collective positioning in domestic and international markets.
Objectives	The overarching objective of the proposed intervention is to support the establishment and strengthening of such intermediaries to enhance the competitiveness, innovation capacity, and market orientation of the sector. Such intermediaries can be networks, cluster, industrial association or other kind of platforms. More specifically, the proposed intervention aims to: ▪ strengthen cooperation and networking among firms and institutions along related value chain (with focus in increased use of local raw material and MVA products). ▪ improve access to specialised services such as matchmaking, skills brokering, and targeted training in food production and processing technologies. ▪ facilitate joint activities in areas such as internationalisation, branding, and export promotion. ▪ support the bundling of production capacities and the development of shared solutions (e.g. quality management, certification, logistics, and packaging). ▪ stimulate collaborative activities between different business along related value chains.
Implementation approach	The intervention should focus on strengthening existing and emerging clusters and sector associations rather than creating entirely new institutional structures. Priority should be given to organisations that already demonstrate basic governance capacity, a critical mass of members, and relevance for key value chains linked to domestic raw-material utilisation and MVA. Support should be provided through a structured development programme that combines organisational strengthening with service development. This may include assistance for the professionalisation of cluster management, development of strategic roadmaps, and establishment of service portfolios tailored to member needs (e.g. networking, internationalisation support, innovation facilitation, and skills brokerage). Clusters and sector associations should be encouraged to act as platforms for cooperation and trust-building along value chains. Regular networking events, thematic working groups, and sector roundtables should be organised to bring together firms, suppliers, processors, research institutions, and service providers. These platforms

⁵³ <https://www.clustercollaboration.eu/find-clusters-partners?>

should focus on concrete value chain challenges such as quality standards, logistics, certification, and market access.

In addition, selected intermediaries should be supported to develop joint projects and collective services, for example in export promotion, shared branding initiatives, participation in international trade fairs, or collective procurement of certification and testing services. Such joint actions help achieve economies of scale and reduce individual firm risks.

Public support should be provided on a competitive and performance-based basis, with clear eligibility criteria and defined outputs (e.g. number of member firms served, number of joint activities implemented, or partnerships established). Over time, cluster and association activities should increasingly rely on membership fees and service revenues to ensure sustainability.

Finally, chambers of commerce and relevant ministries should play a coordination and oversight role, ensuring alignment with national industrial and export strategies and avoiding duplication of structures. This will help embed cluster and sector association development within a coherent policy framework and reinforce their role as key intermediaries for industrial upgrading and increased MVA.

In doing so, the intervention supports the emergence of effective meso-level institutions capable of translating national industrial objectives into coordinated, firm-level action.

GOOD PRACTICE BENCHMARK

North Macedonian Textile Cluster (North Macedonia)

The North Macedonian Textile Cluster provides a relevant international good practice example of how cluster and intermediary organisations can support industrial upgrading and increased MVA in a traditional, low-value manufacturing sector⁵⁴. The textile and apparel industry in North Macedonia had long been dominated by low-margin cut–make–trim subcontracting for foreign buyers, limiting domestic value creation and exposing firms to strong cost competition. In response, a sector-based cluster organisation was developed as a professional intermediary to help reorient the industry toward higher value-chain positions.

The cluster was established in 2003 and later institutionalised as a cluster representing textile and garment producers in North Macedonia. The organisation currently has around 85–90 member companies, making it the largest business organisation in the country’s textile and apparel industry.

The cluster’s core role was not to deliver technical training directly, but to act as a platform for awareness raising, coordination, and strategic dialogue. Through industry forums, conferences, and sector studies, the cluster consistently promoted a narrative of competitiveness based on product differentiation, certification, and export readiness rather than low wages alone. Companies that successfully transitioned toward own-design manufacturing, certified production, or diversified export markets were highlighted as role models at national events and in business media, helping to create peer learning and a culture of upgrading.

In addition, the cluster functioned as a broker between firms and knowledge providers, facilitating access to skills in quality management, design, logistics, and market development. Collective services such as joint participation in international trade fairs, shared branding initiatives, and collaborative projects on eco-textiles and innovation allowed small and medium-sized enterprises to benefit from scale effects

⁵⁴ <https://macedoniantextiles.mk/>

that would not have been achievable individually. The cluster also became integrated into national industrial and Smart Specialisation strategies, strengthening its legitimacy and ensuring alignment between private-sector needs and public policy objectives.

Overall, the North Macedonian Textile Cluster demonstrates how an intermediary organisation can transform a fragmented sector into a more coordinated and strategically oriented industry. Its main contribution lay in shifting the mindset of firms from cost-based competition toward value-based competitiveness, thereby laying the foundation for gradual movement up the value chain. This experience offers an instructive model for Kosovo, where similar cluster initiatives could be used to strengthen cooperation, raise awareness of MVA, and support upgrading in sectors such as food and beverages, plastics, and metal processing.

For Kosovo, this case highlights the catalytic role that well-governed cluster organisations can play in accelerating sector upgrading, collective efficiency, and export-oriented transformation.

7.4. Recommendation 4: Establishment of supplier – processor networks

	Recommendation 4: Establishment of supplier – processor networks
Rationale	Achieving higher MVA and increasing the use of domestic raw materials requires stronger coordination and cooperation between domestic suppliers and manufacturers/processors along relevant value chains. At present, relationships between these actors are often fragmented and transactional, with limited strategic alignment regarding volumes, quality standards, delivery schedules, and technical specifications. Suppliers frequently lack a clear understanding of the processors' technical and quality requirements, while processors face difficulties in communicating their demand profiles and performance expectations in a structured manner. As a result, mismatches occur in terms of product quality, reliability of supply, and timing, leading processors to rely on imported raw materials despite the existence of domestic sources. In addition, information asymmetries, weak coordination mechanisms, and limited trust between suppliers and processors further constrain the development of integrated domestic supply chains. These bottlenecks cannot be addressed through isolated firm-level interventions. They require structured platforms for dialogue, coordination, and trust-building that enable continuous interaction between both sides of the market. Sector-specific supplier–processor networks can serve as such platforms by facilitating joint problem-solving, transparency of requirements, and gradual alignment of production and processing capacities.
Objectives	The main objective of this intervention is to strengthen domestic value chains by improving coordination, reliability, and mutual understanding between suppliers of raw materials and manufacturing or processing companies. More specifically, the intervention aims to: ▪ improve alignment between supply and demand in terms of quantity, quality, and timing of domestic raw materials. ▪ facilitate structured communication of technical specifications and performance requirements from processors to suppliers.

	▪ identify and jointly address bottlenecks and constraints along the supply chain (e.g. logistics, quality control, storage, certification). ▪ build long-term trust-based relationships between suppliers and processors through repeated interaction and transparency. ▪ reduce dependency on imported raw materials by strengthening domestic sourcing arrangements. ▪ support gradual upgrading of suppliers toward higher-quality and more reliable production.
Implementation approach	Supplier–processor networks should be organised as sector-specific platforms bringing together domestic raw-material suppliers, manufacturers/processors, and relevant support institutions. Activities may include regular roundtables, matchmaking events, joint needs assessments, and working groups focused on concrete value-chain challenges such as quality standards, logistics, or certification requirements. Existing sector associations or cluster organisations can be mandated and supported to host and facilitate these networks, rather than creating new institutional structures. However, these supplier – processor networks are usually smaller and more local than sector associations or cluster. Focus is mainly given on matching and balancing supply and demand.

By institutionalising structured dialogue and coordination, these networks will reduce transaction costs, improve supply reliability, and unlock the full potential of domestic raw-material sourcing.

GOOD PRACTICE BENCHMARK

Food Supply Chain Networks (Denmark)

A relevant EU good practice example is provided by **Cluster Food & Bioeconomy Denmark**⁵⁵, which has established structured supplier–processor cooperation platforms across the agri-food sector. The cluster brings together farmers, ingredient suppliers, food processors, research institutions, and service providers to improve coordination and innovation along the food value chain.

Through regular networking events, thematic working groups, and collaborative projects, the cluster enables suppliers and processors to jointly define quality requirements, address bottlenecks in logistics and processing, and develop new products based on domestic raw materials⁵⁶. The initiative has strengthened domestic sourcing relationships, improved transparency of market needs, and increased the competitiveness of Danish food producers in export markets.

This model demonstrates that supplier–processor networks are most effective when they are embedded within established cluster organisations and focus on trust-building, dialogue, and practical problem-solving rather than on direct subsidies.

For Kosovo, this experience highlights the importance of embedding supplier–processor cooperation within credible intermediary structures and focusing on structured dialogue, trust-building, and joint value-chain problem-solving.

⁵⁵ <https://www.foodbiocluster.dk>

⁵⁶ <https://profile.clustercollaboration.eu/profile/cluster-organisation/017bd2c5-cfaf-469c-9545-21110cd8eea5>

7.5. Recommendation 5: Innovation Support

	Recommendation 5: Innovation Support
Rationale	For many Kosovar enterprises, shifting supply sources or investing in the development of higher MVA products is perceived as a high-risk and uncertain undertaking. Even where basic technical capabilities exist, firms often lack clarity on how to initiate structured innovation processes or how to translate ideas into viable investment projects. Innovation activities are frequently constrained by limited access to external expertise, weak linkages to research and knowledge providers, and insufficient internal resources to manage early-stage development. In addition, financial constraints significantly limit firms' ability to experiment with new technologies, processes, or product concepts. The absence of dedicated instruments to support early-stage innovation increases the perceived risk of failure and discourages companies, particularly small and medium-sized enterprises, from engaging in upgrading activities linked to higher value creation and domestic raw-material utilisation. To address these barriers, an integrated innovation support scheme should be established, combining Innovation Vouchers with a dedicated Innovation Matching Fund. These two instruments are complementary and should be implemented as part of a staged policy approach: innovation vouchers support the exploration and preparation phase of innovation activities, while the innovation fund supports the development and implementation of concrete innovation projects focussing on process and production innovation.
Objectives	The overarching objective of this intervention is to stimulate innovation-driven upgrading in Kosovo's productive sectors by reducing risk, strengthening access to expertise, and supporting the development of higher-MVA products and processes. More specifically, the proposed interventions aim to: ▪ encourage firms to initiate innovation activities related to new products, processes, and business models; ▪ support the use of domestic raw materials and semi-processed goods through innovative processing and product development; ▪ improve cooperation between enterprises (and research and technology organisations); ▪ reduce financial and technical barriers to early-stage innovation investments; ▪ promote collaborative innovation projects involving multiple firms or value-chain partners; and ▪ strengthen the overall innovation capacity and competitiveness of Kosovo's industrial sectors.
Implementation approach	The innovation support scheme should consist of two complementary instruments implemented in a phased and coordinated manner. 1. Innovation Voucher Scheme (entry-level instrument): Innovation vouchers should provide small, easily accessible grants that companies can use to purchase external knowledge and innovation services from accredited

providers, such as universities, research institutes, laboratories, or qualified consultants. Eligible services may include feasibility studies, product design, prototype development, testing, certification preparation, and technology assessments.

The voucher scheme should focus on helping firms clarify innovation ideas, assess technical and commercial feasibility, and prepare for subsequent investment. Administrative procedures should be simple and fast, with low co-financing requirements to encourage broad participation, particularly by SMEs. Priority should be given to projects that demonstrate potential for increased MVA and greater use of domestic raw materials or semi-processed inputs.

2. Innovation Matching Fund (development and implementation instrument)

An Innovation Matching Fund should support the development and implementation of innovative solutions related to MVA production and services within enterprises. This fund should co-finance investments in new technologies, production processes, and higher-value products, thereby reducing risk and encouraging firms to move from concept to market.

The fund should support both individual firm innovation projects, and collaborative projects involving partnerships between enterprises and research or knowledge organisations, or between multiple firms along the same value chain. Funding should be provided on a competitive basis, with clear selection criteria focused on innovation content, market potential, contribution to MVA growth, and increased utilisation of domestic raw materials. Co-financing requirements should ensure firm commitment while maintaining accessibility for SMEs.

The innovation voucher scheme and innovation matching fund should be implemented under a unified policy framework to ensure coherence and progression from idea generation to implementation. The implementation shall be done by an experience funding agency to assure smooth implementation of both schemes. Chambers of commerce, cluster organisations, and sector associations can act as outreach and awareness multipliers, informing firms about the instruments and encouraging participation. Monitoring and evaluation mechanisms should track outcomes such as the number of innovation projects initiated, partnerships formed, new products developed, and measurable increases in value added or domestic sourcing.

By lowering entry barriers to innovation and supporting market-oriented development, the scheme strengthens enterprise competitiveness, productivity, and long-term growth potential.

GOOD PRACTICE BENCHMARK

Western Balkans Innovation Voucher Scheme

The Western Balkans Innovation Voucher Scheme (WB IVS) can serve as a good practice implemented with EU support to stimulate collaboration between enterprises and research and knowledge providers across the Western Balkans. The scheme was part of the EU-funded POLICY ANSWERS project (*R&I POLICY making, implementation ANd Support in the WEsteRn BalkanS*), implemented by a consortium of 14 partners from the Western Balkans and EU expert organisations under the Horizon Europe programme, with funding and oversight provided by the European Commission (Grant Agreement No.

101058873)⁵⁷. The pilot programme was officially launched in April 2024, with a public call for applications open until 20 November 2024 (later extended).

The WB Innovation Voucher Scheme was designed as a low-threshold, demand-driven instrument to provide simple and direct financial incentives to small and medium-sized enterprises in the Western Balkans in order to initiate innovation activities and strengthen links between business and research institutions. Under the scheme, companies received small-value vouchers that could be used to purchase innovation-related services from eligible service providers such as public research organisations, universities, and accredited laboratories. These services included feasibility studies, proof-of-concept development, prototype design, laboratory testing, and technology assessments. The overarching objective was to lower entry barriers for firms to engage in innovation, enable access to external expertise, and foster innovation and knowledge transfer across the region, including contributions to the digital and green transition. 15 businesses were funded under this scheme.

A key strength of the scheme lied in its simple and flexible design. Eligible applicants are micro, small, and medium-sized enterprises registered in any of the six Western Balkan economies (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia), while eligible service providers were public research and R&D institutions from the region. Vouchers co-financed up to 80% of eligible service costs, typically up to a maximum amount of around EUR 8,000, making the instrument accessible even to firms with limited financial resources or innovation experience. Companies defined their own innovation needs and select appropriate knowledge providers, including cross-border partners, which encourages regional cooperation and knowledge exchange. Administrative procedures are intentionally light, approval cycles are short, and co-financing requirements are modest, ensuring high uptake potential among SMEs.

The scheme illustrates how early-stage innovation support can reduce risk, stimulate experimentation, and accelerate the transition toward higher-MVA production.

GOOD PRACTICE BENCHMARK

InvestBW (Germany)

A relevant European good practice example for the design of an Innovation Matching Fund is provided by Invest BW, the flagship innovation funding programme of the German federal state of Baden-Württemberg. Invest BW was launched in 2021 by the Ministry of Economic Affairs, Labour and Tourism as a central policy instrument to strengthen innovation capacity, technological upgrading, and industrial competitiveness, particularly among small and medium-sized enterprises⁵⁸. The programme was introduced in response to structural transformation challenges related to digitalisation, decarbonisation, and global competition and aims to reduce the financial risk of enterprise-driven innovation projects through public co-financing.

Invest BW operates as a competitive matching fund that supports applied research, development, and implementation of innovative products, processes, and business models. Funding is provided as non-repayable grants to individual firms or consortia of firms and research organisations. The programme focuses on projects with clear technological and market relevance, including pilot production, process innovation, and early market introduction rather than basic research. Both individual company projects and collaborative projects involving partnerships between enterprises and research institutions are eligible, strengthening cooperation between industry and the knowledge sector.

⁵⁷ <https://westernbalkans-infohub.eu/calls/western-balkans-innovation-voucher-scheme/>

⁵⁸ <https://invest-bw.de/>

The funding conditions are designed to ensure both accessibility and strong private-sector commitment. For individual innovation projects, grants of up to EUR 650,000 can be awarded, while collaborative projects involving multiple partners can receive up to EUR 1.3 million. Projects typically run for a maximum duration of 24 months. Co-financing rates depend on company size and vary from 45% for small business to 15% for large enterprises⁵⁹.

Priority is given to projects that contribute to higher Manufacturing Value Added, resource efficiency, sustainability, and technological upgrading in key industrial sectors such as manufacturing, mobility, materials, and energy. Transparent selection criteria are applied based on innovation content, economic impact, and contribution to regional development objectives. Applications are evaluated through an independent expert review process, ensuring credibility and quality.

Adapted to Kosovo's scale and institutional context, such a matching fund could play a critical role in moving companies from exploratory innovation supported by vouchers toward concrete investments in new technologies, products, and value-chain upgrading.

This model offers a robust and scalable reference for Kosovo, demonstrating how competitive matching funds can effectively de-risk innovation investments and accelerate industrial upgrading.

7.6. Recommendation 6: Investment Support for Machinery and Equipment

	Recommendation 6: Investment Support for Machinery and Equipment
Rationale	For many Kosovar companies, investing in modern machinery and production equipment is a critical precondition for moving toward higher MVA and for increasing the use of domestic raw materials. However, access to finance for such investments remains a major structural constraint, particularly for small and medium-sized enterprises. High upfront capital requirements, limited collateral, short loan maturities, and relatively high interest rates reduce firms' willingness and ability to undertake long-term productive investments. In addition, machinery investments linked to upgrading production processes or introducing higher-value products are perceived as risky, especially when firms shift supply sources or enter new market segments. Even when companies have viable business ideas and technical concepts, financial institutions often lack the sector-specific knowledge to adequately assess innovation-oriented or value-chain upgrading projects. As a result, potentially transformative investments are postponed or abandoned, reinforcing dependence on low-value production and imported inputs. To overcome these barriers, a targeted investment support mechanism focused on machinery and equipment for MVA-oriented production is required. Such an instrument would reduce financial risk for firms, leverage private investment, and accelerate technological upgrading in priority value chains.
Objectives	The overarching objective of this intervention is to enable Kosovar enterprises to invest in modern production machinery and equipment that supports MVA and greater utilisation of domestic raw materials. More specifically, the intervention aims to:

⁵⁹ <https://invest-bw.de/innovation/foerderkonditionen>

	▪ facilitate access to finance for machinery and equipment investments linked to MVA-oriented upgrading; ▪ encourage the adoption of modern, efficient, and higher-quality production technologies; ▪ support diversification into higher-value products and processes; ▪ reduce dependency on imported intermediate goods by strengthening domestic processing capacities; ▪ improve productivity, product quality, and compliance with market and certification requirements; and ▪ strengthen the competitiveness and resilience of Kosovar manufacturing firms.
Implementation approach	A dedicated Machinery Investment Support Scheme should be established as a co-financing instrument to support companies undertaking investments in equipment directly linked to higher MVA production and domestic value-chain development. The scheme should operate on a competitive and demand-driven basis, with clear eligibility and selection criteria aligned with national industrial and export strategies. Support may be provided through a combination of: ▪ investment grants to co-finance part of the machinery purchase costs, and/or ▪ risk-sharing instruments (e.g. interest rate subsidies, partial guarantees, or blended finance mechanisms) implemented in cooperation with commercial banks or development finance institutions. Priority should be given to projects that demonstrate a clear link to: ▪ increased use of domestic raw materials or semi-processed inputs; ▪ production of higher value-added or differentiated products; ▪ measurable productivity and quality improvements; and ▪ potential for job creation and export growth. To ensure effective targeting and sustainability, beneficiary firms should be required to submit simple but robust investment and business plans demonstrating technical feasibility, market potential, and contribution to MVA. Co-financing by firms should be mandatory to ensure commitment and leverage private investment.

Overall, this recommendation aims to unlock productive investment, accelerate technological upgrading, and anchor higher-MVA production within Kosovo's manufacturing base.

GOOD PRACTICE BENCHMARK

Machinery and Equipment Investment Support (Croatia)

A relevant example of targeted machinery and equipment investment support is provided by Croatia's investment incentive framework, which combines EU structural funds and national co-financing instruments to subsidise productive investments by enterprises, including acquisition of new production machinery and equipment. These schemes are part of Croatia's broader strategy to modernise industrial capacity, diversify production, and strengthen competitiveness, including in value-added manufacturing segments.

Under Croatia's investment support regime, companies can access non-repayable grants for capital expenditures such as the purchase of new machinery and technological equipment as part of broader investment projects. Support is often conditional on specific criteria that align with value-added objectives: a required minimum share of the investment must be allocated to machinery and high-technology

equipment, and investments must demonstrate contributions to productivity, quality upgrading, or structural modernisation.

Funding intensity: Grants are provided as a percentage of eligible investment costs. For example, firms may receive 10–20 % of eligible capital costs as non-repayable support, with higher allowances for priority regions or strategic technologies. **Maximum amounts:** Support can reach up to EUR 1 million for standard investments where at least 40 % of the project consists of machinery and equipment costs; in higher-priority regions or with greater machinery shares, the maximum may increase to EUR 2 million. **Eligibility conditions:** Applicants must demonstrate that machinery purchases represent a substantive part of the total investment (e.g. minimum 40 % of total project costs) and that at least half of the machinery is classified as high-technology equipment.

These schemes typically co-exist with broader EU-funded programmes and recovery plan measures that also subsidise industrial modernisation, digitalisation, and productivity enhancements. For instance, Croatia’s Recovery and Resilience Plan has dedicated support for industrial investments with significant grant budgets channelled through competitive calls, indicating a strategic alignment between EU funding and national investment incentives.

A key strength of the Croatian approach is its integration of machinery investment support with productivity and technology criteria, encouraging firms not only to expand capacity but to upgrade technological intensity and value-added output. This helps firms invest in modern, efficient equipment that enables higher-value manufacturing processes, while aligning with regional and EU priorities on competitiveness and innovation.

As such, the Croatian model provides a highly relevant reference for the design of Kosovo’s Machinery Investment Support Scheme.

7.7. Recommendation 7: Setting-up an internationally recognised conformity assessment system

	Recommendation 7: Setting-up an internationally recognised conformity assessment system
Rationale	The national conformity assessment system of the Republic of Kosovo is currently not internationally recognised, which constitutes a significant structural disadvantage for export-oriented industries. This limitation affects not only the metal manufacturing sector but also a wide range of other sectors with export potential, including construction materials, plastics, food processing, and electrical products. Without internationally recognised conformity assessment and accreditation, Kosovar products often require additional testing and certification in foreign markets, increasing costs, prolonging market entry, and reducing competitiveness. Despite previous donor-supported initiatives aimed at strengthening the national quality infrastructure, the Kosovo General Accreditation Directorate (DAK) remains an associate member of the EA rather than a full member. In contrast, key competitor economies in the region—such as Serbia and North Macedonia—have already established internationally recognised conformity assessment systems aligned with European and international standards. This places Kosovo at a relative disadvantage in regional and EU markets. Establishing an internationally harmonised conformity assessment system is not merely a technical reform but a strategic economic measure

	to remove non-tariff barriers to trade, support industrial upgrading, and improve Kosovo's credibility in international markets.
Objectives	The overarching objective of this intervention is to establish a nationally credible and internationally recognised conformity assessment and accreditation system aligned with European and international standards. More specifically, the intervention aims to: ▪ achieve full membership of the DAK in the EA and accession to the EA Multilateral Agreement (EA MLA); ▪ strengthen the institutional, technical, and operational capacity of DAK in line with EA and ISO/IEC requirements; ▪ improve the reliability, transparency, and international acceptance of conformity assessment results issued in Kosovo; ▪ reduce technical barriers to trade for export-oriented enterprises; ▪ lower certification and testing costs for domestic companies by enabling local conformity assessment services; and ▪ support industrial competitiveness and integration into European and regional markets.
Implementation approach	The DAK currently holds Associate Member status in the EA but is not yet a signatory to the EA MLA. Consequently, conformity assessment results issued by bodies accredited in Kosovo are not internationally recognised. To achieve EA MLA membership, DAK must demonstrate full compliance with ISO/IEC 17011 and EA procedural requirements through a formal peer evaluation process. Progress to date has been fragmented and lacks a structured, time-bound implementation framework. A first step should be a formal political mandate from the Government of Kosovo designating EA MLA accession as a national priority and ensuring stable financial and institutional support for DAK. This should be followed by a comprehensive gap analysis against EA and ISO/IEC requirements, ideally conducted in cooperation with an EA full member accreditation body. The results of this assessment should feed into a national EA MLA Roadmap and Action Plan defining concrete corrective measures, responsibilities, timelines, and performance indicators. Targeted capacity building is required to strengthen DAK's organisational and technical capabilities. This includes training staff and assessors, upgrading internal quality management systems, and expanding the pool of qualified technical assessors in priority industrial sectors. In parallel, the legal and regulatory framework for accreditation should be reviewed and aligned with EU and EA requirements to ensure institutional independence and long-term sustainability. Close cooperation with national conformity assessment bodies and industry associations is essential to ensure that accreditation services respond to market needs and gain private-sector support. Adequate public funding and coordinated donor assistance should be secured to cover peer evaluation costs, training, and system upgrades. Through this structured and phased approach, DAK can progress from associate to full EA MLA membership, enabling international recognition of Kosovo's conformity assessment system, reducing technical barriers to trade, and strengthening the competitiveness of Kosovo's export-oriented industries.

By securing international recognition of conformity assessment, the intervention will significantly enhance export competitiveness, reduce market entry costs, and accelerate industrial upgrading.

GOOD PRACTICE BENCHMARK
Accreditation Body of Montenegro

Montenegro provides a relevant regional good practice through the development of its Accreditation Body of Montenegro (ATCG)⁶⁰, which successfully achieved EA MLA signatory status in 2023⁶¹. ATCG was established as a national accreditation authority in 2015. In October 2023, ATCG successfully became a full signatory to the European co-operation for Accreditation Multilateral Agreement (EA MLA). This milestone signifies that ATCG’s accreditation system has been found in compliance with EA and ISO/IEC requirements across key accreditation areas — including testing (EN ISO/IEC 17025, including medical examinations EN ISO 15189), calibration, inspection (EN ISO/IEC 17020), and product certification (EN ISO/IEC 17065).

A key success factor in Montenegro’s approach was the adoption of a clear national roadmap for accreditation reform, supported by strong political commitment and sustained public funding. ATCG implemented a structured capacity-building programme that focused on strengthening internal quality management systems, developing a pool of qualified technical assessors, and ensuring impartial and transparent decision-making processes. Legal and regulatory alignment with EU quality infrastructure legislation was also prioritised, ensuring institutional independence and long-term sustainability. ATCG benefited from international cooperation and peer mentoring with established EA MLA signatory accreditation bodies from EU Member States. This included staff exchanges, joint training activities, and preparatory peer evaluations (“mock assessments”) prior to the formal EA evaluation. These measures allowed ATCG to systematically identify gaps, address non-conformities, and progressively meet EA requirements.

Once corrective actions were implemented, ATCG underwent a formal EA peer evaluation and successfully became a signatory to the EA Multilateral Agreement. As a result, conformity assessment bodies accredited in Montenegro gained international recognition, enabling Montenegrin products and services to access EU and regional markets without additional testing or certification. This significantly reduced technical barriers to trade and strengthened the competitiveness of export-oriented sectors such as construction materials, food testing, and industrial products. The Montenegrin case demonstrates that even a small economy can establish an internationally recognised conformity assessment system through a combination of legal alignment, institutional strengthening, international mentoring, and sustained political support.

For Kosovo, this experience provides a concrete and highly relevant roadmap for achieving EA MLA membership and establishing a credible, internationally recognised conformity assessment system.

7.8. Recommendation 8: Streamline and Strengthen the Export Promotion Support Landscape

	Recommendation 8: Streamline and Strengthen the Export Promotion Support Landscape
Rationale	Many Kosovar enterprises have already entered international markets and established partnerships with foreign buyers. Export activity remains one of the key drivers

⁶⁰ <https://akreditacija.me/en/index.php>
⁶¹ <https://european-accreditation.org/atcg-becomes-an-ea-mla-signatory/>

	of sustainable growth and industrial upgrading. Nevertheless, despite existing export efforts, there is substantial untapped potential to further increase the number of exporting firms and to diversify export destinations and product portfolios. The long-term objective should be to establish framework conditions that systematically support internationalisation, rather than relying on isolated, donor-driven initiatives. At present, the export promotion landscape in Kosovo is fragmented and insufficiently coordinated. Although the Government has appointed institutions such as the Kosovo Investment and Enterprise Support Agency (KIESA) to promote internationalisation, existing measures are not part of a coherent national export promotion strategy. Support instruments remain largely traditional in nature and do not adequately address the complex needs of firms seeking to enter or expand in foreign markets. In addition, Kosovo lacks dedicated financial instruments to support export activities. Unlike many neighbouring and EU countries, Kosovo does not offer export-oriented loans, pre-financing mechanisms, or export credit insurance schemes that protect firms against non-marketable risks related to foreign transactions and investments abroad. This represents a significant barrier, particularly for small and medium-sized enterprises with limited financial capacity. Effective export promotion requires an integrated approach that covers the full internationalisation cycle: identification of promising target markets, business-to-business matchmaking with international buyers, access to finance for export-related investments, and capacity building for firms with high export potential.
Objectives	The overarching objective of this intervention is to establish a coherent and effective export promotion framework that enables Kosovar enterprises to enter and expand in international markets in a sustainable manner. More specifically, the intervention aims to: ▪ increase the number of exporting enterprises and the volume and diversity of Kosovo's exports; ▪ strengthen institutional coordination and strategic alignment of export promotion activities; ▪ provide firms with integrated support covering market intelligence, partner identification, and access to finance; ▪ reduce financial and risk-related barriers to internationalisation, particularly for SMEs; ▪ strengthen the role and capacity of KIESA as the central export promotion agency; ▪ enhance Kosovo's international visibility and reputation as a competitive manufacturing and sourcing location; and ▪ mobilise diaspora networks as strategic partners for market entry and business development.
Implementation approach	There are strategic documents that <i>include export-related objectives</i>, but an integrated, dedicated export promotion strategy has not been adopted in the way many other countries structure (and regularly update) their export frameworks. E. g. the Kosovo's Strategy for Industrial Development and Business Support 2030 includes export promotion as part of broader competitiveness and industrial policy goals, but it is not framed as a national export promotion strategy in its own right; it covers export aspects among other priorities. KIESA maintains export promotion services, including

market assistance, export events, and business matchmaking, but these operate within fragmented programmes rather than under a consolidated export strategy.

KIESA should be strengthened as the lead implementing institution for export promotion. This includes upgrading its operational capacities, expanding its service portfolio, and positioning it as a proactive facilitator of internationalisation rather than solely an information provider. Core services should include market intelligence, export readiness assessments, B₂B matchmaking, and coordination of Kosovo's participation in international trade fairs and business missions.

A dedicated set of financial instruments for export promotion should be introduced, such as:

- preferential loans or guarantee schemes for export-related investments and working capital,
- export pre-financing facilities for firms with confirmed international orders, and
- export credit insurance mechanisms to protect firms against non-commercial and political risks in foreign markets.

These instruments should be targeted primarily at firms with high export potential and aligned with strategic priority sectors.

In parallel, structured capacity-building programmes should be implemented to support firms in preparing for international markets. This includes training on export regulations, quality standards, logistics, contract management, and international marketing. Chambers of commerce and sector associations should be engaged as delivery partners and awareness multipliers.

Regular and coordinated participation in international trade fairs should be organised under a unified “Made in Kosovo” or sector branding umbrella, supported by a professional communication and branding strategy. This should be complemented by stronger engagement with diaspora business networks as entry points into foreign markets and as facilitators of trust-based business relationships.

Finally, monitoring and evaluation mechanisms should be established to track performance indicators such as number of supported exporters, export growth, new market entries, and return on public investment. This will ensure accountability, continuous learning, and long-term sustainability of the export promotion system.

Overall, this recommendation aims to establish a coherent, well-coordinated export promotion ecosystem that systematically supports enterprise internationalisation, export diversification, and long-term industrial competitiveness.

GOOD PRACTICE BENCHMARK

Export promotion models from Slovenia, Croatia, Serbia, and North Macedonia

The following benchmarking highlights different institutional and policy approaches to supporting internationalisation, reflecting varying levels of strategic maturity, financial depth, and organisational integration.

Slovenia's SPIRIT⁶² model represents a highly integrated and strategic approach to export promotion. It is characterised by a strong national export and internationalisation strategy, a single centralised institution with a clear mandate, and a broad portfolio of services ranging from market intelligence to

⁶² <https://www.sloveniabusiness.eu/about-us>

matchmaking and coordinated trade fair participation. While financing tools are not its primary focus, SPIRIT operates in close cooperation with Slovenia's export and development bank to provide access to credit and guarantees. The key strength of this model lies in its coherence and professionalism, ensuring that export promotion is treated as a long-term public policy function rather than a collection of isolated initiatives⁶³.

Croatia's HAMAG-BICRO⁶⁴ framework places comparatively stronger emphasis on financial instruments to support companies' international expansion. Export promotion is closely linked with innovation and investment support, offering guarantees, loans, and grant schemes that help firms finance export-related investments and manage risk. While strategic export planning exists, the Croatian approach is more decentralised and programme-driven, with a focus on leveraging financial incentives to stimulate competitiveness and market entry. This model is particularly effective in addressing access-to-finance constraints faced by SMEs.

Serbia's Development Agency (RAS)⁶⁵ illustrates a model that is strongly embedded within government structures and national industrial policy. Export promotion is closely aligned with broader economic diplomacy and investment promotion efforts, benefiting from direct integration with ministries and foreign trade representations. RAS combines strategic export objectives with extensive market intelligence and business matchmaking services, making it effective in identifying and supporting priority sectors and target markets⁶⁶. This model demonstrates how export promotion can be institutionalised within the state apparatus to ensure policy coherence and visibility.

North Macedonia's⁶⁷ approach is more recent and still evolving. It focuses strongly on market intelligence, export readiness assessments, and matchmaking activities for SMEs, while financing instruments and institutional leadership structures remain under development. The model relies more heavily on project-based initiatives and donor-supported programmes, reflecting a transitional stage toward a more consolidated export promotion system. Nevertheless, its emphasis on SME engagement and diaspora networks provides valuable lessons for smaller economies with limited institutional capacity.

Taken together, these models show that effective export promotion can follow different pathways: Slovenia demonstrates the value of a centralised and strategic institutional model; Croatia highlights the importance of financial instruments; Serbia shows the benefits of strong government integration; and North Macedonia illustrates a gradual, capacity-building approach. For Kosovo, the Slovenian SPIRIT model offers the most comprehensive benchmark,

Taken together, these good practice examples provide a robust and transferable reference framework for Kosovo, demonstrating how integrated policy design, strong institutional leadership, targeted financial instruments, and coordinated support mechanisms can effectively drive industrial upgrading, innovation, export competitiveness, and higher-MVA production.

GOOD PRACTICE BENCHMARK

SPIRIT Slovenia

A highly relevant European good practice example for Kosovo is SPIRIT Slovenia (Public Agency for Entrepreneurship, Internationalisation, Foreign Investments and Technology)⁶⁸, which serves as Slovenia's central institution for export promotion and internationalisation. SPIRIT operates within a coherent

⁶³ <https://www.gov.si/en/topics/international-economic-cooperation>

⁶⁴ <https://en.hamagbicro.hr/>

⁶⁵ <https://ras.gov.rs/en>

⁶⁶ <https://www.mfa.gov.rs/en/ministry/organisational-structure/sektor-za-ekonomsku-diplomatiju/odsek-za-promociju-izvoza>

⁶⁷ <https://investnorthmacedonia.gov.mk/export-promotion/>

⁶⁸ <https://www.sloveniabusines.eu/about-us>

national export and internationalisation strategy and provides integrated support to companies across the entire export cycle – from market intelligence and partner search to trade fair participation and financial instruments.

SPIRIT Slovenia functions as a single coordinating body for export promotion, ensuring alignment between government policy, business needs, and international markets. Its services include export readiness assessments, identification of priority target markets, organisation of business delegations and B₂B matchmaking events, and coordinated national participation in major international trade fairs under a unified “Made in Slovenia” branding strategy. This integrated approach reduces fragmentation and ensures that firms receive consistent and professional support.

A key strength of the Slovenian model is the combination of non-financial and financial export promotion instruments. In cooperation with SID Bank (Slovenian Export and Development Bank), SPIRIT supports access to export financing, guarantees, and insurance instruments that help companies manage risks related to foreign transactions and investments abroad. This allows Slovenian SMEs not only to identify export opportunities but also to finance market entry and expansion, which is often a decisive bottleneck for small firms.

SPIRIT Slovenia also places strong emphasis on market intelligence and strategic targeting. It regularly produces sector-specific market studies, export opportunity analyses, and country profiles that guide firms toward promising markets. These analytical tools are complemented by training programmes on internationalisation, export regulations, and contract management, ensuring that companies are prepared both strategically and operationally.

Furthermore, SPIRIT actively mobilises networks and partnerships, including chambers of commerce, sector associations, and diaspora business communities, to support international market access. This network-based approach strengthens trust-building with foreign partners and improves Slovenia’s visibility as a competitive manufacturing and sourcing location.

The Slovenian model demonstrates how export promotion can be institutionalised as a systemic and long-term policy function, rather than a collection of isolated projects. By combining strategy, institutional leadership, integrated services, and financial instruments, SPIRIT has contributed to Slovenia’s strong export performance and high share of exporting SMEs.

Key transferable elements include centralised institutional leadership, integration of financial and non-financial instruments, strategic market intelligence, and strong branding under a unified national export identity.

CONCLUSIONS

8

8. Conclusions

This report demonstrates that Kosovo's most realistic and impactful pathway toward stronger industrial competitiveness lies in **increasing manufacturing value added (MVA) and deepening the use of domestic raw materials**, particularly in mid- and downstream segments of selected value chains. Across advanced building joinery, agri-food processing, and wood-based products, value creation is driven less by raw-material extraction and more by **design, precision processing, system integration, certification, and market positioning**. The analysis confirms that Kosovo already possesses the core production capabilities and market access conditions required to upgrade,

In order to move towards more MVA products **upgrading efforts needs investments in capital, skills, certification, inputs, and supplier networks**. MVA products such as windows, prefabricated construction, and plastics require significant capital investment and production digitalisation, while consumer- and agro-based products such as sofas, ajvar, MAPs, and wine depend more strongly on quality differentiation, branding, and improved processing depth. At the same time, certification plays a dual role across all sectors - as a mandatory market access condition in construction and food industries, and as a strategic differentiation tool in higher-end and sustainability-driven markets.

The set of recommendations presented forms a coherent and mutually reinforcing policy framework to support Kosovo's transition toward **higher MVA, stronger utilisation of domestic raw materials, and improved international competitiveness**. Together, they address the key structural bottlenecks identified along the value chain: limited awareness of MVA opportunities, skills shortages, weak intermediary structures, insufficient innovation and investment finance, gaps in quality infrastructure, and fragmented export promotion support.

Awareness-raising measures are essential to shift business perceptions and establish MVA and domestic resource utilisation as strategic competitiveness drivers rather than technical side issues. **Skills development**, implemented through targeted instruments such as skills vouchers, will ensure that firms can access the specialised competencies required for higher-value production. **Strengthening clusters and sector associations** will create durable platforms for cooperation, matchmaking, and collective upgrading, while supplier–processor networks will improve coordination, trust, and reliability along domestic value chains.

Innovation support through a staged approach combining innovation vouchers and an innovation matching fund will reduce risk and guide firms from early experimentation to concrete implementation of higher-value products and processes. **Investment support for machinery and equipment** will tackle one of the most binding constraints to upgrading by enabling firms to modernise production capacities and move into more sophisticated market segments. The **establishment of an internationally harmonised conformity assessment system**, centred on supporting DAK toward EA MLA membership, will remove a critical non-tariff barrier to exports and strengthen trust in Kosovo's industrial quality infrastructure. Finally, a **streamlined and modern export promotion system**, inspired by good practice such as SPIRIT Slovenia, will ensure that firms are supported throughout the full internationalisation cycle, from market intelligence and matchmaking to financing and branding.

Implementation should follow a phased and coordinated approach. In the short term, priority should be given to **measures with high signalling and catalytic impact**: awareness campaigns, skills vouchers, and the preparation of strategic roadmaps for clusters, innovation support, export promotion, and DAK's EA MLA accession. These actions will establish direction, build momentum, and mobilise stakeholders.

In the medium term, dedicated financial instruments should be rolled out, including innovation matching funds, machinery investment support schemes, and export financing tools. These instruments must be

closely aligned with sector priorities and embedded within existing institutions such as KIESA, chambers of commerce, and cluster organisations to avoid fragmentation.

In the longer term, institutional reforms—particularly the achievement of EA MLA membership and the consolidation of a national export promotion strategy—will provide the structural foundations for sustainable industrial upgrading. Continuous monitoring and evaluation should track outcomes in terms of increased MVA, higher domestic sourcing, export growth, and firm-level productivity gains.

Overall, Kosovo's path forward is not based on isolated interventions but on **building an integrated policy ecosystem** that links awareness, skills, innovation, finance, quality infrastructure, and market access. By adopting this coordinated approach and learning from regional and EU good practices, Kosovo can progressively move up value chains, strengthen its industrial base, and position itself as a credible and competitive manufacturing location in regional and European markets.

ANNEXES

9

9. Annexes

Annex 1: List of documents Reviewed

No.	Document Title
1	Strategy for Industrial Development and Business Support (SIDBS) 2030
2	SIDBS 2030 Action Plan 2023–2025
3	National Development Strategy and Plan (NDSP) 2030
4	Manufacturing Industry – Sector C Report
5	Spotting Products with Export and Import Replacement Potential
6	Food & Beverages Value Chain Study
7	Chemical Processing Value Chain Study
8	Metal Processing Value Chain Study
9	Plastics Industry Value Chain Study
10	Non-Metallic Mineral Products Sector – Value Chain Study
11	Wood Furniture Sub-sector – Value Chain Analysis
12	Wood Construction Materials Sub-sector – Value Chain Analysis
13	National Strategy on Agriculture and Rural Development (MAFRD)
14	Policy and Strategy on Forestry Development in Kosovo 2022-2030
15	Mining Strategy of the Republic of Kosovo 2012 – 2025
16	Energy Strategy of the Republic of Kosovo 2022 – 2031

Annex 2. Data Sources and Methodological Framework

This annex outlines the data sources and analytical methodology applied under Task 2. It explains how quantitative trade data, existing sector studies, and qualitative inputs were combined through a stepwise analytical framework to identify priority product groups with potential for increased manufacturing value added (MVA) and import substitution in Kosovo.

DATA SOURCES

The analysis is based on a combination of primary and secondary data sources. The core quantitative input consists of official import and export statistics at the six-digit Harmonized System (HS-6) level. These data were obtained primarily from the Kosovo Agency of Statistics (KAS) and Kosovo Customs, ensuring consistency with national reporting and policy use.

Where gaps or cross-checks were required, the analysis was complemented with international trade databases, notably UN Comtrade and ITC Trade Map, allowing Kosovo's trade structure to be benchmarked against regional and global trends. The reference period for the quantitative analysis covers 2019–2024, capturing both pre- and post-pandemic trade dynamics.

In addition to trade data, the analysis draws on existing sectoral and value-chain studies previously commissioned by MIET, including earlier industrial policy diagnostics and studies on products with export and import potential. These sources provide contextual insights on sector structure, production capabilities, resource availability, and technology intensity, ensuring continuity with earlier analytical work and avoiding duplication.

Qualitative inputs were incorporated through expert judgement and stakeholder consultations, particularly to assess scalability, feasibility, and value-chain positioning where quantitative data alone were insufficient.

ANALYTICAL FRAMEWORK

The methodology follows a **sequential, funnel-based approach** that progressively narrows the full universe of traded manufacturing products to a focused set of priority product groups. The approach combines quantitative screening with expert refinement to ensure both analytical rigor and practical relevance.

Stage 1: Parallel Import and Export Screening

The analysis began with a comprehensive assessment of all manufacturing products traded at the HS-6 level, without excluding any categories at the initial stage. Import values were examined to identify the top 150 most imported products across manufacturing sectors, highlighting areas of strong external dependence and potential scope for domestic upgrading.

In parallel, export values and growth rates were analysed to identify products where Kosovo already demonstrates a presence in foreign markets. This parallel assessment ensured that both import relevance and export performance were considered simultaneously, avoiding bias toward either import-heavy or export-oriented products.

To quantify trade dependence, the Import Dependency Ratio (IDR) trade proxy was calculated for each HS-6 product. The IDR is defined as the ratio of imports to total trade (imports plus exports) and serves as a proxy indicator for reliance on foreign supply in the absence of detailed production statistics. Products with extremely high or extremely low IDR values were treated with caution, as they typically indicate either structural import dependence or already export-dominated segments with limited scope for further substitution.

Stage 2: Revealed Comparative Advantage (RCA)

In the second stage, RCA was calculated using the same trade series to assess Kosovo’s relative export competitiveness. RCA values were computed over multiple years to distinguish between structural competitiveness and short-term fluctuations. RCA values greater than one were interpreted as indicating export specialisation, while lower values suggested limited competitiveness.

This step builds directly on methodologies used in previous MIET studies, ensuring consistency and comparability of results.

Stage 3: Competitiveness Matrix and Global Demand Trends

To complement IDR and RCA, the analysis incorporated export growth rates and global demand trends, represented by changes in world import volumes and compound annual growth rates. These indicators were combined in a competitiveness (Bethesda) matrix, allowing products to be classified according to both current performance and future potential.

This step ensured that shortlisted products operate in markets with stable or growing international demand, particularly those aligned with EU policy priorities such as green construction, industrial efficiency, and sustainable materials.

SHORTLISTING AND EXPERT REFINEMENT

The initial screening produced a longlist of **198 HS-6 product categories**, which was subsequently narrowed using additional quantitative filters. Products were required to:

- Fall within an **IDR range of 10–90%**, indicating balanced scope for import substitution or export scaling;
- Show **stable or growing global demand**; and
- Exceed **€1 million in annual exports**, used as a proxy for existing production capacity in the absence of detailed manufacturing data.

This reduced the list to approximately 65 product categories. A further refinement step was then applied to exclude products outside the scope of the study or with limited scalability (e.g. mineral water, paper cones). This expert refinement was used strictly to assess **production feasibility, scalability, and value-added potential**, and did not override the underlying trade-based ranking.

Using five-year trade indicators (IDR, RCA, export growth), the shortlist was further reduced to **45 product categories**, which were then **clustered into eight composite product groups**. Clustering was applied where products shared similar production processes, value chains, and end markets, allowing the analysis to move beyond individual tariff lines toward strategically relevant manufacturing segments.

These eight composite groups were presented and validated during the **Task 2 stakeholder workshop (5 November 2025)**, providing an additional layer of practical validation.

SELECTION OF PRIORITY PRODUCT GROUPS

Based on the quantitative funnel and stakeholder feedback, **three priority product groups** were selected for in-depth analysis. Selection was guided by a multi-criteria assessment covering:

Scalability (30%)	Global Demand (20%)	Trade Access & Trade Related Affairs (10%)	Manufacturing Value-Added (MVA) Uplift Potential (30%)	Domestic Resource Anchoring & Import Substitution (10%)
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The prioritisation reflects Kosovo's strongest opportunities to move up value chains within existing manufacturing activities rather than pursuing greenfield industrialisation. The resulting product groups form the analytical core of Section 7 and underpin the policy recommendations presented in the final chapters of the report.

METHODOLOGICAL LIMITATIONS

The analysis relies on trade data as a proxy for production structure due to the absence of detailed, product-level manufacturing statistics in Kosovo. While this approach is widely used in industrial diagnostics, it may understate domestic production and does not capture firm-level productivity differences. For this reason, quantitative screening was systematically complemented by expert judgement and stakeholder validation to ensure policy relevance and feasibility.

Annex 3: Future Measurement Toolkit

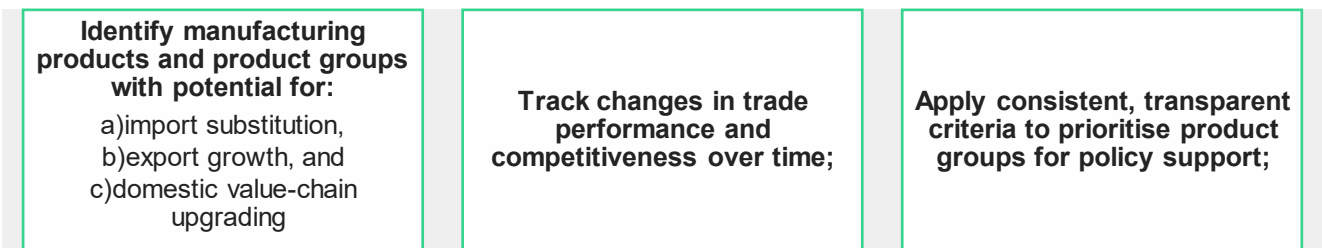
I. PURPOSE

This annex presents the tools developed under the assignment. The toolkit provides MIET with a replicable, open, and updateable analytical framework that enables continuous monitoring, prioritisation, and assessment of manufacturing products and value chains over time.

Rather than serving only the needs of this study, the tools are designed as a permanent analytical asset that can be reused and expanded in future policy cycles, sector studies, and industrial strategy updates.

II. OBJECTIVE AND SCOPE

The objective of the toolkit is to support evidence-based industrial policy implementation by linking product-level trade performance with manufacturing value added (MVA), domestic resource utilisation, and export competitiveness. Specifically, the toolkit enables MIET to:



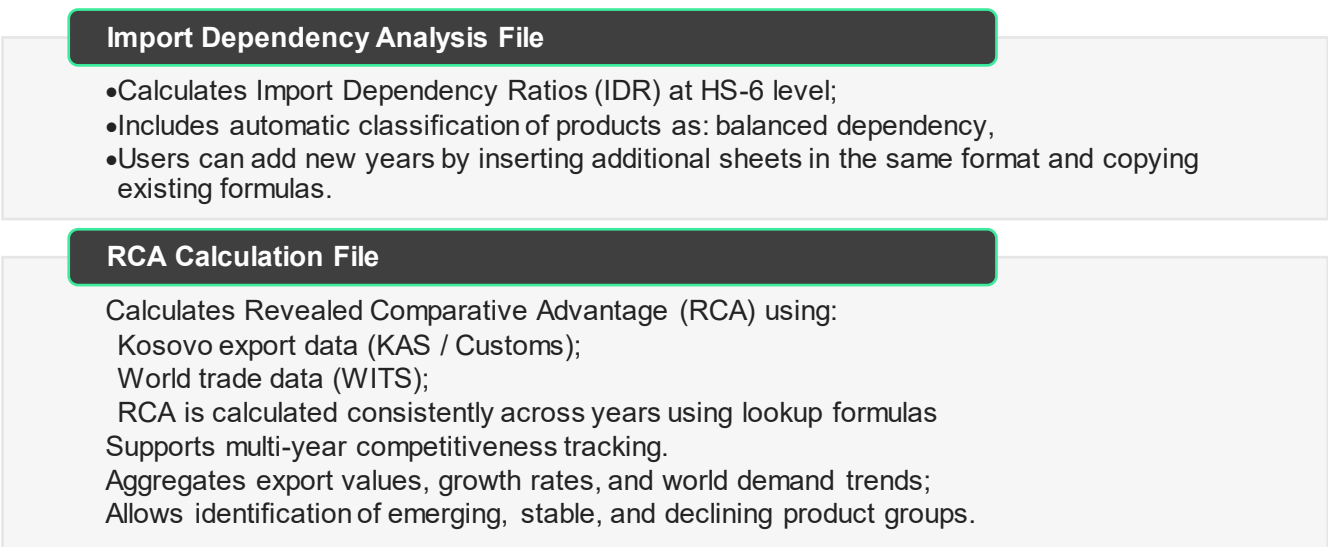
The toolkit operates primarily at the HS six-digit level, with structured transitions to NACE Rev. 2 and classifications to ensure policy relevance and compatibility with industrial statistics and support instruments.

III. STRUCTURE OF THE TOOLKIT

a. Analytical Files (Open Excel-Based Tools)

The toolkit includes a set of open Excel files that serve as the core data infrastructure for product-level analysis. These files are designed to be updated annually without changing their internal logic.

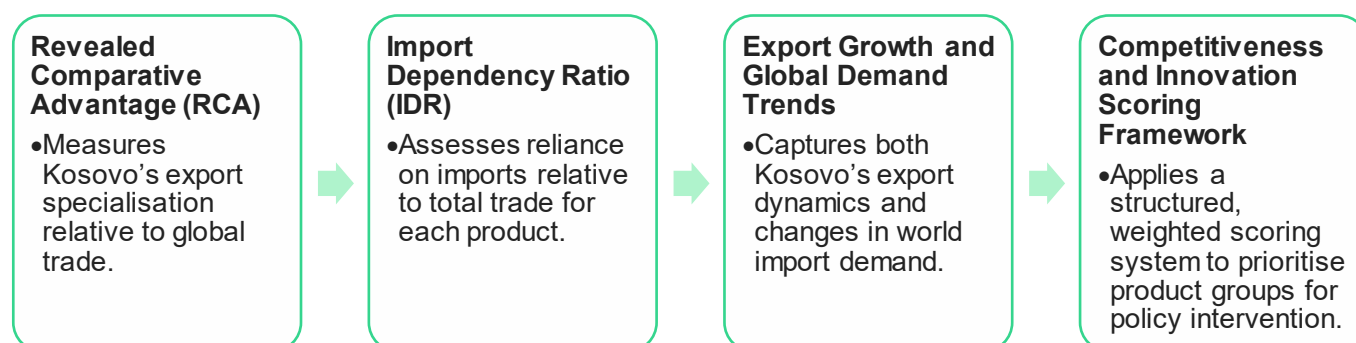
Key analytical files include:



Each year is recorded in a separate sheet, ensuring transparency and ease of updates. New HS codes or emerging product categories can be added without restructuring the files.

b. Measurement Methods and Indicators

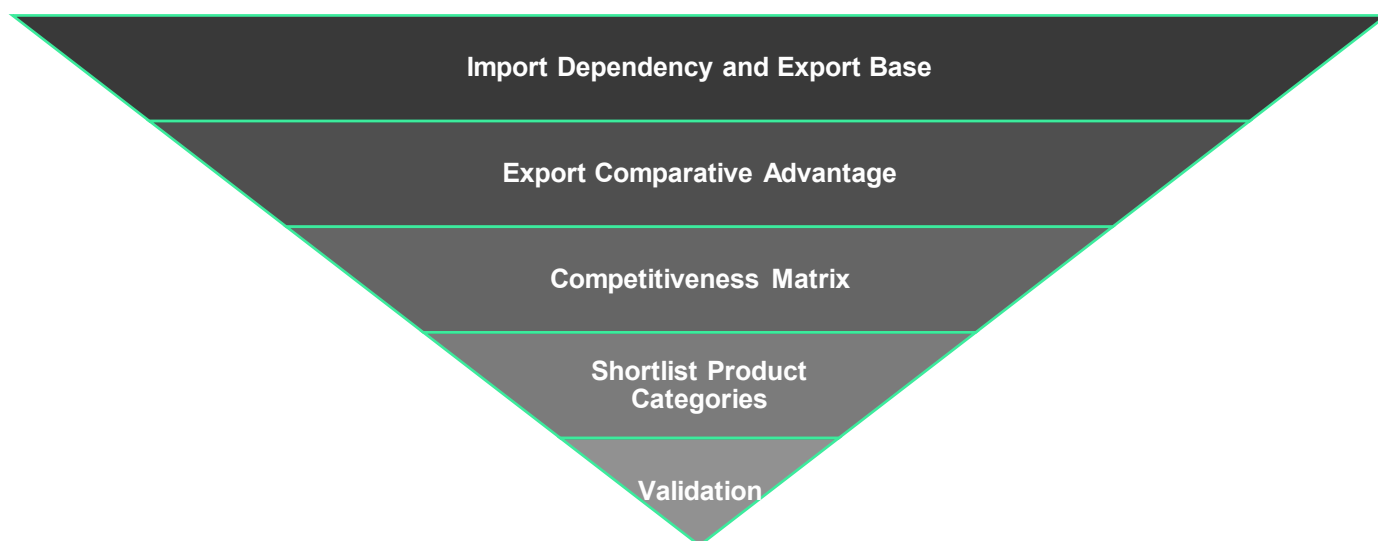
The toolkit standardises a set of **core indicators** used throughout the study and intended for future monitoring:



These indicators are designed to be **mutually reinforcing**, allowing MIET to move from raw trade data to strategic industrial insights.

c. Product Selection and Prioritisation Framework

The tools include a stepwise product-selection methodology that translates quantitative trade analysis into actionable policy priorities. The process follows a funnel logic:



Initial Screening (HS-6 level): Based on RCA, IDR, export value, export growth, and global demand.

Clustering into Composite Product Groups: Closely related HS-6 products are grouped based on:

- production processes,
- value-chain structure,
- end markets.

Weighted Scoring System for Shortlisting: Each product group is assessed using five criteria:

Scalability (30%)	Global Demand (20%)	Trade Access & Trade Related Affairs (10%)	Manufacturing Value-Added (MVA) Uplift Potential (30%)	Domestic Resource Anchoring & Import Substitution (10%)
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Each criterion is scored on a **three-level scale** (+ / ++ / +++), ensuring consistency and comparability across sectors.

d. Expert Validation and Stakeholder Review

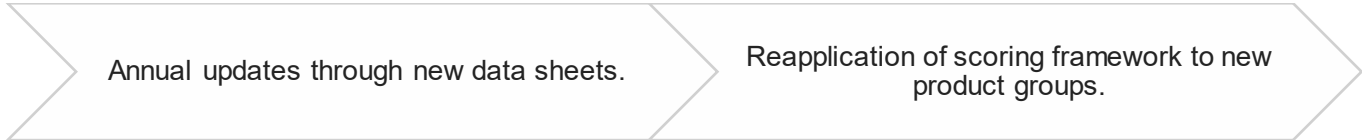
Quantitative results are validated through consultations with:

- industry associations,
- firms,
- public institutions,
- development partners.

This framework allows MIET to **repeat the prioritisation exercise** whenever new data, products, or policy priorities emerge.

IV. IMPLEMENTATION AND UPDATES

The toolkit is designed to be implemented and expanded **iteratively: FUTURE USE.**



Annex 4: Executive Summary of the Trade Environment Analysis for Priority Product Categories in Kosovo

This report assesses the export environment for Kosovo's short-listed product categories (NACE Rev.2, 4-digit) and their representative derivative products, identified under Task 2, examining whether existing trade agreements provide commercially usable market access and where remaining constraints affect competitiveness. The analysis focuses on three product clusters: **Advanced Building Joinery**, **Wood Products and Furniture**, and **Food Processing**. It evaluates how these products perform under Kosovo's key trade frameworks: the EU–Kosovo Stabilisation and Association Agreement (SAA), CEFTA 2006, the Turkey–Kosovo Free Trade Agreement, and the recently signed EFTA–Kosovo Free Trade Agreement.

Together, these agreements provide Kosovo with near-universal tariff-free access to its priority export markets, including the EU, neighboring Western Balkan economies, Turkey, and high-income EFTA countries. Across all three product categories, tariffs are not a binding constraint. The principal determinants of export viability are instead the ability of firms to meet applicable **rules of origin**, comply with **non-tariff measures** (technical standards, SPS and TBT requirements), and sustain consistent quality and delivery at scale.

A central enabling feature of Kosovo's trade framework is its participation in the Pan-Euro-Mediterranean (PEM) system of preferential rules of origin. This system allows diagonal cumulation among the EU, CEFTA parties, Turkey, and EFTA states, enabling Kosovo producers to source intermediate inputs regionally while retaining preferential access for finished products. In practice, this significantly lowers structural barriers to participation in European value chains, provided that sufficient processing takes place in Kosovo. Across the analysed product categories, origin rules are generally manageable for firms undertaking genuine manufacturing or processing activities.

Advanced Building Joinery benefits from full tariff liberalisation across all agreements and from diagonal PEM cumulation, which allows the use of EU-origin aluminium, PVC, and glass inputs. Export growth between 2021 and 2024 has been strong, particularly for aluminium doors and windows, though partially driven by large, project-based contracts that introduce volatility. Entry into EU and EFTA markets depends primarily on compliance with construction product standards, including CE marking and EN performance requirements. The analysis finds that joinery products are commercially viable under current trade conditions, with the strongest opportunities in Germany, Switzerland, and CEFTA markets, while project-driven third markets require careful risk management.

Wood Products and Furniture emerge as Kosovo's strongest and most structurally competitive export category. Tariff-free access, straightforward change-of-heading origin rules, and manageable non-tariff requirements strongly favour downstream wood processing and value-added manufacturing. Export performance shows sustained growth in furniture, upholstered seating, and prefabricated wooden structures, with Switzerland and Germany as core value markets and CEFTA markets providing volume stability. Compliance with timber legality, product safety, and sustainability standards remains essential, but these requirements are well aligned with existing industry capabilities. The sector demonstrates clear readiness for further scaling under existing trade frameworks.

Food Processing benefits from comprehensive tariff liberalisation under CEFTA, the SAA, and the EFTA agreement, confirming that trade policy does not constrain exports of processed fruit and vegetable products, medicinal and aromatic plants, essential oils, and wine. Here, competitiveness is driven less by tariffs and more by compliance with SPS requirements, facility certification, labelling, and branding. Export trends show a two-track pattern: high-volume, repeat demand in CEFTA markets for vegetable preparations and jams, alongside selective scaling into EU and EFTA markets where quality, consistency, and compliance

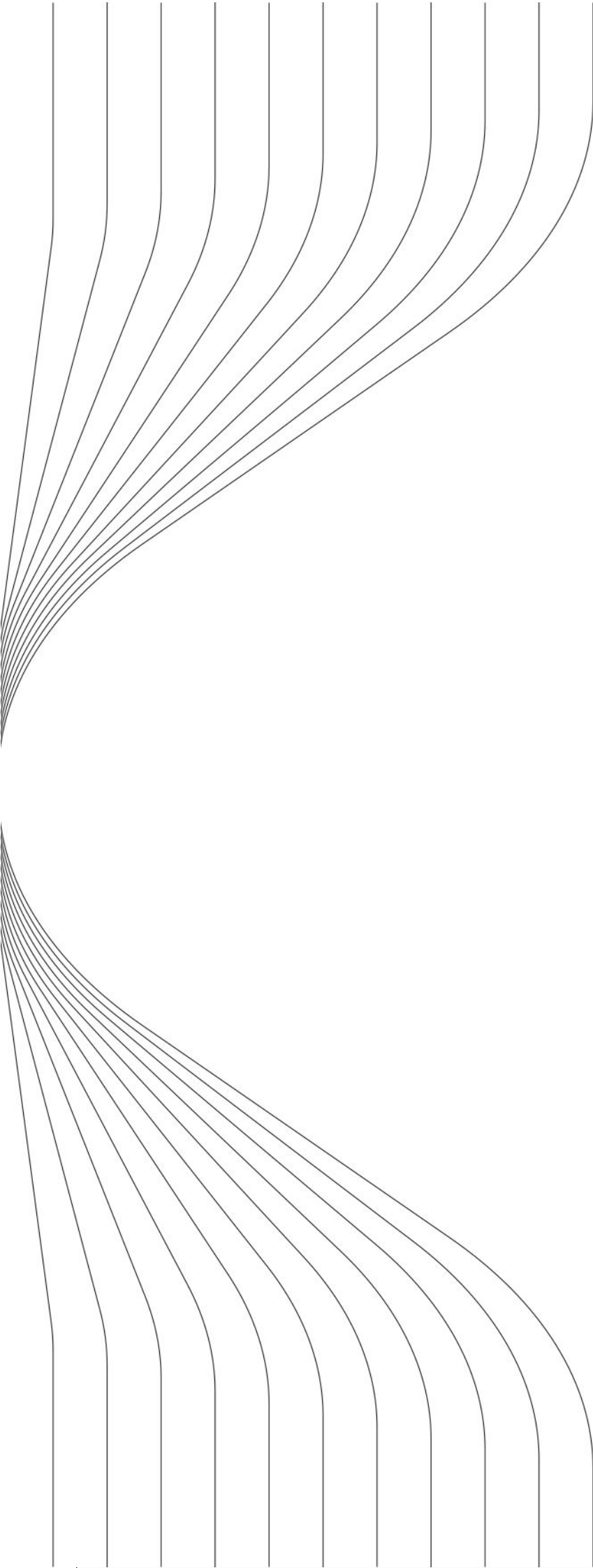
standards are met. Wine exports remain regionally anchored, with EU and EFTA markets playing a complementary role for branding rather than volume.

Analytical Product Cluster	Product Category (NACE Rev.2, 4-digit)	Representative Derivative Products (illustrative)	2024 Ex-ports (€ mn, approx.)	Main Export Markets
Advanced Building Joinery	C22.23	Plastic builders' ware	~15.0	Italy, North Macedonia, Albania
	C25.12	Aluminium doors & windows, insulating glass units	~31.0	Germany, Switzerland, CEFTA, Kazakhstan
	C25.72	Locks, hinges, fittings	~0.8	Germany, CEFTA
Wood Products & Furniture	C31.09	Wooden & upholstered furniture	~30.0	Switzerland, Germany, CEFTA
	C16.22	Assembled parquet flooring	~0.4	EU
	C16.23	Prefabricated wooden buildings	~0.1	EU
Food Processing	C10.83	Medicinal & aromatic plants, essential oils	~4.5	EU, CEFTA
	C11.02	Wine	~4.4	CEFTA, EU
	C10.39	Fruit & vegetable preparations (incl. jams, pickles, potatoes)	~11.5	CEFTA, Germany, Switzerland

Table 13. Overview of Shortlisted Product Categories and Derivative Products Analysed

Across all product categories, the analysis confirms that **Kosovo faces no structural tariff barriers in its priority markets**. Rules of origin are generally compatible with Kosovo’s production models, and the main constraints are operational rather than trade-policy related. These include certification costs, standards compliance, production scale, and market concentration risks in project-driven or highly concentrated export lines.

Overall, the findings confirm that the derivative products shortlisted under Task 2 are commercially viable within Kosovo’s existing trade framework. The primary policy and industry challenge is not market access, but **supporting firms to meet standards, diversify markets, and scale production**, thereby translating preferential access into sustained export growth in line with SIDBS 2030 objectives.



Question the answer