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EMPOWER
PRIVATE SECTOR

KOSOVO SECTOR ASSESSMENT & SELECTION REPORT

AN EVALUATION OF GROWTH OPPORTUNITIES, CHALLENGES, AND IMPACT POTENTIAL

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SECTOR ASSESSMENT & SELECTION REPORT

EMPOWER PRIVATE SECTOR ACTIVITY

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Acronyms and Abbreviations

Item	Meaning
ADA	Austrian Development Cooperation
AKB	Association of Kosovo Businesses
BPO	Business Process Outsourcing
CLE	USAID Contract Law Enforcement project
CSC	Customer Service Center
Ex-YU	The former Yugoslavia
GIZ	German Federal Enterprise for International Cooperation
GoK	Government of Kosovo
HoReCa	Hotels-Restaurants-Cafés
JICA	Japan International Cooperation Agency
KCC	Kosovo Chamber of Commerce
KIESA	Kosovo Investment and Enterprise Support Agency
MAP	Medicinal and aromatic plants
MM	Million
ME	Micro Enterprises
MTI	Kosovo Ministry of Trade and Industry
NOA	USAID New Opportunities in Agriculture project
NQF	National Qualifications Framework
NWFP	Non-wood food product
PVC	Photovoltaic cell
SDC	Swiss Agency for Development and Cooperation
SEE	Southeast Europe
Sida	Swedish International Development Cooperation Agency
SME	Small and Medium Enterprises
STIKK	Kosovo Association of Information and Communication Technology
TAK	Tax Administration of Kosovo
TEP	Territorial Employment Pacts
UNDP	United Nations Development Program
VET	Vocational Education and Training

1. Sector Assessment Methodology

The purpose of this report is to identify and provisionally select the sectors and value chains for the USAID EMPOWER Private Sector project's focused support during its term.

EMPOWER's overarching goal is large-scale job creation. Jobs are created by firms that have business opportunities. The first objective of this report, then, is to identify and assess actual firm-level growth opportunities in candidate sectors. The second objective is to identify the specific obstacles or challenges that companies face in realizing those growth opportunities. The third objective is to begin to outline activities that the EMPOWER project might undertake to help address those obstacles and challenges.

Such information can only be discovered through interviews with individual firms. By focusing the discussion on the firm's actual and potential business opportunities, these interviews produce a number of specific examples that can be highly instructive in developing general findings as to challenges and needs. The primary goal of our work in preparing this report, therefore, was not to compile general sector competitiveness challenges (which has been repeatedly done before), but rather to collect actual business opportunities and challenges from a sample of companies in various sectors. We can then draw general conclusions as to the selection of sectors for EMPOWER's support that hold the most promise for job creation.

Our methodology for the sector assessment consisted of the following:

- Direct site visits to 109 companies throughout Kosovo (north and south) (listed in the annex) in a variety of sectors, and face-to-face interviews with their managers using a standardized firm-level interview protocol.
- Interviews with key informants in Kosovo government ministries and agencies, with other donors, and with private sector development professionals.
- Review of prior sector assessment and growth strategy documents, as well as collection and analysis of macro-level statistics.
- Evaluation of each sector, based on three overall criteria for prospective support:
    1) *Growth potential:* (i) Are there clear, firm-level business opportunities in domestic, import-competing, and/or export markets for expansion of the sales of the sector? (ii) Do sector firms have the capability to supply these opportunities, if identified obstacles can be addressed? These growth opportunities need to be as concrete and in sight as possible, not requiring extensive preparatory buildup of general competitive capacities among firms before they can be investigated or known.
    2) S*cale potential:* Are the growth opportunities significant, and consequent job-creation impact substantial? It is important to note that of the approximately 130,000 registered businesses in Kosovo, less than 2% (about 3,000) of them employ more than ten people. Fewer than 350 companies employ more than 50 people, but these account for one-fourth of the entire employed labor force. Therefore, efficiently achieving scale in employment means working with lead firms. In addition to lead firms, to expand coverage and scale, can a significant number of SMEs be networked into these opportunities? EMPOWER's goals for aggregate employment growth over its term are ambitious.
    3) *Impact potential:* Can the identified obstacles to realizing growth and employment opportunities feasibly be addressed by project-supported activities and interventions? For sector support, this means group-based activities to address shared needs, plus lead firm-level assistance to help them realize their business opportunities and feed demand to their supply chains within the sector. In this connection, we have also collected information on

related development assistance programs, so that we are prepared to plan with them how EMPOWER can collaborate in delivering the desired impact.

It is important to emphasize that for EMPOWER's job-creation purposes, when we speak of growth potential – the first criterion for sector selection – we mean realistic, foreseeable opportunities for business expansion, rather than those that may be expected to come eventually, after building a sector's competitiveness. Our purpose is not to build competitive potential *per se*, but to address competitiveness needs specific to identified growth opportunities. This means that we may not select a sector that requires broad-stroke enterprise competitiveness improvement before specific growth opportunities can even be realistically targeted. On the other hand, our interventions will tend to be more focused, because they are required for specific growth opportunities, so we may be able to cover a wider range of sectors with our resources.

Our approach to sector selection is therefore somewhat different than the more traditional one that selects according to longer-term competitive potential. Our approach is more opportunistic and transactional, focused more on relatively quick wins in order to achieve our job-creating objectives over the five years of the project.[*] At the same time, however, we do believe that it will also lead to greater employment growth over the long run, by stimulating market-driven design and quality advancement, skills development, and investment in a wide range of companies across multiple sectors.

These are the principal issues that are addressed in this report. In the following sections we review first overall sector opportunities from the macro level, then findings from our firm-level interviews, then related development assistance projects. We conclude with recommendations as to sector selection and for EMPOWER Private Sector support.

To anticipate our conclusions, we have found that there are capable Kosovo companies with viable, job-creating business opportunities across all of the sectors that we analyzed, as well as in other sectors that we learned of but did not deeply research. Therefore, we are recommending support in several sectors, but have divided them into a "Tier 1" group that will receive a "full package" of competitiveness-improving interventions, and a "Tier 2" group whose needs are more selectively targeted.

2. Macro-Level Analysis of Overall Sector Opportunities

2.1 Principal Economic Sectors in Kosovo

There have been a number of general evaluations of the high-growth sectors of Kosovo. The following table highlights those featured in a selection of assessments over the past few years. In all cases, sectors were recommended based on some combination of their potential to create jobs, expand exports, and attract investment. The sectors were identified through a combination of surveys of firms, roundtable meetings with stakeholders, and expert assessments.

[*] It may be surprising to realize that current thinking in monitoring and evaluation suggests that job creation per se may not even be an appropriate performance objective for a competitiveness project: "Some types of private sector development projects will not have a significant effect on jobs. In the case of the Thai-German Program for Enterprise Competitiveness, for example, the project decided not to measure job creation because the program sought to increase the competitiveness of enterprises. While this will improve the longer-term security of existing jobs, it may not create significant numbers of jobs in the short term." *Measuring Job Creation in Private Sector Development*, Donor Committee on Enterprise Development (DCED, June 2014).

Table 1: **High-Growth Sectors Recommended by Other Assessments**	
Sector	**Source**
Food Processing & Packaging: Dairy, Non-wood Forest Products / Soft Fruits / Medicinal & Aromatic Plants, Horticulture, Wine	IPAK (2010), UNDP (2014)
Metal Processing, Automotive Parts	OECD (2009), IPAK (2010), MTI (2014)
Tourism	IPAK (2010), MTI (2014)
Business Process Outsourcing / ICT	OECD (2009), MTI (2014). UNDP (2014)
Wood	MTI (2014)
Textiles / Apparel / Leather	OECD (2009), MTI (2014). UNDP (2014)
Private Health Services	SDC/PPSE (2014)
Minerals; Energy	GIZ (2012), UNDP (2014)

Sector assessments often focus largely on the supply side. That is, if the country has capacities to produce certain goods – because of natural resource endowments, traditional skills, and previously established industries – it is largely assumed that there will be a market for them. Therefore, the assessments provide considerable and expert detail on supply side improvement needs in quality and certification, productivity, equipment, worker skills, branding and marketing, government policy / support, and the like. However, attention to the demand side is typically limited. Studies often simply assume the existence of a market, for example by saying that global or EU markets are huge, and increasing their imports, and that Kosovo firms, if properly equipped, can surely gain a fractional percentage of them. Or, they suggest that because Kosovo firms employed a lot of people and sold widely in ex-YU days, surely they can do so again. Or, they point to general marketing advantages, reviewed below.

For EMPOWER's purposes, because our focus is near-term job creation, we need to start with current demand-side analysis. We can get some impression of growth potential by looking at macro level statistics. However, concrete business and job-creating opportunities are identified at the firm level, which we cover in Part 3 of this report.

2.2 General Business Opportunities and Challenges

These have been repeatedly provided in other reports, but it is useful to recap them here as background for the specific business opportunities and challenges faced by individual firms.

<u>General Opportunities for Developing Business</u>

Kosovo has a favorable geographic location for Western European markets, with particularly close traditional and diaspora ties to Italy, Germany, and Switzerland. Kosovo is a member of CEFTA, and it enjoys duty-free access to the EU under the Autonomous Trade Preferences program, and to the US under the Generalized System of Preferences (GSP). Kosovo also has a free trade agreement with Turkey, which will come into power once it is ratified by the Turkish Parliament. Kosovo's low labor costs are also an oft-cited advantage.

<u>General Obstacles and Challenges</u>

The obstacles and challenges to the competitiveness of firms and sectors in Kosovo are well known, and can be broken down into five basic areas. These are provided in the following table.

Table 2: **Sector Competitiveness Framework**	
Competitiveness Area	**Challenges**
1. Product & Productivity	• Product design and quality not at international standards • Lack of product health and safety certifications
2. Connection to Markets	• Lack of knowledge of / connections to buyers • Over-reliance on ad hoc personal connections • Limited integration of regional clusters / value chains
3. Access to Finance	• Narrow range of financial products • Lack of financial management expertise / business supporting services
4. Workforce Development	• Poor integration of business with education / training institutions • Weak capacities in education / training institutions
5. Business Environment	• Excessive red tape in business registration, inspections • Customs / border obstacles • Uncompetitive FDI incentives • Energy instability

Again, these are general findings that have been reported in numerous other documents dealing with private sector development strategy in Kosovo and the broader region, and hardly need repeating here. They indicate the types of obstacles that will be defined much more specifically through firm-level consultations that focus on real business opportunities and what is limiting firms' potential to exploit them.

3. Findings for Candidate Sectors

3.1 Wood Processing

Sector Overview

The Kosovo wood processing sector has seen a number of companies move from small to medium and larger size over the past decade. Government and donor support have played a part. Lead companies have large operations and produce high-quality products, and they competently develop new products to address market trends.

Statistics often conflict, with at least 600 companies and as many as 1500 reported to be operating in the industry. Depending on how broadly the sector is defined, different sources report €50 to €250 million in aggregate sales and 4,000 to 25,000 or more employees. For EMPOWER's purposes, we estimate that the project can touch at least 15 larger companies selling an average of €1.5 million per year, and at least another 100 doing at least €250,000, annually, which would combined give about €40 million in total sales. Using the average sales/employee ratio we found in our firm-level interviews in the sector, this would translate into about 3,900 current jobs just in these companies.

A number of indicators point to growth in the wood processing sector. In 2012, the average number of employees per firm in the sector was 15, a substantial increase from 7 workers per firm in 2011. Average turnover increased by 7% from 2011 to 2012, and total exports rose by 11% in 2011 and 19% in 2012 (MTI and Customs data).

Kosovo wood processors have good buyers mainly in Macedonia, Albania, Germany, the Netherlands, and Switzerland, but over 80% of the sector's sales are domestic. Despite increased domestic production, imports of furniture are still substantial, so that further import substitution is possible in the industry.

The Kosovo wood sector's supply chain has strong domestic links. One-third of companies use their own raw material and intermediate goods, and 70% obtain supplies from the domestic markets. This means that their success translates into business for many more local SMEs.

Findings from Company Interviews

Business Opportunities

We conducted site visits and management interviews with ten companies in the wood sector. The following table summarizes the business results information obtained from these companies.

Table 3: **Wood Sector Interviewees**
10 Companies

Measure	Sales €MM	Employment	Growth		
			2010-13	2014	2015-17
Total	7.6	630	17%†	10%	22%
Average	0.757	63			
Range	0.050-1.75	5-75	5%-33%		10%-50%

These companies as a group do €7-8 MM/year in business, and employ over 600 people. They have had strong recent and current growth, which they expect to continue in the coming three years. The firms that we interviewed noted numerous opportunities for expanding their sales, including:

- *Furniture:* Increased demand for particularly for chairs and tables, both in local and export markets. Significantly wider export market potential for currently successful kitchen cabinetry products. Increased demand for furniture made with eco-friendly raw materials.
- *Interiors:* Increased demand in the domestic market for full services, including interior design, custom-made cabinetry, and installation. These include hotel and restaurant interior renovations in the domestic, Macedonian and Albanian markets.

Major Challenges and Needs

The challenges to business expansion cited by the firms that we interviewed can be grouped as follows:

- *Marketing and sales:* Promotion is limited. Most companies do not have dedicated sales management. They lack knowledge of export markets and of how to promote to them, and lack sustainable connections to export buyers. Some complained that the agents that they do have access to (both for domestic and export) are ineffective.
- *Product development:* New product development is a constant essential in this industry. There are insufficient designers and production engineers. Most companies do not have dedicated product research and development functions.
- *Product certification:* Many companies have certified quality assurance systems (such as ISO 9001), but not important sector-specific standards such as chain of custody certification from certified sustainably managed forests. Lack of EN and CE Mark certifications was also noted.

† On this and similar tables below, the growth rates for 2010-13 and 2015-17 are for the entire three year period in each case – they are not annual rates.

- *Workforce skills:* Companies express difficulties in finding workers who are ready-to-go upon graduation from VET schools. They have particular and continuing needs for higher-level skills such as CNC machine operators, design and graphics experts, and marketing and sales professionals. They feel disconnected from the VET system. They believe that Kosovo youth are unaware of good employment opportunities in their industry, and are not encouraged by their families to enter VET schools.
- *Finance:* They lack access to working capital finance. Long-term equipment finance is limited and expensive. Export finance *per se* is limited.

While an indirect obstacle, wood processors also express concern over the legal framework in forestry, illegal forestry especially from the informal economy, and corruption in wood allocation. They described the Law on Forests and its related implementing regulations as having numerous omissions, contradictions, and inconsistencies.

The following table gives a few examples of specific business opportunities and challenges / needs for their realization mentioned in our firm-level interviews:

Business Opportunity	Needs
• Increased demand for wood chairs and tables from various buyers in Macedonia, Switzerland and Germany. • Full-service request from domestic buyers including interior design, doing interior installation works and supplying with interior products.	• Product development function • Marketing and sales strategies for each targeted buyer type • Expanded factory
• Demand through diaspora agent networks for residential houses and commercial building market in Switzerland and Germany	• Internationally-required product certifications (CE, others)
• Demand for hotel and restaurant interior renovations / outfitting.	• Connection to hotel furniture providers in Europe for subcontracting • Improving design capacities to serve custom needs • Improved IT for direct ordering / manufacturing system.

<u>Impact Potential</u>

The wood products industry in Kosovo has seen the emergence of large companies, and there is a broader trend for consolidation, as owners try to get everything under one roof in order to closely manage quality and produce in quantity. Still, even the largest companies say that they do not have satisfactorily wide connections to foreign markets.

EMPOWER will help expand sales and job creation in the wood industry by working with the lead companies to expand exports through their established sales channels, and through additional channels that can be best developed through them, because of their size and demonstrated product quality. They need connections to agent networks and large foreign wholesale or retail buyers. EMPOWER will also facilitate clustering, consolidating smaller wood SMEs into the production networks of the larger ones who have the buyer connections. We will work with the smaller SMEs to help ensure that their quality systems are capable of delivering through these channels to the desired standards.

It is also possible to promote clustering among SMEs for specific markets, without relying on a lead firm. One example that surfaced in our interviews is for a "hospitality cluster" to serve as a joint one-stop shop for buyers in domestic and neighboring hotel and restaurant markets.

It is also important to carry forward and finalize the effort that has gone before to certify Kosovo's forests and facilitate chain of custody certification for producers. In the legal/regulatory environment, EMPOWER can work with USAID's Partnerships for Development project to address obstacles faced by wood processors.

EMPOWER will work with the VET school network to deliver trainings needed for specific needs, and to adapt longer-term curricula for ongoing market-driven needs in the wood industry.

EMPOWER will help promote and facilitate access to movables finance (equipment, receivables, and inventory) and purchase order finance, as well as longer-term growth capital, which are essential for the exploitation of these business opportunities.

3.2 Apparel and Leather

Sector Overview

In ex-Yugoslavia, the textile industry was Kosovo's second-largest. A number of companies in this sector have managed to survive the transition successfully to a more isolated but market-driven economy. Enterprises in the apparel and leather sector vary, from larger privatized operations owned by international firms to locally-owned companies that struggle with market connections and production capacity constraints.

The sector as a whole produces about 80% textile garments and 20% footwear and leather, and the latter is growing rapidly.[‡] It is difficult to get reliable data on the size of the sector. TAK reports only about 180 companies in the sector and only about 1500 total employees. But the business registry reports over 280 newly-registered textile sector companies in just the past three years, and the ten companies that we visited alone have 900 employees.

We estimate that EMPOWER beneficiaries in this sector will include at least ten companies doing at least €1 million in annual business, and at least another 100 doing €100,000 or more per year. This totals to a minimum of €20 million in annual business. Using the average sales/employee ratio of the firms that we directly interviewed in this sector as indicative, total employment of this group would be about 3,200 people.

Findings from Company Interviews

Business Opportunities

We conducted site visits and management interviews with ten companies in the apparel and leather sector. The following table summarizes the business results information obtained from these companies.

Table 4: **Apparel & Leather Interviewees**
10 Companies

Measure	**Sales** €MM	**Employment**	**Growth**		
			2010-13	**2014**	**2015-17**
Total	5.4	890	25%	16%	25%
Average	0.542	90			
Range	0.050-1.75	5-175	5%-33%		10%-33%

[‡] See UNDP (2014) for an expert evaluation of the leather sector as a "natural-born cluster" in Kosovo.

These companies as a group do €5-6 MM/year in business, and employ nearly 900 people. They have had strong recent and current growth, which they expect to continue in the coming three years.

Business opportunities for Kosovo producers in apparel and leather can be broken into three categories:

- *Cut, Make, and Trim (CMT)*: Also known as "cut & sew", lohn, and façon. This is the major opportunity in general for apparel producers in the SEE region. The larger players in the sector (still small and medium-sized) focus on this business, through their relationships with international apparel and footwear / leather products producers and retailers. These include buyers in Western Europe. In the case of footwear in Albania, some Kosovo companies are second-order subcontractors to large lohn operations there. There is an opportunity to expand sales through these existing channels, both to grow the business of their current suppliers, and to spread business to cluster companies.
- *Domestic apparel retailers:* Many smaller companies sell standard apparel products and uniforms to the highly fragmented local and adjacent countries market and to local government. They are managing this business successfully on their own.
- *Fashion:* There are several high-end women's Kosovo fashion designers that sell through their ateliers and in showrooms in the main cities. They have had some successes internationally, with media attention and orders from concept stores in Western European capitals. This is a business with significant potential upside and spillover demand to Kosovo cut & sew operators.

<u>Major Challenges and Needs</u>

The challenges to business expansion cited by the firms that we interviewed can be grouped as follows:

- *Marketing and sales:* Promotion is typically through fashion shows, word of mouth, personal contacts, sometimes the internet, and occasional trade shows. Promotion costs are challenging to most companies. Most companies do not have dedicated sales management.
- *Product line expansion / skilled designers:* Lack of good designers to constantly renew the product line, as is essential in apparel and leather, and to expand it.
- *Finance:* Lack of working capital finance. Limited equipment finance. Difficulty in approaching banks. Lack of significant expansion / growth capital.

Some specific business opportunities and challenges gained from our firm-level interviews are summarized in the following table:

Opportunities	Needs
• Increased orders from current Italian buyers • Inquiries from new German buyers • EU buyers requesting shoe-related accessories (insoles, creams) to ship with shoes. • Requests for therapeutic shoes in export markets	• Finance to expand production facility • Skills training for 100 new workers
• Potential to build on increased interest in their products in two selling points in Switzerland	• Additional buyer contacts in cut & sew
• Increasing sales at two new sale points in shopping malls in Gjakove (Centar and Nertili) • Wedding dress buyer connections in Albania	• B2B meetings • Trade fairs • Contacts with

Opportunities	Needs
	retailers

Impact Potential

While the sector's overall growth has been moderate, there are companies with business growth opportunities, as evidenced by the relatively high growth rates of most of the firms that we directly interviewed. These and other entrepreneurs have established connections with larger buyers, both domestic and foreign. We believe that there are opportunities to leverage these buyer connections to increase orders. We believe that Kosovo CMT producers have the potential to serve a much larger market, and we will help them reach it. We will help grow overall sales and jobs by spreading production out to SMEs in the larger apparel and accessories production cluster.

The challenges faced by companies in this sector are highly susceptible to EMPOWER's impact activities: expanding buyer connections through various channels, addressing skills needs by bringing apparel designer training into the VET system (including leveraging dedicated schools that do exist), placing design interns in apparel and leather products companies, and facilitating finance.

We think that these activities can reasonably expand the sales of the 100 or so firms in the sector that we could reach by one-third over the life of the project. In that case, if our estimate of at least 3200 current employees in the sector is reasonably accurate, we should be able to see 1000+ new jobs created.

In addition to being labor-intensive, the apparel and leather labor force is women-dominated, and many of the firms in the sector are women-owned or -run, which is favorable to EMPOWER's cross-cutting objectives.

3.3 Food Processing

Sector Overview

The food sector in Kosovo has seen large investments in grower capacities and processing facilities over the past decade, supported by government and the international donor community. Lead companies have developed a wide product range. Locally processed and packaged foods are almost entirely for the domestic market, where some strong local brands have been established, allowing for substantial import substitution. In primary agricultural products, there are significant exports, and certain niche sectors are growing rapidly from a small base, again thanks in part to donor (SDC, USAID) support. For example, berry exports have risen from €500,000 in 2010 to €1.6 million last year, and there is further growth potential in soft fruits, NWFPs, MAPs, and wine (UNDP 2014).

Despite incomplete statistics, there is no question of the agriculture sector's importance to Kosovo's economy. The sector as a whole accounts for 10-15% of GDP. There are at least 800 taxpaying companies in the sector employing over 6,000 people, and thousands more small producers. There is no doubt about the sector's overall growth. In 2013, sales of primary agricultural products increased by 17%, dairy grew 10%, and sector employment rose by 31% (TAK). Most of the jobs are in rural areas, and many are available to women and ethnic minorities.

Kosovo food processors are aware of international food quality and safety standards, and many are implementing them.

Oft-cited general growth opportunities for Kosovo food and food processing are the large agricultural land endowment, favorable climate, and traditional comparative advantages in horticulture, husbandry, dairy products, NWFPs, and grapes. Growing per capita consumption in the domestic and adjacent country markets for these items will generate substantial ongoing business opportunity over the coming years.

Findings from Company Interviews

Business Opportunities

We conducted site visits and management interviews with 15 companies in the food processing sector. The following table summarizes the business results information obtained from these companies.

Table 5: **Food Processing Interviewees**
15 Companies

Measure	Sales €MM	Employment	Growth		
			2010-13	2014	2015-17
Total	14.8	390	7%	12%	23%
Average	0.985	26			
Range	0.175-1.75	5-75	5%-20%		10%-33%

These companies as a group do almost €15MM/year in business and employ almost 400 people. They have had solid recent and current growth, and expect substantially higher growth in the coming three years.

Significant concrete business opportunities identified by the companies that we interviewed can be grouped as follows:

- *Soft fruits, NWFPs, and MAPs:* Processors and other market participants noted expanding sales opportunities in domestic and export market for these products – especially raspberries (Germany), mushrooms (Italy), and medicinal and aromatic plants (20%).
- *Packaged food products:* Increased demand from domestic retailers for processed / packaged meat products, dairy, and vegetables.
- *HoReCa segment:* (Hotels, Restaurants, and Cafés) Increased domestic demand from this customer group for local food products, requiring daily shipping and continuous quality control, with potential to expand to Albania during the summer season.
- *Major foreign buyers:* Firms report opportunities to expand sales through business linkages that they have established with food processors and retail chains in Switzerland and Germany, such as requests for value added dairy products.
- *Certified food products:* Interviewees also reported requests not only for export but increasingly from domestic buyers for products certified at internationally-recognized safety and quality standards.

Major Challenges and Needs

The challenges to business expansion cited by the firms that we interviewed can be grouped as follows:

- *Marketing and sales:* Limited contacts / access to big wholesale and retail food chains in the EU, resulting not only in the lack of sales opportunities but also limited knowledge of product demand trends. Lack of knowledge of how to connect and promote to these buyers. Prior development assistance efforts for joint promotion in exporting are criticized as lacking long-term strategy. Poor design and quality of packaging is also cited as a negative in competing with imports, even if domestic product quality is equal or superior.
- *Product development, quantity, quality:* Fragmented land ownership limits the ability of processors and aggregators to deliver into business opportunities sufficient quantities of primary agricultural products at uniform quality standards. Primary products vary greatly in

quality and suppliers to processors and aggregators are not adequately monitored. Contractual relationships between processors and outgrowers are underdeveloped. Investment in new product development is limited (something that USAID's CLE project is helping to address). Further international food safety and quality certifications are needed.

- *Advanced skills:* Processors cited inadequate collaboration mechanisms with agriculture / technical schools, and a lack of experts required for higher-quality, higher-value production.
- *Finance:* Lack of working capital finance; lack of risk / growth capital required to expand operations significantly as required to finance out growers and additional processing equipment to aggregate and deliver larger quantities.

Interviewed companies provided the following examples of concrete business opportunities in food processing:

Opportunities	Needs
• Increased local demand for meat products • New local and regional buyers are interested in meat products that have quality and food safety certifications	• Expand production facility • Professional and high-quality workforce • Certifications
• Growing regional and EU buyers demand for locally produced and packed non-wood forest products	• Upgrade processing facility with food safety requirements • Specialized skills training
• Growing demand for locally produced fruit and vegetable products • Regional and EU buyers requesting distinctive fruit and vegetable products	• Expand processing facility • Expansion and training of the workforce

<u>Impact Potential</u>

The Kosovo food and food processing sector clearly has potential for strong growth and therefore is of interest. However, USAID has dedicated support to agriculture and food processing through the USAID NOA project and its expected extension.

For this reason, EMPOWER will <u>not</u> select food processing as a focus sector in general. However, (i) EMPOWER has full flexibility to work in North Kosovo, where the agriculture sector probably has the greatest potential for job creation, and (ii) we may collaborate with NOA (and its extension) when complementary opportunities arise.

Dimensioning impact for supporting food processing in North Kosovo, we believe that EMPOWER can reach a beneficiary group operating there (even if headquartered in the South) of at least 5 lead processing firms / aggregators who will work through outgrower / supply chain relationships with a minimum of 500 family farms in the North, selling at least €25,000 worth of primary agricultural products per year. This aggregates to total sales of €12.5 million, and over 500 new jobs in North Kosovo in this sector.[§]

3.4 Information & Communications Technology (ICT)

Sector Overview

[§] In this case we calculate employment using a sales/employee ratio based on TAK statistics for microenterprises in the food processing sector, because it is more representative than that of the larger processing companies that we interviewed. Processing companies themselves are not labor-intensive.

The Kosovo ICT sector has developed emerged over the past ten years, and now has a solid and successful foundation. The sector includes many SMEs that sell and service software and systems and ICT equipment. Partly with development assistance, the sector has built a strong business association (STIKK) and an ICT business incubator (ICK). The majority of the sector's sales are to the domestic market (mainly government, telecommunications companies, and finance), but some companies are successfully exporting software development and business processing / customer support services, mainly to the German, Swiss, and Austrian markets, based on language skills.

The total Kosovo ICT market has been estimated at approximately €100 million (IDC 2012), with over 100 to over 200 active companies, depending on statistical source, and up to 2,000 total employees. Strong growth in the domestic market is projected, because per capita ICT spending in Kosovo is still only about half the regional average. Export sales are expanding.

There are good demographics – the large youth population – for developing a large ICT workforce, which is typically cited as a critical need, if Kosovo is to be able to compete for some of the larger European BPO/CSC jobs that now go to South Asia. The availability of a large diaspora and well-educated graduates abroad helps provide market linkages. Cooperation between companies and universities on the design of ICT curricula and employment of young graduates in the ICT sector is improving.

Findings from Company Interviews

<u>Business Opportunities</u>

The Kosovo ICT sector's lead firms specialize in software development and IT services. Most of the interviewed firms have foreign business now, or plan to, and are both developing new products and responding to buyer requests. Firms see the domestic market as strong, expecting good growth not only to continue in government, but to expand in healthcare, defense and security, education, and transportation.

We conducted site visits and management interviews with 10 companies in the ICT sector. The following table summarizes the business results information obtained from these companies.

<table>
<tr><th colspan="6">Table 6: ICT Sector Interviewees
10 Companies</th></tr>
<tr><th rowspan="2">Measure</th><th rowspan="2">Sales €MM</th><th rowspan="2">Employment</th><th colspan="3">Growth</th></tr>
<tr><th>2010-13</th><th>2014</th><th>2015-17</th></tr>
<tr><td>Total</td><td>18.5</td><td>360</td><td rowspan="2">11%</td><td rowspan="2">9%</td><td rowspan="2">18%</td></tr>
<tr><td>Average</td><td>2.1</td><td>36</td></tr>
<tr><td>Range</td><td>0.050-6.25</td><td>5-75</td><td colspan="2">5%-20%</td><td>5%-50%</td></tr>
</table>

These companies as a group do over €18MM/year in business, and employ 360 people. They have had solid recent and current growth, which they expect to continue in the coming three years. The main areas of business opportunity noted in our interviews were:

- *Foreign buyer outsourcing:* Continued and expanding engagements from existing EU buyers for software development, database management, and business process outsourcing. Some companies are also members of networks that are preparing specific projects targeting North American markets.
- *Application development:* There are Kosovo ICT companies already producing IOS/Android smartphone and tablet applications and web designs, and increased demand for these is noted. There are opportunities in the regional TV and film entertainment business as well.

- *Domestic ICT business:* Major sectors including transportation, education, mobile telephony, healthcare, and processing / production companies are expanding demand for use of ICT solutions, web design, and enterprise resource management software.

Major Challenges and Needs

The challenges to business expansion cited by the firms that we interviewed can be grouped as follows:

- *Workforce:* Inadequate numbers of well-trained programmers, or even graduates with basic IT skills, preventing the pursuit of larger outsourcing contracts. Cooperation between universities and VET institutions to supply these skills is underdeveloped.
- *Finance:* Lack of proactive product development and R&D. This is primarily due to the lack of risk/growth capital tor the up-front investment that such research, development, and testing of new products and applications entails.
- *Marketing and sales:* Companies lack dedicated marketing resources and need more connections to buyers in western markets, both direct and through agents.

Some examples of specific business opportunities reported by interviewees are presented in the following table:

Opportunities	Needs
• Increased demand from local corporate, education, health, hospitality • Increased DACH countries (Germany-Austria-Switzerland)	• Marketing & sales capacities • Specific industry certifications
• Outsourcing and web applications demand from external markets (DACH)	• Cluster Kosovo ICT companies for a joint approach and added capacity to serve larger market opportunities • Outreach to outsourcing associations in target markets
• New products are in development to sell into identified market needs	• Industry certifications - ISO quality and security management

Impact Potential

The assistance needed by the Kosovo ICT sector is not in technical product design and engineering. If companies do need skills in these areas, they know where to go to get them, and have the commercial incentive to do so.

The sector also has reasonable connections to markets, though certainly this is an area that can always be further supported.

The main constraint to pursuing major business opportunities that are potentially open to the sector is job skills, and no single company or even group of companies or association is capable of generating these without the active participation of the education and training system. This is of course true not only in Kosovo but in every country in the world (including the USA), because of the ongoing explosion of the market for ICT products and services. EMPOWER's greatest potential impact, therefore, is in aggressively supporting the sustained training of programmers, and then helping ICT companies connect to opportunities for larger outsourcing engagements. There are models, such as programming "boot camps" now rapidly expanding in the USA that can produce capable programmers in short periods of time.

We therefore think it is not unreasonable to project the EMPOWER could support the creation of at least 1000 new jobs in ICT through well-designed training programs.

3.5 Tourism

Sector Overview

Tourism sector development in Kosovo has not been according to an overall strategy. Rather, specific regions have undertaken local initiatives - Pristina, Sharr/Šar, Mitrovicë/Mitrovica, Zvećan, and so on. The most internationally prominent tourism product, however, is outdoor/adventure tourism, centered in the Pejë/Peč region and extending into the Accursed Mountains and other areas of the Dinarian/Albanian Alps. Western Balkan adventure tourism is a regional product which has developed rapidly over the past five or more years, with rapidly-growing international arrivals and expanding marketing channels. Kosovo tour operators contributed strongly to the "Peaks of the Balkans" sub-itinerary in this segment, and local government have contributed to infrastructure improvements supporting this product.

By far the largest single contribution to tourism foreign exchange earnings is diaspora tourism, but we do not see that as needing donor support for additional stimulation. Cultural tourism, attracted to Prizren and ancient Serbian Orthodox church locations, among other sites, is limited and lacks potential for significant growth, except insofar as it is connected to outdoor tourism, which normally incorporates gastronomic and cultural side trips.

It is often said that the Kosovo "country brand" is negative, but it is doubtful that this really a major issue. In the best of circumstances, Kosovo could not realistically become a significant destination market on its own over the medium term. The same more or less holds for all of the countries of the Western Balkans, with the exception during the summer of Croatia and to a significantly smaller extent Albania and Montenegro, due to their Adriatic coastlines.

Without well-developed tourism satellite account procedures, it is quite difficult to statistically measure the size of the sector. As in other countries in the region, the Kosovo Agency for Statistics simply adds together hotels and restaurants and calls it tourism. While hotel revenues are largely indicative of tourist spending, restaurant revenues are not, and they make up the great majority of the total. We can confidently say however that tourist spending increases sales and employment in a wide variety of supporting services, mostly provided by SMEs.

Official tourism statistics greatly underreport true arrivals, in part because they do not capture diaspora. Nevertheless they are indicative and have shown large increases in recent years. A further indication is the pace of hotel construction – for example, 12 new hotels have opened in Pristina over the past two years. Similar developments are seen in hotels and other accommodation facilities for tourists in the Peja/Peć region, Rugova valley, and Prizren.

Findings from Company Interviews

<u>Business Opportunities</u>

We interviewed eighteen enterprises in the tourism sector offering accommodation, gastronomy and tour organization and operation. The following table summarizes the business results information obtained from these firms.

Table 7: **Tourism Sector Interviewees** 18 Companies

Measure	Sales €MM	Employment	Growth		
			2010-13	2014	2015-17
Total	8.9	410	21%	28%	48%
Average	0.525	24			
Range	0.050-1.75	5-75	5%-33%		10%-33%

These companies as a group do nearly €9 MM/year in business, and employ over 400 people. They have had solid recent and current growth, and they expect further strong expansion in the coming years.

The main growth opportunities highlighted by these companies in our interviews are:

- *Regional tourism:* There is increased interest by tour operators in all countries of the Western Balkans to connect Kosovo to regional tours and itineraries. This is true both for adventure and cultural tourism. Regional tourism expansion potential also exists through wider promotion of annual events such as DocuFest in Prizren and Adventure Week in Gjakovë/Đakovica.
- *Particular tourist generating countries:* Kosovo incoming tourism operators cite increasing inquiries from tourists and tour operators in Italy, Belgium, Austria, Scandinavia, and the Netherlands in Kosovo / Western Balkans adventure and cultural tours. Custom tour packages have been developed for target markets, such as the "Rugova Experience Trek" with Italian Tour operators.
- *Western Balkans adventure tourism:* Promotion through the international Adventure Travel and Tourism Association (ATTA), Yahoo Travel, National Geographic, and others is steadily increasing interest in western markets for Western Balkans adventure tourism, including Kosovo.

Major Challenges and Needs

The challenges to business expansion cited by the firms that we interviewed can be grouped as follows:

- *Tourism development policy:* More than most other sectors, tourism is one that needs overall policy and budgetary support, because national level promotion substantially benefits everyone in the sector, but is beyond the resources of any company. Participants are highly critical of the lack of such support by Kosovo's government. There is no national tourism organization (NTO) that would design and manage a basic country marketing campaign. Tourism law is still not finalized, there is no active national level marketing, and much basic tourism infrastructure is inadequate – roads, signs, tourism site services, maps, litter management, pollution control, national park definition, designation and protection of national historical and religious monuments, etc.
- *Workforce:* Tourism lacks professional workforce training. There is no education or training institution specifically devoted to the hospitality and tourism sector.
- *Standards:* Kosovo tourism service providers have been slow to adopt internationally recognized standards for sustainable tourism practices or for accommodation.
- *Finance:* The sector is considered risky, and many service providers are smaller SMEs, who have difficulty attracting bank finance that they could use to promote and improve their products.

Some examples of specific business opportunities reported by interviewees are presented in the following table:

Opportunities	Needs
• Increased interest from regional tour operators (Kompas, Atlas, etc.) in connecting Kosovo to regional tours and itineraries • Increased inquiries from US Tour Operators including adventure due to ATTA promotion	• Marketing / communications skills • Additional equipment to expand product range • Hospitality training for B&B workers – guiding, gastronomy
• Increased interest from international tourists buying Kosovo as part of a regional Balkan package: France, UK, Croatia, Slovenia, Turkey. • Increased demand from Scandinavia for "Peaks of the Balkans" tour	• Investment in tour product infrastructure • Skills training for service providers – guides, accommodation, gastronomy • Expansion of marketing outreach, including continuous regional media awareness and national-level promotion
• Increased demand from Belgium, Austria and Netherland tourists for Balkan itineraries and Kosovo cultural tours • Extended promotion of Kosovo through foreign tour operator partner Kosovo to Japan and China markets	• Familiarization trip in Japan and China to foster the destination promotion and set up best itinerary for a regional Balkan Tour • Extended (12 days) Balkan tour product, including Kosovo, Albania, Montenegro, BiH, Serbia

Impact Potential

While general tourism to Kosovo will continue to grow organically, EMPOWER's support is best focused selectively, on the adventure tourism segment. Adventure tourism in general is growing rapidly, favored by health-consciousness and retiring baby boomer demographics. Western Balkans adventure tourism is an intrinsically outstanding product, and thanks in part to USAID support for it in all of the countries of the region, is well into becoming established in international markets. It is important for Kosovo to be an active member of the multi-country consortium of private tour operators that are primarily responsible for advancing this business. This is something that EMPOWER will support, in collaboration with other projects, including USAID REG.

Again it is difficult to gauge impact on job creation because tourist spending is spread widely. However, the 18 companies that we interviewed employ 400 people, and our model predicts outreach to a minimum of 5 larger firms (hotels, large restaurants) and 150 smaller adventure tourism services providers, whose combined business is about €10 million per year. We expect that with proper support adventure tourism arrivals can double over the course of the project, leading to an estimated 400+ new jobs created in this sector as a result.

Support will be focused primarily on adventure tourism-focused international promotion and skills training, which do not require unusually large investment. We will also work to stimulate appropriate national level support.

3.6 Energy Efficiency & Renewable Energy

Sector Overview

The overall Kosovo energy sector is broad, but our attention is on its emerging "green energy" value chain. These are products and services related to (i) the sustainable exploitation of renewable natural resources for producing electricity and heat, and (ii) increased efficiency in consumption of energy. The official goal is for 25% of the country's total energy consumption to be met by renewable sources by 2020, which means that the sector needs to grow very rapidly over the years of the EMPOWER project if this is to be achieved. The goal can be reached by addressing not only the numerator in this ratio (energy source), but the denominator (energy consumption), by increasing energy efficiency in heating and electricity use.

There are no dedicated statistics available, but we estimate that in Kosovo currently there are currently at least 50 registered companies which are directly involved in the energy efficiency / renewable energy business. Some are significant exporters of energy-saving products and system components.

Expansion of renewable energy and use of more energy-efficient construction materials, electronic controllers, and consumer and factory equipment depends on a conducive energy policy environment, and on the private sector's delivery of related services. While some of these services require very large-scale investments (e.g. wind farms, solar panel manufacturing), many others can be supplied by small companies. These include such things as solar panel installation and maintenance for heating/hot water and PVC generation, wood pellet and wood pellet stove production, biomass systems installation and maintenance, wind turbine engineering and maintenance, production of energy-saving small appliances and components, thermal windows and doors, and many others. There is also a variety of off-grid technologies (PV, small wind turbines, micro hydro, biogas) that smaller companies can market, install, and maintain. Consequently, the energy efficiency and renewable energy sector provides a significant opportunity for job creation through a large number of SMEs devoted to an entirely domestic business.

Needless to say, the building out of this sector also contributes to important goals in mitigating and reducing the effects of global climate change.

Findings from Company Interviews

<u>Business Opportunities</u>

We conducted site visits and management interviews with 15 companies in the energy efficiency and renewable energy sector. In several cases business in this sector is only part of a larger company's business, so it is misleading to report their overall sales and employment statistics as we have done for other sectors.[**] However, their growth expectations are indicative of potential strength in renewable energy:

Table 8: **Energy Efficiency & Renewable Energy Interviewees**
15 Companies

Actual and Expected Growth	2010-13	2014	2015-17
Average	29%	26%	38%
Range	5%-75%		

Interviewees noted the following specific areas of opportunity for business growth in renewable energy:

- *Energy-saving construction products:* Increasing local and regional demand in home and office construction for thermal insulation materials, thermal doors and windows. Demand is based both on cost saving and EU building requirements.

[**] For example, one of the companies that produces thermal windows is Binni in Vrushtrri, but these are only a fraction of its total business.

- *Renewable energy heating:* Increasing local household demand for wood pellet-based heating systems, providing expanding business for both pellet producers and pellet stove manufacturers. Emergence of interest in solar panel-based hot water systems.
- *Green energy consulting:* Increased demand from business and government agencies for solar and other renewable resources assessments.
- *Energy system components:* EU demand for Kosovo-produced heat exchangers to improve the efficiency of hot water-based systems.

Major Challenges and Needs

The challenges to pursuing these growth opportunities that were cited by the firms we interviewed can be grouped as follows:

- *Finance:* Growth capital is needed to finance product research and development, small-scale PV and mini-hydro installations. Furthermore, the adoption of energy-efficient technologies by households requires financial for the up-front equipment investment.
- *Skills:* Multiple skills gaps. Few trained / certified in the many technical skills needed in the renewable energy sector: electrical and mechanical engineers, IT, industrial design, installation and service technicians.
- *Public awareness:* Lack of understanding of long-term cost advantages of green energy technologies.
- *Energy policy:* Underdeveloped feed-in tariff regimes for some renewable energy production. Lack of incentives / financial support for household and business adoption of renewable energy technologies.

Some examples of specific business opportunities in renewable energy reported by interviewees are presented in the following table:

Opportunities	Needs
• Increased orders from German buyers for biomass heating systems	• Modernization of the current line of biomass stoves • Increased stove production • CE standards
• Rapidly increasing orders for wood pellets from local customers, Italy, and Greece	• Expanded network of raw material suppliers; increased collection capacity in forest cleaning for raw material • Expansion of capacity of pellets production line • Stable electricity supply
• Increased orders for heating systems from German-speaking countries and cold-climate eastern European countries	• Finance to expand and modernize production facility • Harmonization of products with ISO standards • Product range diversification • Trained operators and equipment maintenance staff

Impact Potential

EMPOWER assistance can stimulate large-scale employment in the energy efficiency / renewable energy sector, primarily in the domestic market.

The project will help launch technical training programs, to develop experts in the many specific product design and new technical service areas needed by this sector. In many cases, trainees should be able immediately to start new sales and service businesses. These are technical capacities that will be demanded for many years to come, so should be included in the standard curricula of a number of VET institutions, which EMPOWER can facilitate.

Energy efficiency also connects to the construction materials sector, to the extent that it supplies energy-saving building components – doors, windows, building insulation materials, facades. EMPOWER will work with these companies in improved product design and to help them obtain relevant energy-efficiency certifications.

EMPOWER will facilitate growth finance for small-scale renewable energy installations and for product development. Again, for the energy efficiency and renewable energy industry, finance is essential. However, in this case, it may be less important for the expansion of businesses serving the industry than for consumers who must bear the up-front cost of investing in energy-saving technologies, which are significant relative to the incomes of most Kosovo households. These costs are a key obstacle to the growth of the sector as well as to the achievement of clean energy goals. Therefore, EMPOWER will seek with other partners to motivate the establishment of a finance facility available to households to finance the up-front costs of energy-saving equipment (such as wood pellet stoves with advanced fuel feeding systems, hot water solar panel installations, and replacement of single-pane windows), with loan servicing tied to the payback period for fuel cost savings.

3.7 North Kosovo

Overview

The North Kosovo economy consists of several sectors, and EMPOWER is expected to support job creation there broadly. Although lacking any local or regional development plan in the last decade, and though the political environment is certainly difficult for business, the North Kosovo economy has the potential for development, especially if it can be fully integrated with the rest of the country, as well as southern Serbia. The most developed sectors are food and wood processing, with some apparel production and emerging tourism development.

Currently, the great majority of North Kosovo production is also sold on North Kosovo local markets, mainly outdoor food markets and small retail shops. There are only a handful of still-small companies exporting to buyers in Serbia and some EU countries, in some cases through wholesale chains that were established in ex-YU.

North Kosovo companies express unrestricted interest in business cooperation with the south, but there are few policy structures or programs in place to facilitate such cooperation. The international community engaged in the North is increasing its focus on economic development, but with the exception of some movement in agriculture, there has been little organized planning for strengthening other sectors.

Findings from Company Interviews

Business Opportunities

To obtain the views of businesses in the North directly, we conducted site visits to 20 companies in wood, food, tourism, ICT industries in all four municipalities of the region. The following table summarizes the business results information obtained from these firms.

Table 9: **North Kosovo Interviewees** 20 Companies					
Measure	**Sales** €MM	**Employment**	**Growth**		
			2010-13	**2014**	**2015-17**

Total	2.6	270	35%	20%	33%
Average	0.132	14			
Range	0.050-0.625	5-40	5%-33%		

These companies as a group do about €2.6 MM/year in business, and employ 270 people. North Kosovo companies are typically small – the average company size of our interviewees was $132,000 per year, with an average of 14 employees, and we were interviewing some of the larger ones. Nevertheless, this group has had strong growth over the past several years, and it is expected to continue.

Their growth opportunities fell into the following categories:

- *Horticultural products – primary processing and packaging:* Demand from local markets has been seen for fruits and vegetables provided with primary processing (cleaning, grading, drying, and cutting) and small packaging. Similarly, North Kosovo companies already exporting NWFPs to EU buyers have seen increased interest from them for these products, if value can be added with small primary processing and packaging.
- *Organic food:* Sales opportunities in eco/bio food and clean / bio-ag. products, if they can be developed.
- *Links to south Kosovo value chains:* In both apparel and wood processing, interviewed North Kosovo firms expressed potential to collaborate to enable delivery of larger quantities to buyers with whom south Kosovo firms have connections.

Major Challenges and Needs

The principal obstacles to realizing growth opportunities noted by North Kosovo companies were:

- *Product development / quality:* Technical assistance and equipment is needed to upgrade product design and quality to deliver the further processing and improved packaging demanded by domestic and foreign customers.
- *Promotion / market linkages:* North Kosovo companies lack the resources and networks for promotional activities, both domestically and internationally. Their participation in organized trade fairs and B2B events even domestically has been minimal.
- *Finance:* Banks have limited or avoided business lending in the North, though there are some signs that this is beginning to change. In any event, North Kosovo SMEs face even greater difficulties in attracting finance than those elsewhere, due to the limited markets and political-economic difficulties.
- *Skills shortages:* As elsewhere, collaboration between business and VET institutions in the North is inadequate, and the educational institutions themselves lack depth and breadth. Youth are insufficiently motivated to work in the traditional wood and agriculture sectors.

Some examples of specific business opportunities reported by interviewed North Kosovo companies are:

Opportunities	**Needs**
• Increased expressed demand from EU, Serbian, and Russian buyers for organic apple juice and apple chips (new product)	• Technical assistance and finance to introduce new production line • Improved packaging design and equipment • Worker skills training • Organic certification

Opportunities	Needs
• Increased orders from current Serbian, EU (The Netherlands, Germany) and other countries (US) buyers of NWFP • Increased needs for juniper oil and dried plums	• Increased cool storage capacities (from 70 to 200 tons) • New production lines for dried plums and juniper oil production • Food standards certification
• Increased orders for shiitake mushrooms from domestic distributers to international markets • Orders for new product (humus) from domestic and Serbian markets	• Production line for mushroom growing substrate; • Working capital to produce substrate, purchase Californian worms, and place substrate with outgrowers

Impact Potential

Building on their identified business opportunities and potentials, EMPOWER will actively network North Kosovo companies into any and all related opportunities of southern enterprises. This means, for example, helping them connect through companies in the south to buyers seeking larger-than-capacity orders, and attending domestic and international trade fairs and B2B events. It includes technical assistance and promotion of finance and investment partnerships for value-added product development / innovation and the expansion of production. We will also ensure the participation of North Kosovo beneficiaries in regional and national public-private dialog for economic development policy and budgeting.

In the food processing section above, we also noted the potential for impact through support for that sector in North Kosovo.

We believe that EMPOWER is ideally placed to lead in overcoming the major business problems that North Kosovo companies express – the lack of organized structures for networked pursuit of specific business opportunities, for unrestricted integration of the sub-region with national and Western Balkans markets, and for general private sector development planning.

4. Enterprise Development Assistance Programs

We have surveyed other enterprise development projects in Kosovo in order to identify those that have objectives similar to EMPOWER's, with which we can collaborate. Collaborative implementation allows increased funding / scaleup for interventions that can achieve the shared objectives of programs. Here we highlight programs that are now running contemporaneously with EMPOWER that are most related to our approach and objectives.

Promoting Private Sector Employment (PPSE), Swiss Development Cooperation: This is a SF 7MM, 4-year project that has completed its assessment phase and will start its 3-year implementation phase in October 2014. It has a focus similar to EMPOWER's. It has a sector focus – tourism, food processing (fruits and vegetables, and non-wood forestry products), and possibly private health services. It also is expected to seek job-creation opportunities in any sector. It has cross-cutting objectives including women's economic empowerment, company governance, and advocacy for private sector development. EMPOWER will collaborate closely with this project, including co-funding of shared interventions.

MSME Grants, IOM: This EU-funded program is providing grants of €10-25K to approximately 20 MEs (1-9 employees), and €60-200K to 20 SMEs (10-250 employees). Some 750 SMEs submitted applications in response to a call last April. The program ended up engaging international consultants to evaluate the applications and come up with the ~40 winners. The program has no technical assistance component per se and wishes / needs to collaborate with EMPOWER for this. They will share the list of winners with us, and we will see how they align with our components and proceed.

Support to Private Sector Development, DFID: Purpose: to establish a sustainable public-private dialog on economic growth and an investor-friendly business environment between the GoK and the private sector. Strengthening business associations (KCC, AKB, STIKK, AmCham); SME Consultative Council; SME Agency. Produced some consultative papers and recommendations.

Aid for Trade project, UNDP and Finland: Development policy strengthening, including the creation of Industrial Policy Information System at MTI. Competitiveness-strengthening work in south (Prizren) region, through business associations and RDA. Various management trainings, B2Bs, support for trade certifications. Supported establishment of two milk collection points / processing facilities. In 2014 sponsored six sector profiles for KIESA and prepared report on “natural-born clusters”.

Kosovo SME Promotion Program (KOSME), Austrian Development Cooperation and MTI: June 2012 - October 2015. Following on previous ADC projects focused in southern/ rural Kosovo, this project supports capacity development at the Kosovo SME Agency, supports a Voucher Counseling Scheme (VCS) for SMEs, and backs MTI’s support for a Credit Guarantee Scheme (CGS).

Local-level Response for Employment Generation and Integrated Territorial Development (InTerDev), Austrian Development Cooperation and MTI: January 2014-January 2017. Three-year project supporting the Dragash/Dragaš and Shtërpcë/ Štrpce municipalities in job creation and income generation opportunities by micro and small enterprises, including farmers, using a Territorial Employment Pacts (TEPs) approach.

Conflict Prevention, Community Stabilization and support to Local Economic Development in North Kosovo, UNDP: January 2013-December 2014. Promotes co-operation and local development in North Kosovo. Focus on local economic development and environmental sustainability, value chain analysis for development planning, trade linkages between communities, business training, and small-scale grants. Drafts of Local Economic Development strategies provided to Municipalities of Mitrovicë/a South Zveçan/Zvečan, and Leposaviq/ć, followed by draft of Sector development plan to Zubin Potok.

Active Labour Market Programmes for Youth, UNDP: 2005-2014. Facilitates job search for youth through strategy development and training and internship opportunities, in partnership with the employment offices, vocational training centers and private companies.

Support to KIESA, Japan International Cooperation Agency (JICA): JICA is present in Kosovo since the early 2000. Japan-located training courses in private sector development, agriculture/rural development, and environmental management. Participation of Kosovo food processing companies in the annual FOODEX JAPAN fair.

Education Reform Support and Training (VET Program), LUX Development: September 2010-September 2016. Build capacities of the Centers of Competence Ferizaj/Urosevac and Prizren. Improved curricula and training materials around defined profiles consistent with NQF; better building, equipment and functionality of two CC's in Ferizaj/Urosevac and Prizren.

Private Sector Competitiveness in Rural Areas, GIZ: 2010-2018. Skills and capacity in both public and private sector institutions, and in decentralized rural development organizations. Cross-cutting priorities of gender, diaspora, ethnic/national minorities, and regional integration. Initial focus in two regions, Sharr and the southeast. The results in the pilot regions will subsequently be applied at national level by means of a planned stakeholders’ network and political dialog.

Economy and Employment Promotion, GIZ: 2011-2018. Improvement of competitiveness in selected business sectors of Kosovo. Advisory services for improved doing business environment; strengthening chambers of industry and commerce service provision and private sector advocacy, business development services, Kosovo branding and product promotion.

5. Conclusions and Recommendations for Sector Selection

As stated in the introductory section of this report, we organize our criteria for sector selection into "three potentials":

- *Growth potential:* A selected sector should include numerous companies with clear sales growth opportunities in domestic, import-competing, and/or export markets. Furthermore, these companies should be fundamentally capable of supplying these opportunities if they can overcome any challenges they may face in doing so (finance, worker skills, quality certifications, etc.).
- S*cale potential:* The growth opportunities of a selected sector should be wide and deep enough that, if realized, will create large numbers of jobs – at least 1,000 potential jobs over the medium term in any selected sector. Furthermore, we want these jobs to be spread, if possible, across a large number of companies – not concentrated in only a few isolated lead firms. Finally, we want significant prospective job creation among priority target populations: women, youth, ethnic minorities, and the disabled.
- *Impact potential:* A selected sector must be one where EMPOWER-supported activities will have a significant attributable impact on its achieving its growth and scale potential.

With these three potentials in mind, and based on our work in preparing this report, we are prepared to make recommendations for EMPOWER's sectoral focus.

As an initial observation, we find that there is significant potential for growth, scale, and impact in all of the sectors that we reviewed. There are business opportunities and competitive companies throughout the Kosovo economy. However, not all sectors require the same degree of assistance to achieve substantial impact. Therefore, we have divided target sectors into two groups: "Tier 1" sectors, which will receive a "full package" of assistance, under EMPOWER's first component (Market-Oriente Competitive SMEs), and "Tier 2" sectors whose support will be targeted on certain priority needs for job creation, under EMPOWER Component 2 (Opportunistic Job-Creation).

Tier 1 / Component 1 Sectors: Full Assistance Package

The "full package" of assistance covers the comprehensive set of activities to improve the overall competitiveness of firms in the sector, enabling them to take advantage of business opportunities and grow organically. These activities are organized according to the five principal competitiveness areas in our structured approach: product & productivity, connection to markets, access to finance, workforce development, and business environment. Companies in these sectors have a range of needs across these competitiveness areas. Many activities to exploit growth opportunities can be carried out in group settings. These sectors are also conducive to a clustering approach, networking a range of SMEs into the business opportunities of lead firms, or to stimulate joint marketing or operations.

We recommend for Tier 1 two sectors: Wood, and Apparel & Leather.

Table 10: **Recommended "Tier 1" Sectors**

Sector *\/# Beneficiaries*	**Sales Growth** *% / €, 5 Yrs*	**Job Growth** *#, 5 Yrs*	**High-Impact** *Activities*
Wood *115 Firms*	50% €24MM	1,690	• Leveraging current large buyers, trade shows, B2B, agent networks • Quality certification • Cluster-based production • Skills training • Growth capital
Apparel & Leather *110 Firms*	50% €10MM	1,400	
Total: **225 Firms**	**€34MM**	**3,090**	

The estimates for numbers of beneficiary firms and sales and job growth over the next five years come from an economic model that we developed specifically for this report. They are based on what we believe are reasonable assumptions as to company structure and business results in each sector, overall sales growth forecasts for each sector resulting from EMPOWER assistance, and sector-specific sales/employee ratios. This model will be refined as we develop further information on the specifics of each sector and its companies.

Wood processing: The opportunities here are to (1) expand buyer connections by leveraging and expanding sales through the existing large buyers of lead companies, building agent networks, and actively exploiting trade show and B2B events. (2) EMPOWER can facilitate clustering to consolidate SMEs into production networks, and to promote clusters of firms jointly focused on particular furniture markets (such as hospitality). (3) The project can facilitate quality certification, especially for forest management and chain of custody. (4) Finally, as in other sectors, we will help wood processors promote themselves to the obtain business finance required for growth.

Apparel and leather: All of the points made for wood processing also apply to the apparel and leather sector. In addition, particular attention will be paid to the emerging fashion subsector, through targeted outward B2B missions with Western European concept stores and high-fashion buyers. Both of these sectors must also be represented in organized local public-private dialog mechanisms linking private business and VET providers.

<u>Tier 2 / Component 2 Sectors: Selective Assistance</u>

With selective assistance, we can address certain high-priority needs shared by most of the companies of other sectors. We recommend the following four sectors for this type of "Tier 2" assistance:

Table 11: **Recommended "Tier 2" Sectors**

Sector	**Sales Growth** *%, 5 Yrs*	**Job Growth** *#, 5 Yrs*	**High-Impact** *Activities*
ICT *80 Firms*	150% €28MM	500	• Sector-specific technical skills training • Specific subsector support • Growth capital; investment • Buyer connections
Tourism *155 Firms*	100% €10MM	420	
Energy *165 Firms*	150% €26MM	740	
North Kosovo (Food Processing) *5055 Firms*	100% €13MM	520	

Total: **1,355 Firms**	**€88MM**	**2,173**	

ICT: The substantial opportunities for business expansion and job creation in this sector are limited by insufficient numbers of trained Kosovo programmers. This is the principal area on which EMPOWER will focus for selective assistance to this sector.

Tourism: EMPOWER's support in tourism will focus on the adventure tourism subsector. We will help to broaden Kosovo's linkage to the regional adventure tourism product that has emerged onto the global market over the past five years, largely with donor (including USAID) support.

Renewable Energy: All of the renewable energy modalities require a range of specific services for their installation, operation, and maintenance, requiring specific technical trainings that can be brought into sustained VET curricula. Most of these services are conducive to SME providers and will therefore promote new business formation and expansion.

North Kosovo: While we will work with all sectors where there are opportunities in the North, we expect the most substantial job-creating opportunities to be in food growing for processors / aggregators. We will facilitate these opportunities and work to integrate North Kosovo producers into national and regional value chains.

Combining Tier 1 and Tier 2 sector assistance, we project that EMPOWER will support over 1,000 company beneficiaries, and create at least 5,000 jobs.

This concludes our assessment. We note that while our investigation revealed a large number of business opportunities in Kosovo, many of these remain somewhat broad and only directional, as could be expected from company interviews conducted over a short timeframe at the outset stage of our project. These recommendations will be followed by in-depth firm-level consulting to detail these opportunities; prioritize them as to viability, networked job-creation potential, and resource investment requirement; and then help companies pursue them through EMPOWER's efforts, in close complementarity with contemporaneous USAID activities and in cooperation with related programs of other donors and local government agencies.

References

Organization	Date	Document
Berkley University	2012	Sustainable Energy Options for Kosovo, An analysis of resource availability and cost
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)	2014	South East Europe IT Industry Barometer (SEE ITIB) 2014 –Results for Kosovo
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)	Dec 2012	Renewable Energy as an Opportunity for Economic Development in Kosovo
DFID	February 2011	Support to Private Sector Development: Draft Final Report
DFID	July 2012	Support to Private Sector Development Project: Progress Report, April-June 2012
Donor Committee on Enterprise Development (DCED)	June 2014	Measuring Job Creation in Private Sector Development
EU Support for the Promotion of Cultural Diversity in Kosovo	May 2011	Feasibility Study on Cultural and Natural Heritage Potential in Kosovo West
EU Support for the Promotion of Cultural Diversity in Kosovo	Sept 2012	Regional Heritage Plan: 2012-2015 (Pejë/Peć, Klinë/Klina, Deçan/Dečane, Istog/Istok, Junik, and Gjakovë/Đakovica)
Horticulture Promotion in Kosovo (HELVETAS Swiss Intercooperation)	2009	Identification of Actors Medicinal and Aromatic Plants
International Data Corporation (IDC)	July 2012	Kosovo IT Market 2012–2016: Forecast and 2011 Vendor Shares
International Finance Corporation (IFC)	July 2014	Energy Efficiency Finance Potential in Kosovo - Industrial, Service and Residential Sectors
Kosovo Agency of Statistics (KAS)	2013	Results of the Kosovo 2013 Labour Force Survey
Kosovo Association of Information and Communication Technology (STIKK)	2013	Kosovo ICT Market Analysis
Kosovo IPAK	February 2010	20/20 Review, Analysis & Outlook: Towards a Comprehensive Strategy for Investment Promotion & Support
Kosovo MTI & UNDP	May 2014	Six Sector Profiles http://www.invest-ks.org/en/sectoral-studies
Promoting Private Sector Employment (PPSE), Swiss Development Cooperation	April 2014	Food Processing Sector Marketing Strategy Report
Rochester Institute of Technology / American University in Kosovo	Aug 2011	Opportunities for Foreign Investment in Kosovo
UNDP Aid for Trade Project	October 2014	Report on Competitiveness: “Natural-Born Clusters”
USAID Regional Economic Growth	2014	Stakeholder Survey of Key Constraints in

Organization	Date	Document
Project		Priority Sectors
Wood Processors Association	2008	Opportunities – Primary Wood Production and Wood Processing Industry
World Bank	2010	Status of Energy Efficiency in the Western Balkans

Annex: Interviewed Companies

Company	Principal Product	Location	Sector 1	Sector 2
Abi&Elif 19 Sh.p.k	Pickled vegetables, ajvar and marmalades	Prizren	Food Processing	
Adaptivit IT Engineering	Software systems	Pristina	ICT	
AG Construction	General contracting, construction materials	Prizren	Construction	Food Processing
Agrocentar	Apple production	Leposavić/Leposaviq	North companies	
Ahikos	Upholstery products, sofas and chairs;	Ferizaj/Uroševac	Wood Processing	
Airtour	Cultural Tours	Pristina	Tourism	
Alpkapra	Goat cheese, milk and whey	Zvečan/Zveçan	North companies	
AMO Sh.p.k	Confectionary sweet products and biscuits	Klinë/Klina	Food Processing	
Antonije	Vegetables	Zubin Potok	North companies	
AppDec	Software applications	Pristina	ICT	
Artatex	Uniforms, T-shirts, shirts and jackets	Pejë/Peć	Apparel & Leather	
As Promet	Processing: mushrooms, berrylike fruit, plumbs, apple (wild) cornel, rosehips, juniper	Leposavić/Leposaviq	North companies	
Asseco	IT systems, business process outsourcing	Pristina	ICT	
Association of mushroom producers	Oyster mushrooms, shiitake, Portobello mushrooms, truffles	Leposavić/Leposaviq	North companies	
Atelie Ardita	Gowns, wedding dresses and other women's apparel	Gjakovë/Đakovica	Apparel & Leather	
Aves Prom	Broilers	Zvečan/Zveçan	North companies	
Barac Company	Fresh meat and Smoked products: ham, sausage, bacon	Leposavić/Leposaviq	North companies	
Binni	Cabinet furniture, kitchens; PVC windows and doors	Vushtrri/Vučitrn	Wood Processing	Energy
Buquku Sh.p.k	Meat products (homemade Sausage, kebabs, hamburger and dried meat)	Pejë/Peć	Food Processing	
Cacttus	Services & software development	Pristina	ICT	

Company	Principal Product	Location	Sector 1	Sector 2
Catun	Outdoor Tours	Pristina	Tourism	
Comtrade	Hardware & software sales	Pristina	ICT	
Daka	Wine production, wine tourism	Rahovec/Orahovac	Food Processing	Tourism
Dardania Model	PVC windows	Ferizaj/Uroševac	Energy	
DataProgNet	Software development	Ferizaj/Uroševac	ICT	
Dekor Plast	Doors & Windows (PVC)	Istog	Energy	
Divani	Upholstery products, sofas and chairs	Ferizaj/Uroševac	Wood Processing	
Donor Kosova Sh.p.k	Meat products (Doner, Kebaps, hamburger)	Gllogovc/Glogovac	Food Processing	
Eko Vinara	Wine production	Rahovec/Orahovac	Food Processing	Tourism
Elen NTSH	Retail of energy efficiency and renewable energy products	Vushtrri/Vučitrn	Energy	
Elnor	Chairs and tables	Pristina	Wood Processing	
Euro Food Sh.p.k	Marmalades, jam, ketchup, mayonnaise, pickled vegetables and ajvar	Prizren	Food Processing	
Eurofruti Sh.p.k	Wild Blueberries, mushrooms, Strawberries, and cultivated raspberries	Pristina	Food Processing	
Europa	Wood pellet and parquet	Leposavić/Leposaviq	North companies	Energy
EuroSteel	Scrap metal recycling	Pejë/Peć	Recycling	
Evroenergie LLC	Consulting	Pristina	Energy	
Farm (individual)	Vegetables	Mitrovicë/Mitrovica	North companies	Food Processing
Farm NB	Raspberries	Zubin Potok	North companies	Food Processing
Feroda Ing	Wood pellets	Pristina	Energy	
Fetoshi NTP	Insulation material	Rahovec/Orahovac	Energy	
Flutura Dedinja NI	Dresses, gowns, coats and accessories	Pristina	Apparel & Leather	

Company	Principal Product	Location	Sector 1	Sector 2
Fracton	Web site creation, software development	Pristina	ICT	
Fungo F.F	Wild Blueberries, mushrooms, Strawberries and cultivated champignons	Kamenicë/Kamenica	Food Processing	
Gacaferi	Cabinet furniture (kitchen cabinets and other)	Pejë/Peć	Wood Processing	
GET Group LLC	Consulting and retail of renewable energy products mainly solar energy	Pristina	Energy	
Gnjezdanska malina	Raspberries	Leposavić/Leposaviq	North companies	Food Processing
Godzi	Wooden doors and windows, kitchen elements	Zvečan/Zveçan	North companies	Wood Processing
Grm Impex	Processing vegetables and fruits	Leposavić/Leposaviq	North companies	Food Processing
Haxhijaha	Wine production	Rahovec/Orahovac	Food Processing	Tourism
Hilmi Deva	Solid wood products - Bunk beds, Cabinet furniture	Gjakovë/Đakovica	Wood Processing	
Hotel Carshia e Jupave	Accommodation	Gjakovë/Đakovica	Tourism	
Hotel Dukagjini	Accommodation	Pejë/Peć	Tourism	
Hotel Sharr	Accommodation & Recreation	Prizren	Tourism	
Hotel Sirius	Accommodation	Pristina	Tourism	
Hotel Theranda	Accommodation	Prizren	Tourism	
iNet	Security and networks	Pristina	ICT	
InterAdria	Services for Telecoms	Pristina	ICT	
Intours&Travel	Cultural Tours	Pristina	Tourism	
K-Berisha	Pellet	Malishevë/Mališevo	Energy	
Kadrie Brestovci BI	Gowns, wedding dresses and other women apparel	Pristina	Apparel & Leather	
Komtel	Software development	Pristina	ICT	
Kosovatex	Jeans and trousers	Pristina	Apparel & Leather	
KOTEX Apparel	Various garments	Vushtrri/Vučitrn	Apparel & Leather	
Krenare Rugova Fashion	Women's gowns	Pristina	Apparel & Leather	
Lesna	Doors & Windows (PVC and wood)	Pristina	Wood Processing	Energy
Liburnia	Food & Drink	Pristina	Tourism	

Company	Principal Product	Location	Sector 1	Sector 2
Magra Austria	Accommodation & Recreation	Pejë/Peć	Tourism	
Mebelstil	Upholstery products, sofas and chairs; hotel furniture	Gjakovë/Đakovica	Wood Processing	
Medina Sh.p.k	Meat products (Sausage, dried meat)	Prizren	Food Processing	
Mega Term	Installation of Geothermal heating systems	Pristina	Energy	
Menakon	Gowns, wedding dresses, women's apparel	Gjilan/Gnjilane	Apparel & Leather	
Metali NP	Biomass heating systems	Pristina	Energy	
Mikrobiz	Software development	Pristina	ICT	
Mix Product Sh.p.k	Marmalades, jams, ketchup, pickled vegetables and ajvar	Prizren	Food Processing	
N.T.P Kamila Chocolate	Chocolates and hard sweets	Prizren	Food Processing	
Newco Jugoterm (Enrad)	Central heating systems and other heating related equipment	Gjilan/Gnjilane	Energy	
Noritex	Underwear and uniforms for healthcare workers	Vushtrri/Vučitrn	Apparel & Leather	
Norma Construction NNP	PVC windows	Pristina	Energy	
Nuovo Monte	Rural Tourism	Novobërdë/Novo Brdo	Tourism	
Osa Termosistemi LLC	HVAC systems	Rahovec/Orahovac	Energy	Metal
Pestova Sh.p.k	Fresh potatoes, VIPA chips, flips and snacks	Vushtrri/Vučitrn	Food Processing	
Pishat	Food & Drink	Pristina	Tourism	
Pista Ekoplast	Plastics for recycling	Rahovec/Orahovac	Recycling	
Po Fix	Façade plaster, styrofoam, insulation	Lipjan/Lipljan	Energy	
Rematex	Acrylic and wool yarn	Dragash/Dragaš	Apparel & Leather	
Rrota Creative Studio	Web site creation, software development	Pristina	ICT	
Rudi Group	Accommodation & Recreation	Pejë/Peć	Tourism	
Rugova Experience Trek	Outdoor Tours	Pejë/Peć	Tourism	
Scampa	Biodegradable plastic bags	Pristina	Recycling	
Scardus d.o.o	Wild Blueberries, Strawberries, mushrooms	Štrpce/Shtërpcë	Food Processing	

Company	Principal Product	Location	Sector 1	Sector 2
	and cultivated Raspberries.			
Sharr Travel	Transport & Transfer	Pristina	Tourism	
Sharri Qumeshtorja	Yogurt, Ajron, white and Sharri Cheese	Prizren	Food Processing	
Sigel	Linen, working suits, clothes, pillows, quilts	Mitrovicë/Mitrovica	North companies	Apparel & Leather
Solaborante	Social networks technologies	Pristina	ICT	
Solid	Shoes, boots sneakers and purses	Suharekë/Suva Reka	Apparel & Leather	
Stone Castle Winery	Wine Tourism	Rahovec/Orahovac	Tourism	
STR Markovic	Wooden doors and windows; Kitchen elements	Zubin Potok	North companies	Wood Processing
STR Sisko	Vegetable and fruit producer	Zvečan/Zveçan	North companies	Food Processing
SZR Javor	Lumber(floor, walls, beams, boards)	Zubin Potok	North companies	Wood Processing
Te Syla Restaurant	Food & Drink	Prizren	Tourism	
Tedes	Hotel and restaurants furniture	Ferizaj/Uroševac	Wood Processing	
Tefik Canga Design	Chairs and tables	Ferizaj/Uroševac	Wood Processing	
TekFuze	Electronic controllers	Pristina	ICT	Energy
Termoin	Retail of energy efficiency and renewable energy products	Pristina	Energy	
Unikat Uniforma	Uniforms and shirts	Pejë/Peć	Apparel & Leather	
UP Zubin Potok	Processing: mushrooms, berrylike fruits, plumbs, juniper, rosehips, pasteurized papers	Zubin Potok	North companies	Food Processing
VGN	Cable TV and cable Internet provider, audio video equipment, computer service	Mitrovicë/Mitrovica	North companies	ICT
VIPRINT Printing	Printed paper products, signs	Mitrovicë/Mitrovica	Paper	Business Services
Xella	Insulation material	Lipjan/Lipljan	Energy