PPSE
PROMOTING
PRIVATE SECTOR
EMPLOYMENT

Processed Fruits and Vegetables in Kosovo

December, 2014

MARKET ASSESSMENT:

PROCESSED FRUITS AND VEGETABLES IN KOSOVO

This report has been prepared by
ProFound - Advisers in Development
December 2014

Contents

1. Introduction

This report has been drafted in the framework of the Promoting Private Sector Employment (PPSE) project: *Assessment of the market for processed fruit and vegetable products in Kosovo.*

Promoting Private Sector Employment (PPSE) project started in October 2013 and is currently at its inception phase with three additional implementation years foreseen until 2017. PPSE is a project in Kosovo financed by the Swiss Agency for Development and Cooperation (SDC), and implemented by a consortium of Swisscontact, Riinvest Institute and PEM Consult. In the inception phase PPSE is involved in the Food-Processing Sector and the Tourism Sector, and aims at attaining large-scale sustainable impact on employment for young women and men through improved competitiveness of the private sector.

During the period consisting of mid-July through mid-September, market analysts from ProFound – Advisers in Development (Netherlands) collected and analysed relevant information, at three different levels:

- Trade statistics: an assessment of Kosovo's trade balance for processed fruits & vegetables.
- Value chain dynamics: an analysis of the strengths & weaknesses stemming from the processed fruit and vegetable sector in Kosovo, derived from interviews with the most relevant stakeholders.
- Consumer profile: an analysis of Kosovar consumers' perception regarding domestically-processed fruits and vegetables.

The outcomes of this assessment are presented in this report, which is divided into thematic chapters. Chapter 2 addresses the methodology employed in this market assessment, explaining the data-gathering process and the use of both secondary and primary sources.

Chapter 3 provides a balance of Kosovo's trade statistics for processed fruits & vegetables, thus identifying the main product groups (and products therein) imported into Kosovo, as well as those which are exported from Kosovo. This information provides a basis for an in-depth analysis of opportunities in terms of import substitution and export potential.

Chapter 4 gives an overview of Kosovo's processed fruit & vegetable sector, covering topics such as company size, employment situation, actual processing vs. processing capacity, top products, main market channels and consumer preferences.

Chapter 5 brings together the perception of the different stakeholders in the value chain for Kosovo's processed fruits & vegetables around topics such as: quality; price & costing; availability & volumes; and promotion & marketing.

Chapter 6 brings together the main conclusions drawn per chapter. It highlights the main issues identified during the market assessment and compares the views of the various stakeholders approached.

The information provided in this market assessment report is finally translated into recommended interventions in Chapter 7, so as to facilitate activities within the Kosovar processed fruit & vegetables sector. These recommendations stem from the market perspective, and are based on the results of the data compiled.

2. Methodology

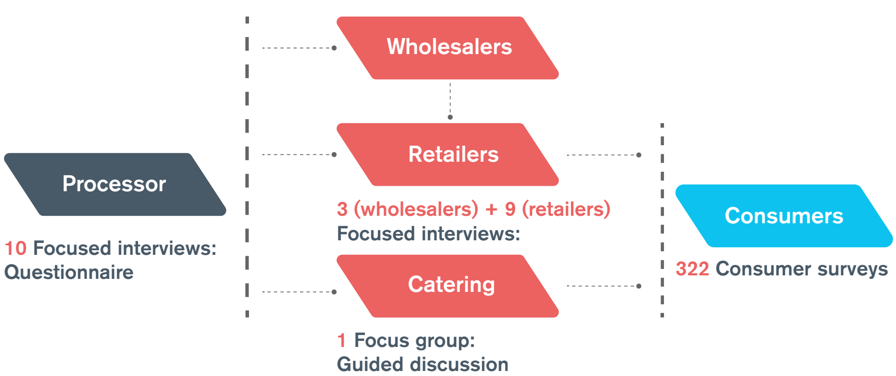
The data-collection methodology employed in this market assessment consisted of a combination of secondary and primary sources.

The use of secondary sources was an important step in identifying existing studies addressing the fruit & vegetable processing sector in Kosovo. These studies were used as a starting point for the analysis of the sector and in order to avoid the duplication of data during this market assessment.

Secondary sources were also used as a framework to analyse Kosovo's trade balance pertaining processed fruit and vegetable products. The analysis process was initiated from a careful selection of products, which was based on the relevant Harmonised System Codes (HS codes) for this sector. These HS codes were related to the products which were of interest to PPSE's future interventions. The trade data was cross referenced between Kosovo's Customs Office and the Eurostat database.

At the primary-source level, ProFound worked closely with PPSE and Riinvest Institute - a local research institute with previous experience in this sector - in designing questionnaires which were used to interview the most relevant stakeholders in the Kosovar fruit and vegetable sector: (large and small-scale) processing companies, (large and small-scale) retailers and independent wholesalers. The questionnaires contained topical questions, which were used to structurally address important issues for future interventions. The implementation of the in-depth interviews was done with the assistance of the local partner, Riinvest Institute. In total, the project team interviewed: 10 processors of fruits and vegetables; 9 retailers; and 3 independent wholesalers.

In order to address the catering sector, ProFound and Riinvest Institute designed and carried out a focus group, which had the participation of various stakeholders representing establishments such as restaurants and cafés. A total of 6 establishments were represented during this focus group. In the framework of this market assessment, the catering sector represents part of the end-market for processed fruits and vegetables in Kosovo.



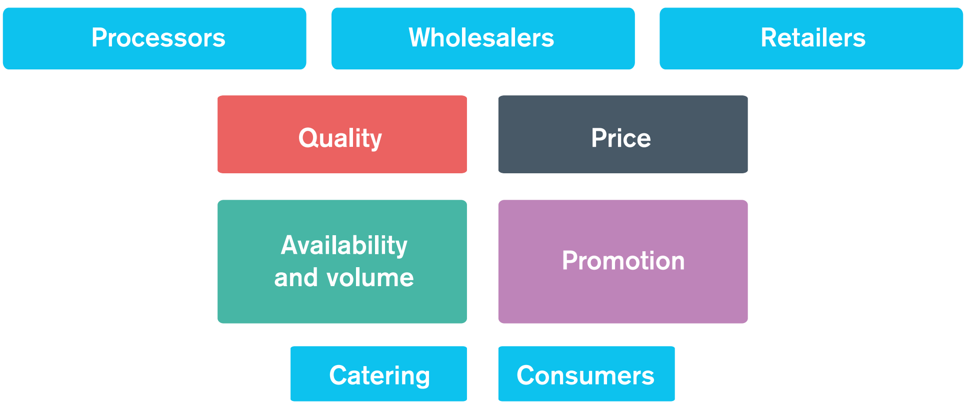
ProFound also cooperated with Riinvest Institute and PPSE in preparing a consumer survey, with the aim of assessing Kosovar consumers' perception of domestically-processed fruit and vegetable products. The surveys were carried out in different regions of Kosovo, addressing different gender / age groups and at various types of retailers. Through this methodology, the aim of the survey was to obtain a representative opinion from consumers; if not statistically significant (with a sample size of 322 respondents), the consumer survey was certainly relevant in qualitative terms. The information provided by this activity will also be used to design interventions with a special eye on the end-consumer.

The multi-question consumer survey was conducted between 13 and 22 August (refer to the survey in Annex 1 in 3 types of retail outlets: 1) large retailer (supermarket); 2) small independent neighbourhood retailers; 3) small retail chains, mainly small neighbourhood outlets, covering a total population of 322 persons of different ethnicities in 3 municipalities in Kosovo. The sample here is not statistically representative of the Kosovar population; it rather provides an indication of consumer behaviour and preferences. The demographic profile of respondents consisted of:

- **132 males (41%)**
- **187 females (59%)**
- **Age range: 17 to 82 years old**
- **Family income of respondents: between € 70 and € 3,000 / month**

Following the data-collection process, ProFound organised a stakeholder meeting as part of a verification mission in Kosovo. The stakeholder meeting was held on the 18th of September in Prishtina and totalled 14 participants representing processors, retailers, NGOs and governmental organisations. During this meeting, ProFound shared the preliminary results of the market assessment with the audience, which was followed by a discussion on the main issues presented.

The presentation addressed the preliminary results stemming from the study on trade statistics of Kosovo's processed fruits and vegetables, and was followed by the main results of the interviews, surveys and focus group, revolving around: quality, price, availability & volume and promotion.



The outcomes of the discussions at the stakeholder meeting have been discussed closely with PPSE and were incorporated into this report, so as to provide a deeper level of analysis and hands-on recommendations related to PPSE's support to the Kosovar processed fruit and vegetable sector.

3. Trade Statistics: processed fruits & vegetables

The selection of Harmonised System (HS) codes covering Kosovar imports and exports of processed fruits & vegetables aimed to match the definition of this sector as closely as possible. Data for this sector were extracted at the most specific 8-digit code level, and re-aggregated into product groups so as to be in line with the market for processed fruits & vegetables.

Chapter 20 of the Customs Tariff, which deals with Preparations of vegetables, fruit, nuts or other parts of plants, includes products such as edible nuts and olives. Such products were left out of the main aggregate, as well as mushrooms. However, they should be further analysed if PPSE engages in the non-wood forest product sub-sector at a later stage.

Potato products (i.e. chips, frozen French fries) are also excluded from the main aggregate because, firstly, potato is not considered a vegetable, and secondly, according to the PPSE's previous studies and analysis, this product does not offer sufficient opportunities for job creation mainly due to the monopoly in the industry. This product group is briefly covered under the section Limitations and further research. Whereas trade figures are primarily analysed in terms of value, volumes (in tonnes) are given as a secondary unit.

3.1. *Total imports and product groups in 2013*

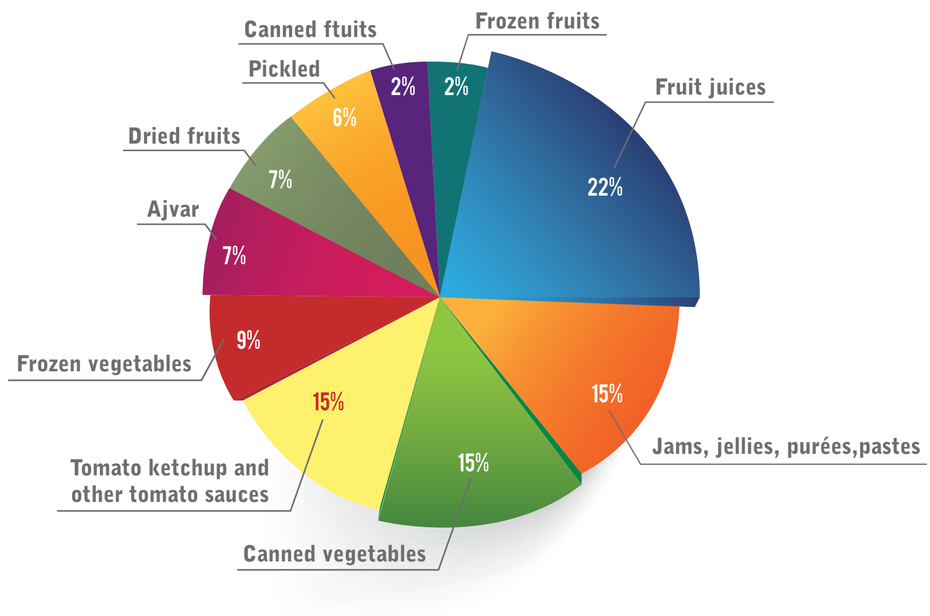
Total Kosovar imports of processed fruit & vegetable products in 2013 amounted to approximately € 8.1 million (8.7 thousand tonnes), having increased at an annual average rate of 2% since 2009 and experiencing a dip in 2010 and 2011. The trade figures presented herewith exclude the product groups which are not of direct relevance to the Kosovar processed fruit & vegetable sector and also fruits and vegetables that are not cultivated in Kosovo. Nevertheless, such figures may not represent the exact value of total imports, as smuggling remains a huge challenge in the North of Kosovo - the administrative border line between Kosovo and Serbia.[1] There is no official estimate of the value of smuggled goods through this border line and, as such, illegal imports remain unobserved.

According to the Kosovo Horticulture Trade Balance Report, it is estimated that the average annual imports of processed fruits and vegetables in Kosovo from 2007 to 2011 was € 22 million (reaching € 25 million in 2011).[2] However, this report included all product groups – cultivated and not cultivated fruits and vegetables in Kosovo such as citrus fruits, exotic fruits, different kinds of nuts, raisins and other dried fruits, vegetables (such as dried beans etc.), mushrooms, potato products, etc. In this respect, note that imports of the product group Other (i.e. not elsewhere specified) amounted to over € 9 million in 2011 in the above-mentioned report.

The main product groups imported into Kosovo in 2013 were fruit juices, accounting for a share of 22% of total imports of processed fruits & vegetables. Product groups jams, jellies, purées and pastes, canned vegetables and tomato ketchup and other tomato sauces closely followed, each accounting for 15% of total imports.

1 European Commission, Kosovo Progress Report, 2014
2 Kosovo Horticulture Trade Balance Report, 2011

Figure 1. Total Kosovar imports of processed fruits & vegetables, in 2013, in value



Source: Eurostat, 2014

3.1.1. Product groups and top products imported by Kosovo in 2013

The table below presents the main products within various product groups imported into Kosovo in 2013, also identifying the annual growth rates of these products since 2009 and their main suppliers to Kosovo.

The products classified as other and mixtures were excluded from this table to provide a more accurate view of the sector. Only the top two products within each product group have been included. The full table and the breakdown of imports per product group can be found in Annex 2.

Table 1. Main products imported into Kosovo in 2013, annual change 2009-2013, and main suppliers

The full table can be found in Annex 2

	Total imports 2013, in value (€ 1,000)	Total imports 2013, in volume (tonnes)	Annual change 2009-2013	Main import partners
Canned vegetables				
Tomatoes	**894**	**1,326**	**22%**	Italy 62% China 16% Greece 13%
Sweet corn	**81**	**63**	**22%**	Hungary 89% Italy 8% Poland 1%
Fruit juices				
Apple	**763**	**950**	**-3%**	Serbia 34% Macedonia 24% Austria 22%
Grapefruit	**249**	**129**	**68%**	Italy 85% Slovenia 7% Serbia 6%
Jams, jellies, purées, pastes				

Strawberry	64	60	-2%	Macedonia 61% Turkey 35% Austria 2%
Cherry	38	18	7%	Turkey 64% Macedonia 27% Germany 4%
Tomato ketchup and other tomato sauces	1,167	978	3%	Serbia 65% Italy 13% Macedonia 8%
Frozen vegetables				
Peas	98	126	-15%	Serbia 63% Croatia 21% Poland 8%
Beans	81	113	-31%	Serbia 88% Germany 4% Poland 4%
Ajvar	592	373	3%	Macedonia 96% Germany 2% Serbia 0.5%
Dried fruits				
Figs	155	84	13%	Turkey 99% Germany 1%
Grapes	104	61	6%	Iran 80% Turkey 6% India 6%
Pickled				
Cucumbers and gherkins	314	388	-6%	Macedonia 85% Albania 11% Serbia 3%
Sweet peppers	77	89	-6%	Macedonia 46% Serbia 35% Albania 18%
Canned fruits				
Cherries	70	44	13%	Croatia 92% Turkey 3% Serbia 2%
Pears	24	6	-23%	Macedonia 46% Serbia 35% Albania 18%
Frozen fruits				
Raspberry, blackberry, mulberry, etc.	14	10	1%	Serbia 87% Croatia 9% Germany 5%
Strawberry	10	5	27%	Serbia 56% Greece 25% Germany 18%

The main processed fruit & vegetable products imported and their origins vary widely according to the product group they belong to.

Regarding **fruit juices**, the main products imported into Kosovo in 2013 were apple and grapefruit juices, accounting for respective shares of 44% and 14% of total fruit juice imports. Although Italy plays a role in supplying fruit juices to Kosovo, most of imports were sourced in regional industries such as Macedonia, Serbia and Slovenia.

Within the product group **jams, jellies, purées and pastes**, the product group other (HS codes: 20079939, 20079950 and 20079997) accounts for a major share of imports (89%). When considering identifiable products, the largest product imported into Kosovo in 2013 was strawberry jam / jelly, accounting for 5% of total imports. Cherry jam / jelly is also an important product, having accounted for 3% of total imports in 2013. Within this product group, the origin of imports varies widely; in addition to Macedonia, Turkey plays an important role. EU countries such as Germany and Austria also play a minor role in supplying Kosovo with jams, jellies, purées and pastes. Note that Greece is the main supplier of other jams, jellies, purées and pastes, which might actually be attributed to pastes such as tahini.

In general, imports of **canned vegetables** are concentrated around EU countries, whereby Italy plays an important role. Excluding mixtures, by far the main canned vegetable imported into Kosovo in 2013 was tomato, accounting for over 70% of total imports. Sweet corn accounted for 7% of total imports. Both products increased at a significant annual rate since 2009, exceeding +20%.

When it comes to **ketchup and other tomato sauces**, Serbia is by far the largest supplier to Kosovo; in 2013, the country supplied 65% of total imports. Kosovo's imports of this product group increase at an annual rate of 3% since 2009, amounting to € 1.2 million in 2013. Serbia also plays a large role in supplying **frozen vegetables** to Kosovo. In 2013, it was Kosovo's largest supplier of frozen peas, beans, sweet corn, sweet peppers and mixtures.

Ajvar is also an important product imported into Kosovo. In 2013, Macedonia accounted for nearly all supplies of ajvar, at a share of 96% of total imports. Macedonian ajvar has an appellation of origin, thus being an important export product from that country.

In terms of imports of **dried fruits**, Turkey is by far the most important supplier to Kosovo. Turkey is a large producer and recognized trade hub for dried fruits. More regional products such as dried apples and pears are supplied by neighbouring Albania and Serbia.

Supplies of **pickled vegetables** to Kosovo, which is one of the most significant products processed in the country, are also dominated by neighbouring countries: Macedonia, Albania and Serbia. Within this product group, pickled cucumbers and gherkins account for over 60% of total imports, followed by sweet peppers, with a share of 16%. The remaining share consists of other pickled products. It is important to note that imports of pickled vegetables decreased significantly since 2009, at an annual rate of around 6% for the top two products.

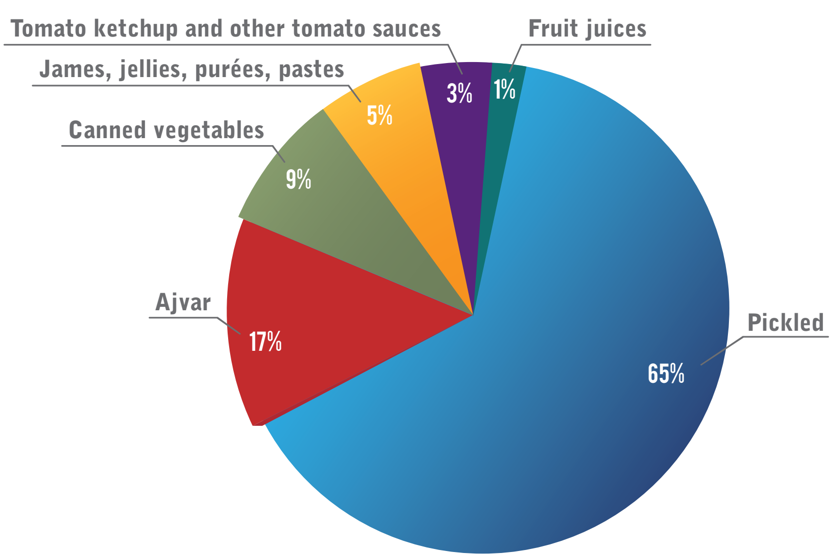
Canned fruits and **frozen fruits** are more minor product groups in terms of Kosovar imports. Whereas the origin of different canned fruits varies widely according to the raw material, imports of frozen fruits mimic imports of frozen vegetables in terms of having Serbia as a main supplier for most products.

3.2. *Total exports and product groups in 2013*

The selection of Harmonised System (HS) codes regarding Kosovar exports of processed fruits & vegetables was as closely aligned to the product range of companies interviewed as possible. The products which cause inconsistency in figures and reason for further investigation are highlighted under section *Limitations and further research.*

Total Kosovar exports of processed fruit & vegetable products in 2013 amounted to approximately € 631 thousand (663 tonnes). Due to data inconsistencies during the last 5 years, the progress of exports in this period at the aggregate level is not reliable. For this reason, 2009-2013 annual changes are only given at the product level.

Figure 2. Total Kosovar exports of processed fruits & vegetables, in 2013, in value



Source: Eurostat, 2014

Considering the product selection described above, the main product groups exported from Kosovo in 2013 were *pickled vegetables*, *ajvar* and *canned vegetables*. Pickled products had a major share of 65% in total Kosovar exports, whereas ajvar reached a share of 17% in 2013. Canned vegetables had a share of 9% of total exports of processed fruits & vegetables. Product groups *jams, jellies, purées and pastes* and *tomato ketchup and other tomato sauces* followed, accounting for respective shares of 5% and 3% of total exports. Fruit juices account for the smallest share, at 1% of total Kosovar exports of processed fruits & vegetables in 2013.

3.2.1. Product groups and top products exported from Kosovo in 2013

The table below presents the main products within various product groups exported from Kosovo in 2013, also identifying the annual growth rates of these products since 2009 and their main destinations for Kosovar exports. The products classified as *other* and *mixtures* were excluded from this table to provide a more accurate view of the sector, with the exception of jams, jellies, purées, pastes, which only has product other as a relevant export product. The full table and the breakdown of exports per product group can be found in Annex 3.

Within the product group **pickled vegetables**, sweet peppers accounted for the largest share of Kosovar exports in 2013, at 31% (*other pickled vegetables, however*, accounted for a larger share of 58%). In fact, Kosovar exports of pickled sweet peppers exceed imports; whereas Kosovo imported € 77,000 in 2013, its exports reached € 127,000. In turn, exports of pickled cucumbers and gherkins accounted for a 12% of total exports in 2013, but are still lower than imports. The main destination countries for Kosovar exports of pickled vegetables can be found in the EU.

The product **ajvar** also plays an important role in Kosovar exports, accounting for 17% of total Kosovar exports in 2013. Exports of ajvar had a significant annual increase of 50% since 2009, and are mostly exported to Sweden, Macedonia and, to a smaller extent, to Belgium.

In 2013, sauerkraut achieved the highest share within this product group, at 29% [with the exception of the product group *mixtures* (52%)]. The major destination for Kosovar exports was the largest food market in the EU, Germany. Canned peas also played a role, at a share of 14% in total exports; the only destination in 2013 was neighbouring Macedonia.

Within the group **jams, jellies, purées, pastes**, it is not possible to identify the raw material providing interesting opportunities to Kosovar exporters. Product group *other* is the only one registered in Kosovar exports in 2013, having Montenegro and Serbia as main destinations.

Tomato ketchup and other tomato sauces was mainly exported to Serbia in 2013 (65% share), also having Italy and Macedonia as less important destinations. The product group **fruit juices** still plays a minor role in Kosovar exports, and destinations vary widely per product.

Table 2. Main products exported from Kosovo in 2013, annual change 2009-2013, and main destinations
The full table can be found in Annex 3

	Total exports 2013, in value (€ 1,000)	Total exports 2013, in volume (tonnes)	Annual change 2009-2013	Main export partners
Pickled				
Sweet peppers	127	132	8%	Austria 33% Germany 31% Sweden 27%
Sweet peppers	48	67	13%	Austria 70% Germany 23% Sweden 5%
Ajvar	105	72	50%	Sweden 44% Macedonia 38% Belgium 12%
Canned vegetables				
Sauerkraut	16	17	102%	Germany 82% Switzerland 18%
Peas	8	11	82%	Macedonia 100%
Jams, jellies, purées, pastes				
Other	32	36	20%	Montenegro 56% Serbia 35% Sweden 9%
Tomato ketchup and other tomato sauces	21	27	-13%	Macedonia 50% Albania 26% BiH 22%
Fruit juices				
Cherry	2.3	0.4	N/A	Germany 100%
Apple	1.1	0.4	-46%	Albania 100%

3.3. *Limitations and further research*

As elaborated above, product groups *other* and *mixtures* provide a major gap in trade data, especially concerning Kosovar exports. Not only do these product groups fail in identifying the raw material source, but they also present most data inconsistencies in the period 2009-2013.

For instance, HS code 081190, consisting of *Fruit & nuts not elsewhere specified, uncooked/cooked by steaming/boiling in water, frozen*, proved to be disproportionally high compared to total Kosovar exports and does not allow for the distinction between fruits and nuts.

In another example, HS codes 20059990 (extinct in 2012) and 20059980, under the group "other preserved/ canned vegetables" (i.e. *Other vegetables prepared or preserved otherwise than by vinegar or acetic acid, not frozen, other than products of heading 2006*) are the most accurate codes targeting ajvar, an important product for Kosovo. These HS codes were identified through a qualitative investigation, looking into the most common registration practices for **ajvar** supplies under customs authorities.

On the other hand, some other products which were not included in the aggregate, but which are individually interesting and deserve further investigation at a qualitative basis are:

- Canned cherries (HS codes 20086039/50/60/70/90): This product group achieved exports amounting to € 164 thousand in 2013, exceeding the level of imports (€ 70 thousand). Further investigation can reveal whether this product is indeed interesting as a Kosovar export, or whether reported figures are inconsistent with the reality of the sector.

- Dried apples (HS code 08133000): Kosovar exports achieved € 70 thousand in 2013, being fully exported to Germany (imports amounted to € 17 thousand). During the verification mission, the project team learned that dried (wild) apples are exported to Germany for medicinal purposes, and could be an interesting non-timber forest product for further research.

Regarding potato products, which were excluded from the initial product selection, data are presented below for potato chips (HS code 20052020) and frozen potatoes (i.e. frozen French fries) (HS code 20041010). These products achieved a high level of imports in 2013, causing a major distortion in the total data. Potato products were not initially selected as a focus of this market assessment due to the fact that currently there is only one large processor that has a monopolistic position over the resources for processing, therefore there is no scale-up potential for potato products. More market actors are needed in order to further develop the market and the competition therein. As long as there is only one processor in Kosovo, there is a very limited possibility to increase employment in this sub-sector.

4. Profile of the fruit & vegetable processing sector in Kosovo

4.1. Size of processors of fruits & vegetables in Kosovo, exports and employment situation

The project team interviewed a total of 10 processors of fruits and vegetables in Kosovo. Out of the 10 respondents, 4 are solely dedicated to the processing of vegetables and 1 is solely dedicated to the processing of fruits. The other 5 companies are dedicated to the processing of both product groups, even though the two small-scale processors ("KB Krusha" and the Women's Association "Parajsa Jonë") predominately process vegetables.

4.1.1. Size and revenue level of Kosovar processors of fruits & vegetables

Most of the processors are small and medium enterprises while 3 of them are large companies. This categorization is based on the current EU guide on the SME definition which was also adopted in Kosovo (Table 3).[3] Among small and medium enterprises 2 of them are small scale processors mainly engaged in homemade processed fruits and vegetables. These small processors have typically between 15 and 30 employees during the season. On the other hand, medium and large processors in Kosovo employ between 70 and 300 employees.

Table 3. Size of fruit & vegetable processing companies interviewed, by no. of employees (incl. seasonal)

Size of companies	# of companies
Micro (<10)	0
Small (<50)	4
Medium-sized (<250)	3
Large (>250)	3

However, only three processors reported to have exceeded 1 million Euros of their annual turnover in 2013; two of them had less than 1 million Euros whereas the rest of companies less than 1 hundred thousand Euros (Table 4); two processors reported these data as being confidential.

3 http://ec.europa.eu/enterprise/policies/sme/files/sme_definition/sme_user_guide_en.pdf

Table 4. Annual revenue level of fruit & vegetable processors, in 2013, in €

Annual revenue	# of companies
<€ 50,000	1
€50,000 - €100,000	2
€100,000 - €500,000	1
€500,000 - €1,000,000	1
€1,000,000 - €10,000,000	3

4.1.2. *Export activities by Kosovar processors of fruits & vegetables*

A total of 6 out of the 10 respondents have declared that they already engage in export activities; 2 respondents do not yet export and 2 respondents did not provide an answer to this question. Two Kosovar processors export more than half of their total production (in terms of revenue) and, on the other end of the spectrum, two other companies do not engage in export activities at the moment.

Table 5. Exports, % of total revenue, in number of respondents and main export destinations

<table>
<tr><th>Exports, % of total revenue</th><th># of companies</th><th>Main export destinations</th></tr>
<tr><td>None</td><td>2</td><td rowspan="5">Albania, Macedonia, Montenegro, Croatia, Sweden, Switzerland, Austria, Germany, Serbia, Belgium, USA</td></tr>
<tr><td><20%</td><td>2</td></tr>
<tr><td>20-50%</td><td>2</td></tr>
<tr><td>>50%</td><td>2</td></tr>
<tr><td>N/A</td><td>2</td></tr>
</table>

4.1.3. *Employment situation: processed fruits & vegetables sector in Kosovo*

The total number of full-time employees in this sector is roughly "***500, whereas the number of seasonal employees is higher – over 850 during the season"***. It is worth noting that female labour force participation in fruit and vegetable processing sector in Kosovo is high; 62% of employees in this sector are females. In addition, the average share of employed females in all fruit and vegetable processing companies, including small-scale processors, is 65%. When it comes to small scale processors only (incl. "KB Krusha" and Women's Association "Parajsa Jonë"), the average share of employed females is 95%, which is much higher compared to the average share in industrial processing companies, at 58%. The ethnic composition of employment in this sector reflects the ethnic composition of population in Kosovo – 90% are Albanian and the rest include Serbian, Turkish, RAE community, Bosnian and Gorani.

4.1.4. Sector association and governance in the Kosovar processed fruits & vegetables sector

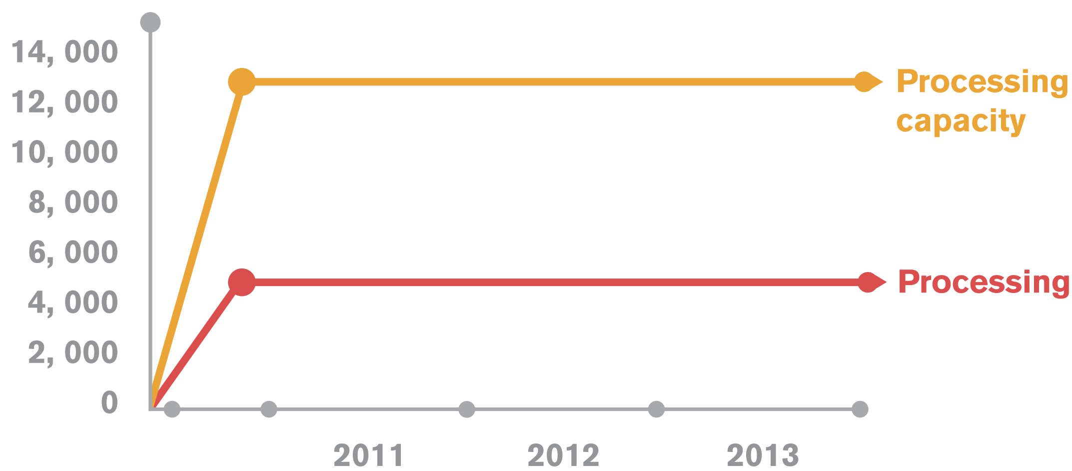
Currently, the Kosovo Fruits and Vegetables Association (PePeKo) is the only association representing the processed fruit & vegetable sector in Kosovo. During the interviews, a total of 5 interviewed processors claimed to be represented by PePeKo; the two small-scale processors interviewed are not part of this group. As such, processors from women's associations and minority areas are not currently included in the mainstream governance structure of the sector.

Other forms of representation mostly happens through chambers of commerce which are not specifically dedicated to the processed fruit & vegetable sector. However, most companies believe that the associations/chambers representing them do not provide sufficient support. Only 4 out of 10 companies mentioned that they received some support activities such as participation in trade fairs, information sharing and training.

4.2. Annual processing of fruits & vegetables in Kosovo vs. processing capacity

Based on the information gathered from field interviews with ten processors around Kosovo, there is an ever- increasing trend in the domestic production of processed fruits and vegetables. At the same time, the gap between processing capacities of local processors and their annual processing volumes during the last three years is also narrowing (see Figure 3). Only the two small-scale processors reported that, during the last three years, they have operated at full capacity. The current gap should be attributed mainly to one of the largest processors, which is currently utilising only 20% of its capacity.

Figure 3. Annual processing vs. processing capacity of fruits & vegetables in Kosovo, 2011-2013 change, in tonnes



All 8 processors together (two reported as confidential) have processed approximately 5.7 thousand tonnes of fruit and vegetable products in 2013. It should be noted that 1 of the interviewed processors reported their processing volumes in processed units only (i.e. jars). Therefore, quantities for this company are generated assuming that a single jar weights 0.5 kg (conservative estimate).

Table 6. Annual processing of fruits & vegetables per scale of processing in 2013, in tonnes

Annual processing in 2013 (tonnes)	No. of companies
<50 tonnes	2
50 – 100 tonnes	1
100 – 500 tonnes	1
500 – 1,000 tonnes	1
1,000 – 2,000 tonnes	3

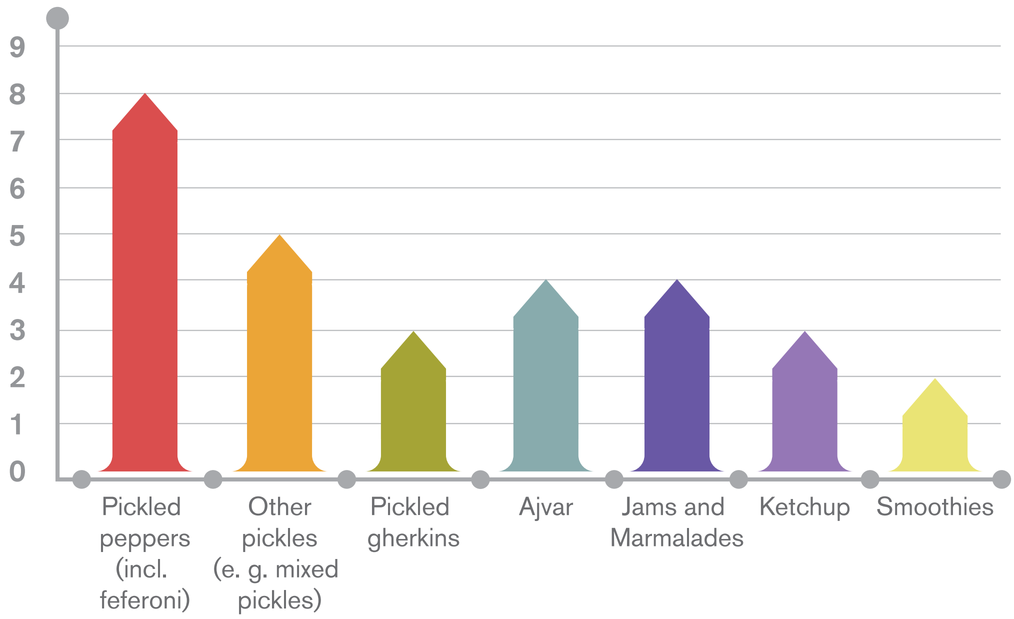
In addition, not all processors have reported their processing capacities, though they provided figures for annual processing volumes. Hence, it is also assumed that these processors operate at full capacity. Based on the above assumptions, there are 3 processors that produced between 1 and 2 thousand tonnes and the rest of processors produced less than 1 thousand tonnes in 2013.

Based on total production figures, and in combination with the trade data presented in Chapter 3, it is possible to give an estimate of Kosovo's processed fruit and vegetable market size (in volume). In this regard, apparent consumption can be calculated using the following formula: ***apparent consumption = (imports – exports) + production***. Calculations result in a market size estimated at **13.7 thousand tonnes**, but which should be handled with caution due to the inherent data limitations. On the one hand, and as mentioned previously, Kosovo's import figures may not represent the exact value, as smuggling remains a huge challenge especially in the North of Kosovo. On the other hand, the disclosed production volumes of two large-scale companies in Kosovo due to confidentiality issues might provide a distorted / underestimated picture of the market size and potential.

4.3. *Main product groups and fruit & vegetable products processed in Kosovo*

The main indicator used to determine the most commonly processed fruits & vegetables in Kosovo is the number of processors that produce a particular product. In-depth field interviews with processors revealed that pickled vegetables represent the most popular product. For instance, there are 8 processors, including both small-scale processors, who produce pickled peppers. Other pickles such as salads, mixed vegetables, etc., are currently processed in 5 different processing companies in Kosovo. Ajvar, which was the most selected product from the consumer survey, is produced by only four companies. Figure 4 provides the full overview of the most commonly processed fruits & vegetable products in Kosovo.

Figure 4. Top fruit & vegetable products processed in Kosovo, in number of processing companies



As seen above, the level of product diversification at the processing level in Kosovo is very low. Not only is there a concentration on specific raw materials (e.g. peppers and gherkins), but also in terms of processing (e.g. pickling). In addition, there is a focus on vegetable-processing in Kosovo, whereas fruits are underutilised as a raw material due to the low fruit production in Kosovo and low price offered by processors compared to prices in the fresh market. This is also reflected onto the main product groups exported from Kosovo, which are concentrated around pickled vegetables and *ajvar* (Chapter 3). As a result, various processors compete within the same market segments with very similar products and market entry strategies. An exception is the market for home-made products, which provides a potential to explore a niche consumer whose preference favours home-made quality. Currently, several families in Kosovo process mainly vegetables at home (e.g. *ajvar*, pickles), thus small-scale processors could adapt their strategies so as to target such consumers.

It is also possible to observe that certain product groups which are imported to a great extent into Kosovo are in fact not processed at an industrial scale (or are processed in small amounts). This is the case of fruit juices, which account for 22% of Kosovo's total processed fruit & vegetable imports, but do not see major industrial activity domestically (there two companies processing smoothies). Similarly, canned vegetables (15% of total imports), frozen products (vegetables: 9%, fruits: 2% of total imports) and dried fruits (7%) do not appear among the most commonly processed fruit & vegetable products in Kosovo.

On the other hand, there are products which are processed in a large scale in Kosovo, but which are imported from suppliers elsewhere. This is the case of jams & marmalades, which accounted for 15% of total Kosovar imports in 2013, and have been mentioned as a top-processed product by four Kosovar companies. In the case of pickled vegetables, which accounted for 6% of total imports, the situation is even more particular. The vast majority of processors in Kosovo handle pickled vegetables, whereas the product also accounts for more than 60% of Kosovar exports of processed fruits & vegetables. The case of *ajvar* is similar; although the product is an important product in the Kosovar industry, it still accounts for 7% of Kosovo's imports of processed fruits & vegetables (96% sourced from Macedonia).

One further point of observation regarding the Kosovar industry is the focus on finished products, whereas little activity is detected in the processing of semi-finished products (e.g. frozen purées, aseptic purées, [freeze-] dried and frozen fruits & vegetables, etc.). Most companies in Kosovo process products targeting the retail market directly, not the food-processing industry (i.e. as ingredients). Whereas this strategy is suitable for the domestic and regional markets, as well as niche international markets (e.g. diaspora community), exporting to the mainstream EU market would require a different approach due to the level of market saturation and high requirements for finished products. Supplying directly to EU retailers requires, among other factors:

- **High food safety management standards (e.g. ISO 22000, BRC)**
- **A high-tech packaging line**
- **Appropriate labelling, in compliance with EU legislation**
- **Marketing support from a EU partner / strong marketing department**
- **In-depth knowledge of consumer trends and packaging design**
- **Advanced logistics: short lead time, consistent supplies**

4.4. Retailer profile and role of processed fruits and vegetables at retail level

In order to understand the relationships within the value chain for processed fruits & vegetable, it is crucial to investigate the various actors and their direct and indirect influence on chain performance. In this regard, focused interviews with the largest retail chains, as well as small chain retailers, were conducted. In addition, a few independent retailers and some important wholesalers engaged in fruit and vegetable processing sector were also included.

Domestic processors in Kosovo cooperate directly with retailers and very few with wholesalers. Interviewed processors reported that on average 70% of total production is sold directly to retailers – large chain and small chain retailers. Roughly 20% of the production is available in the market through wholesalers. The rest of the production is sold directly to the catering sector (mainly in the case of smoothies).

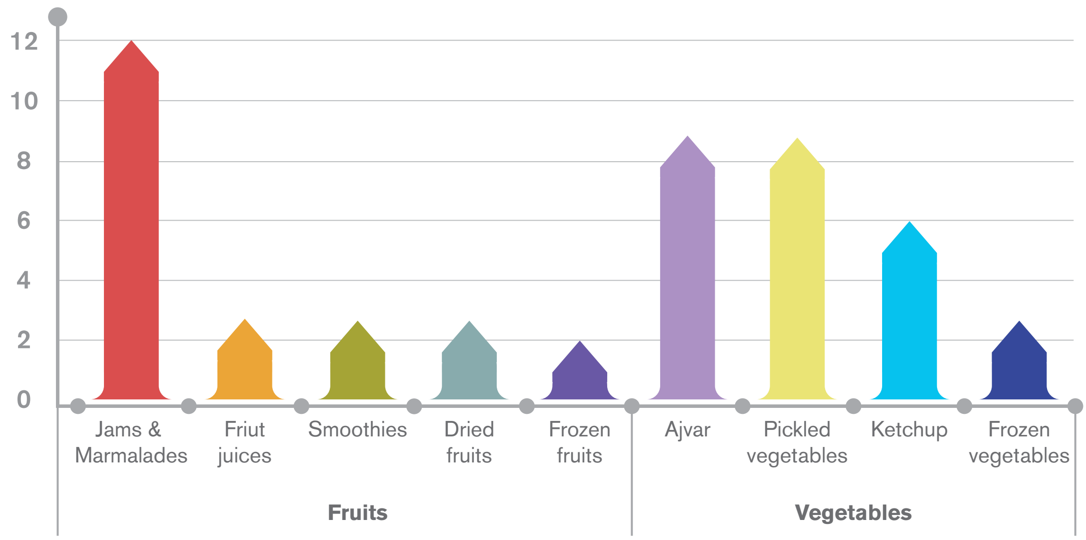
At the Kosovar retail level, the share of processed fruits & vegetables in total sales varies significantly across different retail chains. The share of processed vegetables in total sales ranges between 0.5% and 12%, at an average share of 3.5% per retailer. In the case of processed fruits, the share ranges from 0.5% to 10%, at an average share of 5% per retailer. Out of the nine retailers interviewed, only one reported these data as confidential. However, only two retailers revealed their total annual sales, which is a major shortcoming in estimating Kosovo's market size for processed fruits & vegetables in terms of value.

In addition to the above-given figures, retailers reported that the average ratio of imported / domestic processed fruits is 70/30, which reflects the underutilisation of fruit raw materials domestically due to the low fruit production in Kosovo and low price offered by processors compared to prices in the fresh market. The situation is completely different with processed vegetables; on average 60% of processed vegetables in retailers' shelves in Kosovo is processed domestically. Two out of the nine retailers interviewed refused to provide information regarding the origin of products

The same indicator as with processors is also used with retailers and wholesalers in order to determine the most popular products at the retail/wholesale level. The figure below depicts the processed fruit and vegetable products reaching the greatest sales levels in Kosovo, both domestic and imported, as reported by both retailers and independent wholesalers.

70% of total production is sold directly to retailers

Figure 5. Top processed fruit & vegetable products sold at the retail and wholesale levels, in number of respondents



Processed fruits: all interviewed retailers and independent wholesalers mentioned jams & marmalades as one of the top products in terms of sales. This is also the most common product group within the Kosovar fruit-processing industry. However, jams, jellies & purées represent around 15% of total Kosovar imports of processed fruits & vegetables, indicating that there is a vast market for this product group, and that domestic demand exceeds Kosovo's production. Fruit juices, smoothies and dried fruits were mentioned by 3 retailers and independent wholesalers as a top product in terms of sales. Out of these 3 product groups, only smoothies are commonly processed by the Kosovar industry, thus revealing a gap for the other product groups.

Processed vegetables: the top product groups in terms of sales related closely to the most commonly processed products in the Kosovar industry (also in terms of exports): ajvar and pickled vegetables. This reveals, once again, a lack of product diversification, but which directly reflects the market demand. One product group mentioned by half of the respondents as a top product in terms of sales was ketchup, which is in fact produced in Kosovo, but still accounts for around 15% of total imports (together with tomato sauces). As such, market demand for ketchup exists, but the domestic industry does not capture a large share of this market, which is highly focused on imported brands.

4.5. The catering sector: main processed fruits and vegetables

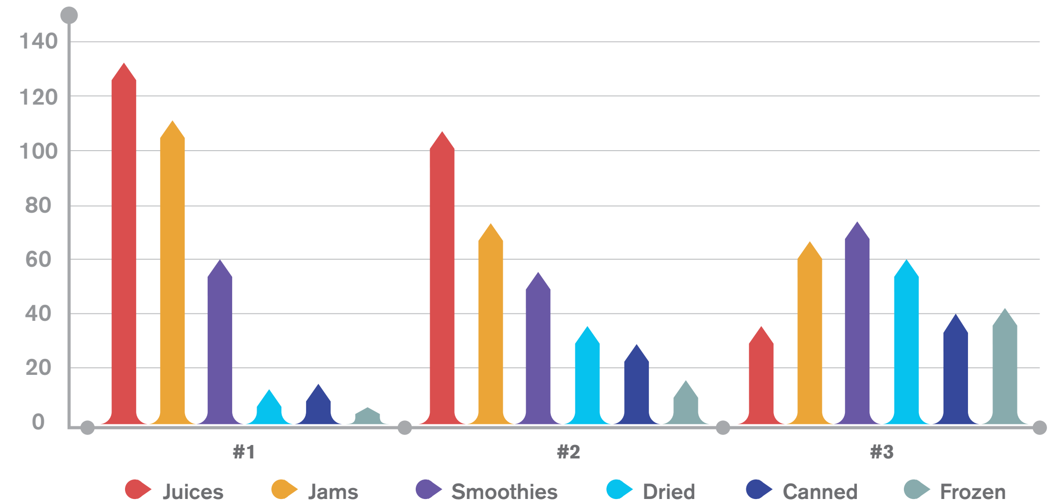
During the discussion of the catering sector focus group, participants were asked to mention the top processed fruit & vegetable products which they serve at their eateries. Within the group of processed fruits, *smoothies* and *juices, jams* and *frozen fruits* were selected as the most consumed products. On the other hand, *ajvar, ketchup* and *pickles* are the most consumed vegetable products. It is worth noting that preference is given to local products. Jams and ajvar are sourced only from local processors, mainly from small-scale processors. On average, 60% of processed fruits are sourced domestically. Smoothies are equally sourced from domestic processors and distributors of imported products. One of the participants claimed that they process their own *ajvar* mainly so as to guarantee quality consistency. Ketchup and pickles are sourced from both domestic processors and imports – 50% of ketchup and 70% of pickles are sourced domestically.

50% of ketchup and 70% of pickles are sourced domestically.

4.6. Consumer surveys: main processed fruits and vegetables consumed

In addition to focused interviews with processors and retailers/wholesalers, a consumer survey with 322 random consumers within retail outlets was also conducted. The following figures (Figures 6 and 7) show the ranking of most consumed processed fruits and vegetables.

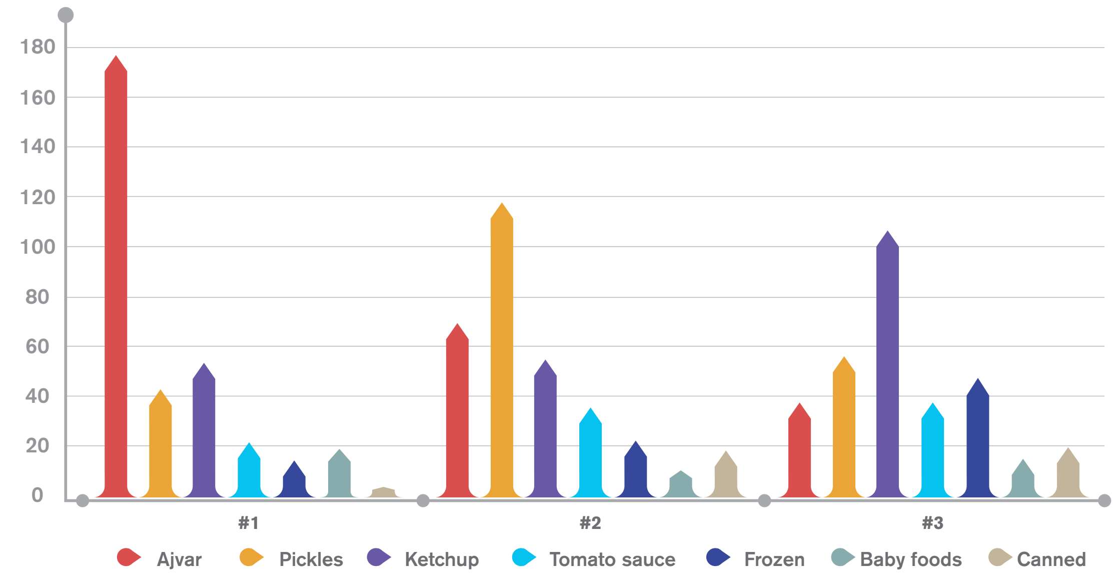
Figure 6. Most consumed processed fruits, in number of respondents, ranked 1 (most important) to 3 (least important)



- The product group ***juices*** was the one mentioned by the highest number of respondents (more than 80%) as one of the top 3 processed fruits. It was also the product group which was mentioned as most consumed by the highest number of respondents.
- The product group ***jams*** also ranked high in consumer preference, being mentioned by nearly 80% of the respondents as one of the top 3 processed fruits.
- ***Frozen fruits*** received the lowest number of responses; less than 20% of respondents named this product group as one of the top 3 processed fruits.

The results above confirm, to a large extent, the observations made at the level of retailers and independent wholesalers. One deviation from the interviews with retailers and wholesalers is that *fruit juices* received a significantly higher number of mentions during the execution of the consumer surveys than *jams (& marmalades)*. As mentioned previously, the high demand for fruit juices points toward a positive prospect for domestic processors to gain market share in relation to foreign suppliers. This is also the case for jams (& marmalades) which, as in the case of fruit juices, still account for a high share of total Kosovar imports of processed fruits & vegetables. Possibilities for *dried fruits* (7% of total imports) can also be explored as either finished or semi-finished products, targeting raw materials from the local biodiversity. Currently, demand for dried fruits seems to be high, while little activity has been detected at the domestic processing level. These possibilities should also be explored in the sub-sector non-wood forest products. Canned and attained lower mentions at the retail, independent wholesale and consumer levels.

Figure 7. Most consumed processed vegetables, in number of respondents, ranked 1 (most important) to 3 (least important)



- Ajvar was by far the most mentioned product group by respondents. Nearly 90% of the 322 consumers interviewed selected it as one of the top 3 processed vegetable products. More than 60% of these consumers selected it as the most consumed product.
- The product group ***pickles*** was especially popular during the interviews as well. Nearly 70% of the respondents selected it as a top 3 processed vegetable product; more than half of these respondents selected it as a second most-consumed product.
- ***Ketchup*** was mentioned by around 65% of respondents, but half of these respondents selected it as a third most-consumed product.
- The product groups ***canned vegetables*** and ***baby food*** received the fewest hits by respondents. Only around 10% of the consumers interviewed selected the product group ***canned vegetables*** and around 14% mentioned ***baby food*** as a top 3 processed vegetable product.

According to the results above, consumers are focused on the processed vegetables which are also produced to a large extent in Kosovo: *ajvar* and *pickled vegetables*. Whereas there is a certain level of market saturation for these products, it is also observed that they are still imported mostly from neighbouring countries – remarkably in the case of Macedonian *ajvar*. In addition, these are product groups which attain the highest levels of exports in Kosovo, together accounting for over 80% of total processed fruit & vegetable exports. As such, not only do domestic processors have the potential to substitute imports for these product groups, but to expand their exports as well. *Ketchup* was also commonly mentioned during consumer surveys and, as confirmed at the retail and wholesale levels, it has high sales levels in Kosovo. Together with tomato sauce, however, ketchup accounts for 15% of Kosovo's total imports of processed fruits & vegetables, pointing toward great potential for import substitution.

Remarkably, the group canned vegetables did not attain many mentions at the different levels of the value chain, including at the consumer level. As observed in Chapter 3, canned vegetables account for around 15% of Kosovo's imports, with the highest share accounted for by canned tomato, which points toward the importance of processed vegetable products having tomato as a raw material base. *Frozen vegetables* (accounting for 9% of Kosovo's imports) did not receive many mentions from consumers, but have actually been identified as a top-selling product at the retail and wholesale levels. A high share of frozen vegetables (peas, beans, mixtures, etc.) is sourced from Serbia, whereas the domestic industry is underdeveloped for frozen products, where there could also be a potential for import substitution.

5. Main findings: strengths and weaknesses of Kosovo's fruit & vegetable processing sector

This section addresses the main findings regarding the Kosovar sector for processed fruits & vegetables stemming from the perspective of various stakeholders approached during the market assessment. As such, these findings are divided into 4 different levels: 1) consumers; 2) catering sector; 3) retailers and independent wholesalers; 4) processors of fruits & vegetables. For each stakeholder, themes pertaining to quality, price & costing, availability & volumes, and promotion & marketing are cross-analysed so as to provide a holistic view of the fruit & vegetable-processing sector in Kosovo. For processors of fruits & vegetables, an extra section on communication with customers is added.

The analysis starts at the consumer level and moves up to the level of retailers, wholesalers and the catering sector. Finally, and so as to identify the source and/or reflection of the main issues at the processing level, the analysis reaches the level of Kosovar processors of fruits & vegetables.

The objective herein is to identify strengths and weaknesses of the sector, as well as the inconsistencies in perception amongst the different stakeholders regarding the above-mentioned topics. The outcomes of this analysis are used in Chapter 6, to draw main conclusions, and in Chapter 7, which addresses the prospective intervention areas and activities to optimise opportunities for import substitution & export promotion, as well as to tackle bottlenecks in the sector.

5.1. Kosovar consumers

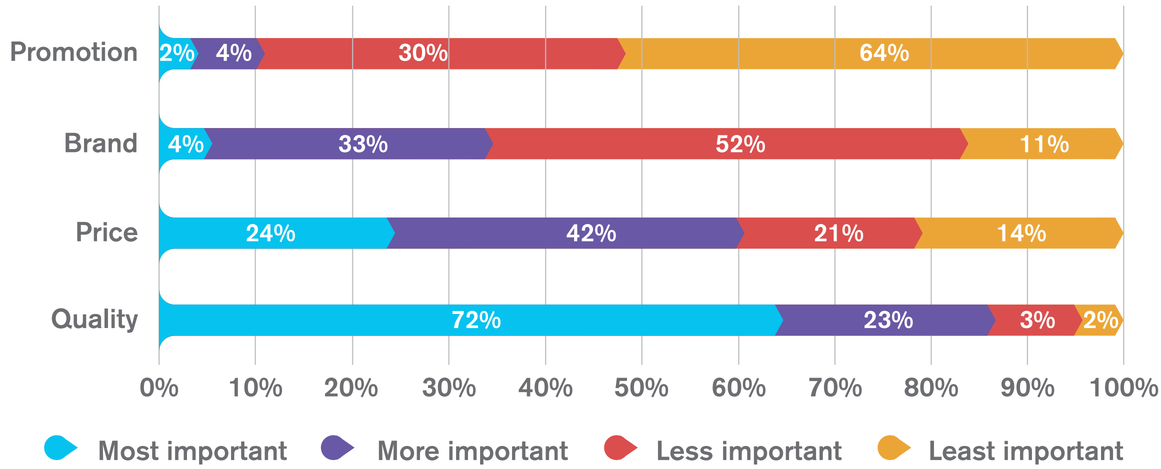
As mentioned in Chapter 2 (Methodology), 322 consumers were approached at various retail outlets around Kosovo in August 2014, and responded to a multi-question survey. The results of this survey revealed some of the consumption patterns and consumer preferences regarding processed fruits and vegetables in Kosovo.

5.1.1. Factors influencing purchasing decisions

One of the most important results stemming from the consumer survey relates to the factors which influence Kosovars during their purchasing decisions. The respondents were presented with the following factors, which they were asked to rank in order of importance, from 1 to 4 (Figure 8):

- Quality
- Price
- Brand
- Promotion

Figure 8. Ranking of most important factors in consumer purchasing decision, by share of respondents, ranking 1 (most important) to 4 (least important)



Quality was by far considered to be the most important aspect for Kosovar consumers when purchasing processed fruit and vegetable products; consumers ranked quality as the most important factor when compared to price, brand and promotion. More than 70% of the respondents selected quality as the most important factor when asked on what they base their purchasing decisions on when it comes to processed fruits and vegetables.

Price was ranked as the second most important aspect for consumers when purchasing processed fruit and vegetable products; it was selected by only 24% of the respondents as the most important factor, while brand plays a less important role: only around 4% of respondents considered it to be the most important aspect.

Promotion is the one aspect which least influences consumers in their purchasing decisions related to processed fruits & vegetables. Less than 2% of respondents selected it as the most important aspect; nearly 65% of the respondents in fact selected it as being the least relevant aspect.

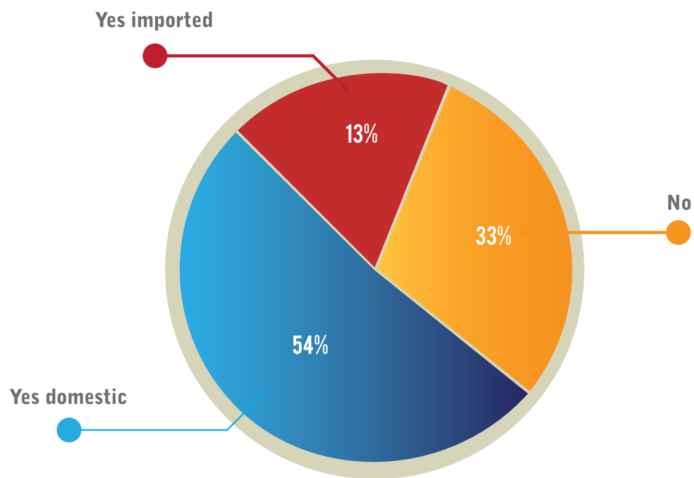
5.1.2. *Consumer preference: imported vs. Kosovar processed fruits & vegetables*

The consumers approached during the execution of the survey were also asked to indicate the influence of origin (domestic vs. imported) in their purchasing decisions. Out of the respondents which answered this specific question (315 persons), 67% believe that origin (domestic or imported) is important to them when purchasing processed fruit and vegetable products. The remaining 33% of respondents do not consider this aspect to be important.

The respondents who indicated origin to be an important aspect (211 persons) further expressed their preference toward domestic or imported products. Around 80% of these respondents prefers domestic products, while 20% prefers imported products.

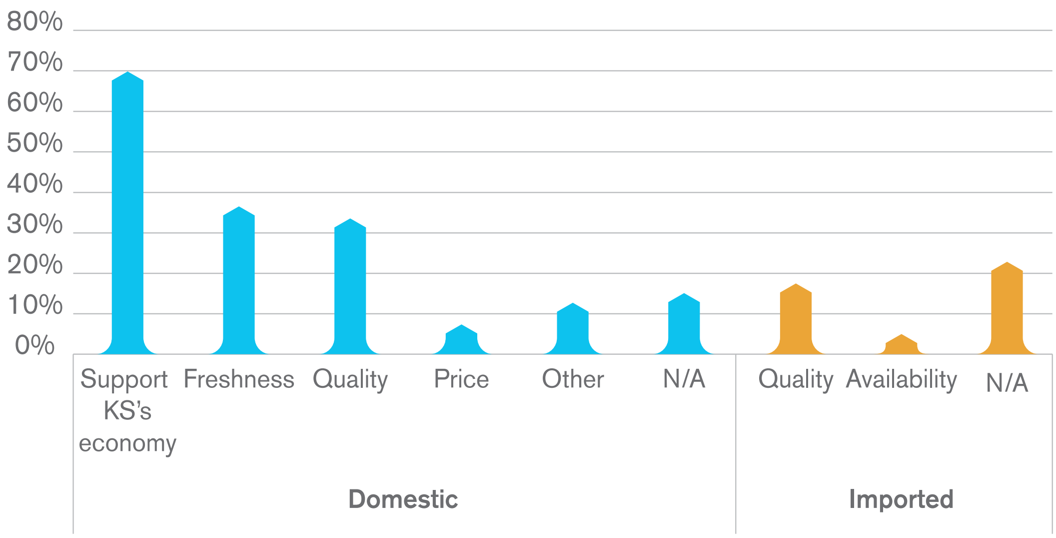
Around 80% of these respondents prefers domestic products, while 20% prefers imported products.

Figure 9. Consumer preference according to origin: imported vs. domestic, in % of respondents



In addition to expressing their interest toward domestic or imported products, respondents were asked to indicate the reasons why they prefer one group over the other. A total of 176 respondents responded to this open question; their answers were clustered into categories (Figure 10).

Figure 10. Characteristics determining consumption of domestic vs. imported products, in no. of respondents



Among respondents who provided a reason to consume domestic products, a significant share (nearly 45%) expressed a willingness to support Kosovo's economic development. This represents approximately double the share of respondents indicating (perceived) freshness (23%) or quality (20%) as the main reason to consume domestic products. A very small share of respondents (4%) mentioned price as a factor leading them to choose domestic over imported products.

Among respondents choosing for imported over domestic products, the great majority (84%) mentioned quality as a determinant. The remaining respondents expressed that imported products are more readily available in retail outlets in terms of quantity and quantity consistency.

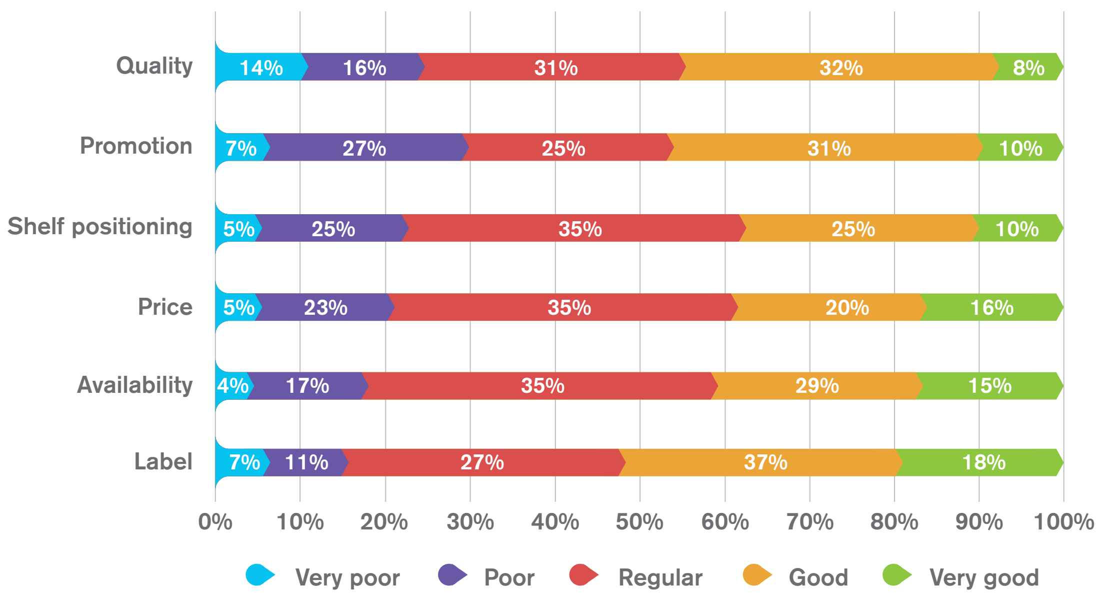
5.1.3. Consumer perception of Kosovar processed fruits & vegetables

Kosovar consumers were also asked to rate specific aspects of Kosovar processors fruits & vegetables. The aspects presented to the consumers were:

- Quality
- Promotion
- Shelf positioning
- Price
- Availabilty
- Label

For each aspect, consumers were asked to use a rating system ranging from 1 (very poor) to 5 (very good). The results can be seen in Figure 11.

Figure 11. Consumer opinion on Kosovar processed fruit and vegetable products, rating 1 to 5 (1 = very poor, 5= very good)



Quality was the item which scored the lowest according to consumer perception of Kosovar products. Around 30% of the respondents indicated the quality of Kosovar processed fruit and vegetable products to be very poor or poor.

Price was not a main item of concern for consumers in relation to Kosovar processed fruits & vegetables. Around 70% of the respondents indicated the price of Kosovar processed fruit and vegetable products to be regular, good or very good.

Around 77% of the Kosovar consumers interviewed are satisfied with the **availability** of domestically-processed fruit & vegetable products at their retail outlets, rating it as regular, good or very good. After label, availability was the highest-rated item regarding Kosovar processed fruits & vegetables. As such, it is not an obvious determinant of the consumption of imported products over domestic ones.

At the same time, **promotion** was perceived as one of the weakest aspects of Kosovar processed fruits & vegetables according to consumers. Interestingly, the item **label**, somewhat related to promotion, had the best average rating among the items presented to respondents in relation to Kosovar processed fruit and vegetable products. Reasons may be related to both the visual and emotional appeal of domestic labels. In fact, it was observed that a large share of respondents consume domestic products with the intent of supporting the Kosovar industry, as explained above. In addition, many labels of imported products are not translated into Albanian, which may be the reason why domestic labels in the Albanian language have a strong appeal to consumers.

5.1.4. Consumer recommendations: improvements in Kosovar processed fruits & vegetables

In line with the above-given results, *quality and quality consistency* was mentioned by more than half of the consumers interviewed as the most important improvement for Kosovar processed fruits & vegetables. This item includes quality issues which are intrinsic to the product (e.g. taste, colour, freshness), and more complex themes such as reduction of pesticide levels. In comparison, 12% of the respondents suggested that prices of Kosovar products should be lowered. These answers were recorded at a spontaneous basis.

Around 20% of the respondents advised domestic processors of fruits & vegetables to invest more on promotion, packaging & labelling as a way to improve their market activities. Another 5% believes that government should provide more support to local processors so they can improve the quality of their products and expand their product assortment, which is linked to the idea of supporting Kosovo's economic development.

5.2. Kosovar retailers and independent wholesalers

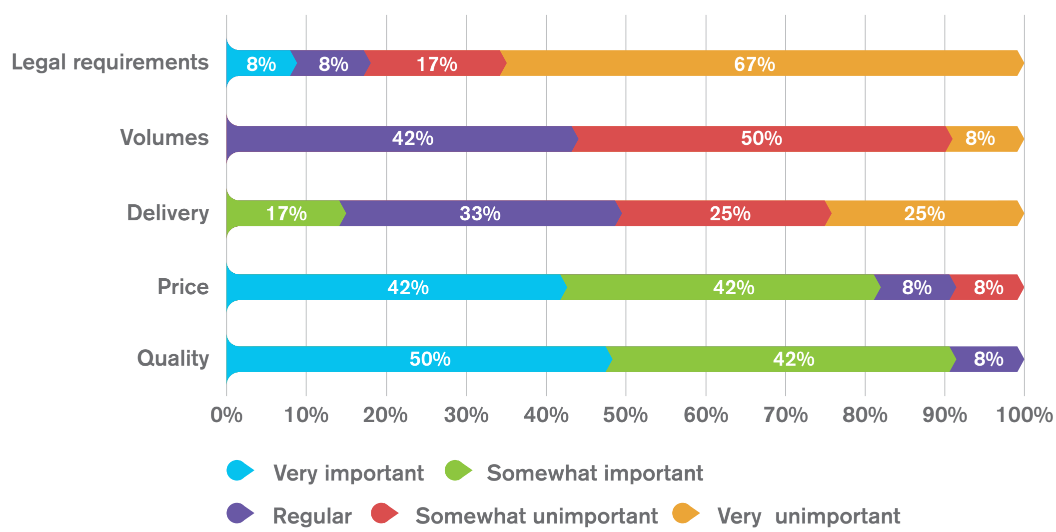
A total of 9 (large and small-scale) retailers and 3 independent wholesalers, as mentioned in Chapter 2, were approached during the execution of this market assessment. These market actors answered to an extensive questionnaire which addressed various aspects of their business profile and practices, such as product assortment, sourcing practices, requirements, views on Kosovar fruit & vegetable processing sector, etc. The main results stemming from these interviews are given below.

5.2.1. Factors influencing sourcing decisions of retailers and independent wholesalers

When sourcing processed fruits & vegetables, either from domestic or foreign processors, Kosovar retailers and independent wholesalers observe compliance to specific requirements. Respondents were asked to rank the following requirements in order of importance, from 1 (most important) to 5 (least important):

- Quality
- Price
- Delivery
- Volumes
- Legal requirements (e.g. contract enforcement)

Figure 12. Importance of specific requirements in the sourcing activities of retailers and wholesalers



At the retail and wholesale levels, companies ranked **quality** as being the most important requirement for suppliers to comply with. However, the perception of retailers and wholesalers towards **price** is strongly intertwined with quality. When sourcing processed fruits & vegetables, price is a close second aspect to quality.

The issue of **availability & volume** also plays an important role at the wholesale level, i.e. in the relationship between processors and their direct customers. Even though the items delivery and volumes are ranked lower than quality and price in terms of supply requirements, they are the most common sources of non-compliance from domestic processors.

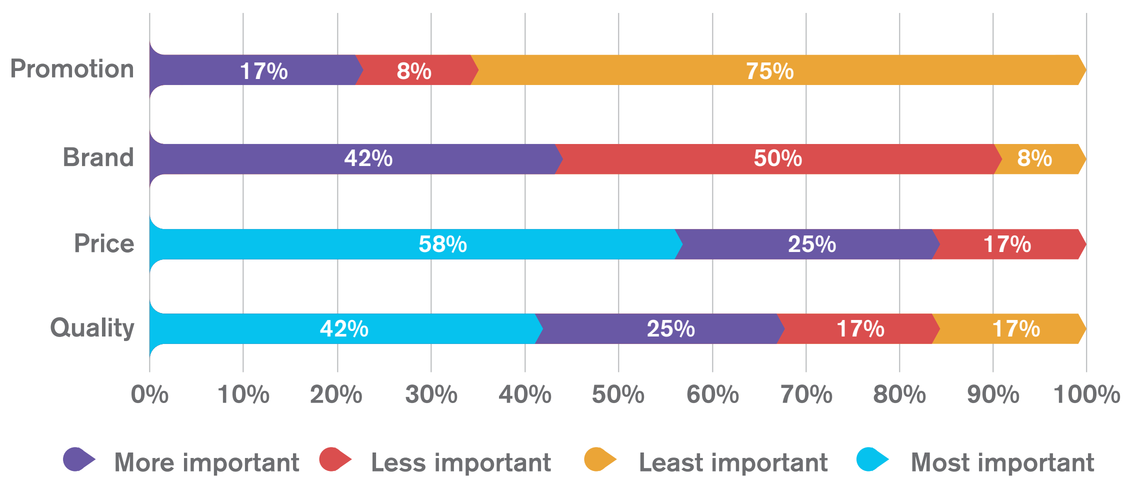
During the interviews, half of the retailers and wholesalers mentioned volume (inconsistency / insufficiency) and delivery (timing / not according to agreement) as main sources of non-compliance among domestic processors. According to one respondent, this can be explained by the inability of Kosovar processors to keep up with the growing demand of the local market. In the view of another respondent, the seasonality of raw materials has a major impact on the possibility of domestic processors to deliver at a consistent basis.

5.2.2. *Consumer purchasing behaviour according to retailers and independent wholesalers*

The group of retailers and independent wholesalers were also asked to comment on the purchasing behaviour of consumers for processed fruits and vegetables. Similarly to the question formulated in consumer surveys, respondents were asked to analyse the factors which influence Kosovars' purchasing decisions. The respondents were presented with the following factors, which they were asked to rank in order of relevance, from 1 (most relevant) to 4 (least relevant) (Figure 13):

- Quality
- Price
- Brand
- Promotion

Figure 13. Most important factors in consumer purchasing decision according to retailers and wholesalers, ranking 1 (most important) to 4 (least important)



The group of retailers and wholesalers interviewed believes that consumers are strongly and mainly driven by **price** when making purchasing decisions. Nearly 60% of respondents indicated price as being the most relevant factor in consumer purchasing decisions. This perception is inconsistent with the results obtained from consumer surveys, which identifies **quality** as being the most relevant determinant of purchasing decisions. The interviews revealed that 42% of the retailers and independent wholesalers approached see quality as the main determinant for consumer decisions. Furthermore, one third of the respondents believe that quality is the main factor determining consumer preference for imported over domestic processed fruits & vegetables. In line with the consumer surveys, **promotion** received the lowest ranking; 75% of respondents believe promotion to be the least influential aspect on consumer purchasing decisions.

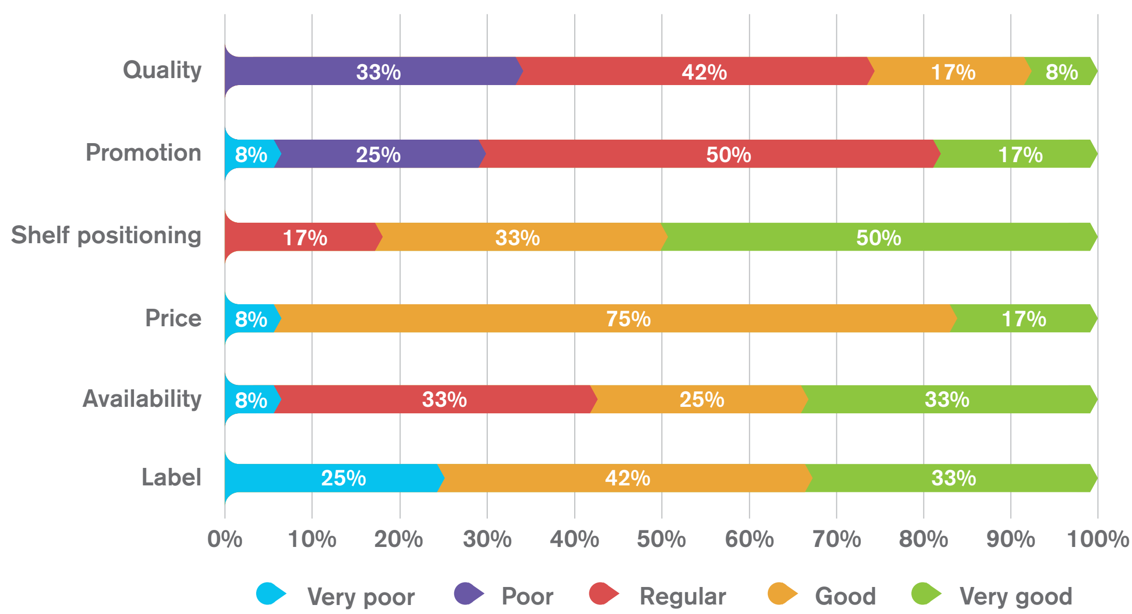
5.2.3. *View of retailers and wholesalers on Kosovar processed fruits & vegetables*

The group of retailers and wholesalers were also requested to comment on the perspective of consumers regarding Kosovar processed fruits & vegetables. The aspects presented to the respondents were the same as the ones presented to consumers through surveys. This cross-referencing made it possible to verify the consistency between the actual perception of Kosovar consumers and the perspective of retailers and wholesalers.
Respondents were asked to rate the following aspects:

- Quality
- Promotion
- Shelf positioning
- Price
- Availability
- Label

For each aspect, the respondents were asked to use a rating system ranging from 1 (very poor) to 5 (very good). The results can be seen in Figure 14.

Figure 14. Consumer perception of Kosovar processed fruit and vegetable products according to retailers and wholesalers, rating 1 to 5 (1 = very poor, 5= very good)



Retailers and wholesalers perceive **quality** as one of the weakest aspects of domestically-processed fruits & vegetables. This quality perception comes, in great part, from the experience which retailers and wholesalers have with domestic processors in their business activities. Quality is one of the most common areas of processor non-compliance, second only to delivery problems / insufficient volumes. The most common quality problems which retailers and wholesalers face when dealing with domestic processors of fruits & vegetables consist of damaged products and a mismatch between promised and deliveries in terms of quality (i.e. which also reveals inconsistency in quality).

In a positive light, half of the retailers and wholesalers interviewed pointed out that the quality of processed fruits & vegetables from Kosovo has improved substantially in the last 3 years, being the main driver for the increased consumption of domestic products.

In line with the findings at the consumer level, the group of retailers and wholesalers believes that consumers are satisfied with **prices** of domestically-processed fruits & vegetables. This indicates that, although price is an important determinant in purchasing decisions, it is not the main reason why consumers do not buy Kosovar processed fruits & vegetables to a greater extent.

Another important finding is that the issue of **availability** is not directly translated to the consumer level. In this respect, the view of retailers and wholesalers is aligned with the results of the consumer surveys: Availability of Kosovar processed fruits & vegetables is satisfactory in the eye of the consumer.

In line with the consumer surveys, the group of retailers and wholesalers interviewed believes that **promotion** of domestically-processed fruits & vegetables is weak. Half of the respondents expressed that domestic products do not receive enough promotion, whereas they also indicated that consumers view promotion as the weakest item among Kosovar processed fruits & vegetables.

Surprisingly, **shelf positioning** received the highest rating among other items addressing consumer perception from the perspective of retailers and wholesalers. The interviews also revealed that, according to all retailers approached, domestically-processed fruits & vegetables have enough shelf space in their outlets and that they are in fact well-positioned therein.

The current average ratio of domestic vs. imported products among the 9 retailers interviewed, at the aggregate level, was estimated to be balanced. Nonetheless, it was agreed by all retailers that shelf positioning is basically determined by one of the two factors, or the combination of both: 1) better shelf positions are offered to those who offer financial incentives, regardless of their origin; 2) better shelf positions are offered to products which achieve better sales levels.

In terms of in-shop promotion of processed fruits & vegetables, retailers adopt various strategies, which are often combined:

- Tasting booths
- Flyers and brochures
- TV ads
- Brochures
- E-mails
- Social media

The actual items which are promoted will vary according to retailer decisions and their eventual agreements with suppliers but, at the aggregate level, the following items are taken into account:

- Top products in terms of sales
- Large stocks of a certain product
- Products which are about to expire
- Discounts from suppliers
- New products
- Specific supplier requests

According to one of the large-scale retailers, foreign processors invest more in marketing and promotion, to the extent of buying whole shelves for the better positioning of their products. At the same time, however, 3 of the 9 retailers interviewed claimed to have a specific company policy to offer better promotion to domestic products.

Business relationships: Processors – Retailers I
Note that 2 out of the 9 retailers interviewed claimed to offer better conditions for domestic processors compared to foreign ones. These incentives come in the form of early payments, favourable delivery terms and general logistical support. A third retailer reveals that it is actually easier to settle disputes with domestic processors, since foreign companies (processors or distributors) establish stricter contractual conditions. This reflects, to a certain extent, the informality of the sector in Kosovo.

On the one hand, flexibility seems to offer a positive incentive for retailers (and wholesalers) to deal more directly with domestic processors. On the other hand, it might actually lead to informal and loosely-established partnerships, thus creating business risks for both parties.

5.3. *Catering sector in Kosovo*

As part of the Market Assessment, ProFound conducted a focus group discussion on September 4th 2014, involving five participants from catering sector, mainly (well-known) restaurants in Prishtina. Through the focus group discussion, ProFound gathered information about top products, quality perception, sourcing practices, and promotion of processed fruits and vegetables in the catering sector.

The focus group comprising representatives of the catering sector revealed that, in line with other stakeholders, **quality** is the most important criterion determining the selection of a processed fruit & vegetable supplier over another. Quality was measured against the following criteria: price, supply consistency, quantity and brand. Participants were asked to number specific requirements from 1 (most important) to 5 (least important); results are shown in Table 7.

Table 7. Opinion of catering sector on the importance of specific sourcing aspects for processed fruits & vegetables, average ranking, 1 (most important) to 5 (least important)

Requirements	Avg. Ranking
Quality	1
Price	2
Supply consistency	3.5
Quantity	3.75
Brand and Promotion	4.75

In contrast to other stakeholders, catering sector representatives mentioned that the quality of domestically-processed fruits & vegetables is high, and often higher than imported products, but prices are also usually higher. Furthermore, half of the participants involved in the focus group revealed to source processed fruits & vegetables from small-scale processors, so as to guarantee a home-made quality level.

Also in line with other stakeholders interviewed, catering sector representatives indicated that price is second to quality when it comes to the sourcing of processed fruits & vegetables. In contrast, they believe consumers are more price-oriented rather than quality-oriented. As mentioned previously, the participants of the focus group revealed that they perceive the price of domestic products to be higher than imported ones.

The issue of **availability** was not expressed during the focus group with the catering sector to a great extent. The only information provided by catering sector representatives, and which matches the view of retailers and wholesalers concerning the supply of domestically-processed fruits & vegetables, is that Kosovar companies often fail in meeting consistency in quantities delivered.

According to catering sector representatives who attended the focus group, communication with processors of fruits & vegetables is the main source of concern when it comes to promotion of domestic products. In most cases, domestic processors still fail to promote their products more actively to their customers, especially at the catering level. Trade fairs are generally the platform where the two parties meet and establish business relationships. In contrast, distributors of imported products are much more aggressive in terms of (active) promotion.

Nonetheless, respondents claimed to promote domestic products in their eateries, even more than Kosovar processors themselves. The main reasons for the promotion of domestic products mentioned were patriotism (i.e. their willingness to support domestic products and local economy), and satisfactory quality (which still needs further improvement).

5.4. Kosovar processors of fruits & vegetables

In parallel to consumer surveys, the catering sector focus group and interviews with retailers & independent wholesalers, ProFound carried out interviews with 10 processors of fruits & vegetables in Kosovo, both small and large-scale companies. Through these interviews, the issues identified at higher levels of the value chain were verified and understood at the processors' level, such as raw material sourcing, processing activities, promotion & marketing, communication with customers, etc.

5.4.1. Raw material supplies

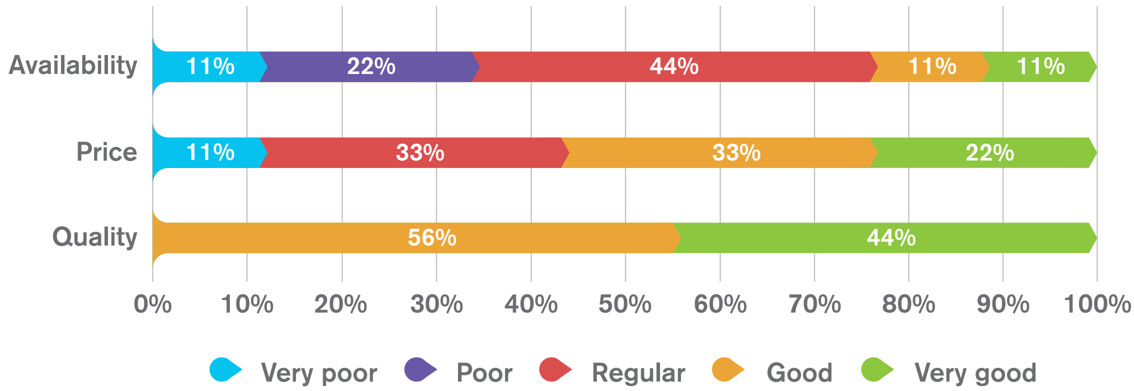
The perception of **quality** on the market for processed fruits & vegetables was cross-checked with the situation at the processing level. In line with other stakeholders involved in the value chain for processed fruits & vegetables, processors hold quality in high regard.

At the raw material level, processors of fruits & vegetables do not point out major quality problems during sourcing activities. In fact, quality of raw materials received the best rating from the processors interviewed among the two other factors presented: price and availability.

Price is second to availability as a concern for processors of fruits & vegetables regarding Kosovar supplies of raw material. With a few exceptions, processors generally did not express dissatisfaction with prices of the domestic raw material, but did point out that price fluctuations cause important disturbances along the supply chain. In fact, prices are rarely fixed by contract due to strong price fluctuations. This also prevents the establishment of longer-term agreements between suppliers (i.e. farmers and collection centres) and processors.

At the same time, processors also acknowledge that **availability** of raw materials is a major bottleneck in the Kosovar industry. Availability was rated as the weakest aspect of Kosovar supplies of raw fruit & vegetable material, behind quality and price.

Figure 14. Opinion of processors on specific aspects of Kosovar raw materials, from 1 (very poor) to 5 (very good)



5.4.2. Quality and quality management

A total of 8 out of 10 companies have mentioned quality as being (one of) their greatest competitive edge(s). However, it was noted that different notions of quality are used by different companies, including: freshness, natural, consistent, home-made, and bio (i.e. even though the product is not organic-certified).

It is also important to note that most companies indicating that *quality* is their main competitive edge have also pointed out that this is one of their most relevant challenges at the processing level.

During this market assessment, it was observed that the implementation of Quality Management Systems (QMS) at the processing level is still limited. Out of the 10 companies interviewed, 2 declared to be certified against HACCP (Hazard Analysis and Critical Control Point) standards, whereas one of these companies also has an ISO 9001 certificate. In a positive light, 2 other companies are following a trajectory to obtain both HACCP and ISO 9001 certificates within 2014. One other company has had training on HACCP and ISO 9001, but does not have certifications (yet). In total, therefore, half of the companies are following a QMS trajectory.

Table 8. Availability of certification schemes, in no. of respondents per certification scheme

Certification	No. of companies	Comments
HACCP	2	2 other companies will obtain it by the end of 2014
ISO 9001	1	2 other companies will obtain it by the end of 2014
HALAL	0	1 company will obtain it by the end of 2014
GLK	1	
No certification	2	1 of these companies has had training on HACCP and ISO 9001 but does not have certifications
N/A	3	

Also concerning quality management, it was mentioned during the stakeholder meeting that companies' first concern relates to fulfilling the hygienic requirements of the Food and Veterinary Agency of Kosovo. As such, third-party certification systems are still in their infancy and HACCP, for instance, does not have a representative office in Kosovo. This creates a bottleneck for companies to get enough information / awareness on QMS and to bear with the costs of the certification process.

5.4.3. Price & costing

As it was confirmed during the stakeholder meeting, the price of the raw material is only the tip of the iceberg when it comes to the bottlenecks in costing for Kosovar processors. In this session, a few other elements were mentioned:

- Lack of access to technology, so as to improve productivity
- General inefficiency
- Costs related to customs
- Inherent informality of the sector
- Inappropriate infrastructure

Whereas these bottlenecks have to be analysed more thoroughly at the company-level, one of the clear messages from the stakeholder meeting was that processing companies still struggle in carrying out an appropriate cost calculation of their activities. This difficulty is revealed in one of the results of the interviews with processors: arriving at a competitive price is the greatest challenge identified by the majority of the companies. At the same time, they are constantly under pressure to achieve a satisfactory price proposition to their customers, competing head-to-head with imported products.

5.4.4. Availability & volume

Raw material

Most large processors diversify their sourcing strategies depending on demand / raw material needed, while the small-scale processors interviewed source directly from farmers. As such, the bulk of raw material supplies for the local processing industry comes either from farmers or collection centres. Only one company sources raw materials from its own cultivation as a strategy to alleviate price fluctuations and guarantee supply consistency.

In fact, lack of supply consistency and eventual over-pricing of raw materials still leads to ad-hoc/on delivery or seasonal contracts between most processors and farmers. When dealing with collection centres, short term contracts / annual contracts are the most common type of formal agreement. Out of the 10 respondents, 7 companies indicated that they establish annual and/or seasonal agreements with their suppliers. Only one company claimed to establish two-year contracts with its suppliers (in combination with ad-hoc contracts, depending on the type of supplier).

In addition, prices are rarely fixed by contract due to strong price fluctuations. This also prevents the establishment of longer-term agreements between suppliers (i.e. farmers and collection centres) and processors, having an impact on the raw material available for processing. In addition, the processing industry faces strong competition from the fresh fruit & vegetable market, which offers attractive prices for higher-grade products. Nonetheless, grading is not always done properly at the raw material level, which leads to inefficiency and loss.

Processing

At the processing level, most companies interviewed grew toward optimising their production capacity in the last 3 years. Nonetheless, pressured by an ever-increasing demand from the domestic market, processors feel the need to stretch their capacities further. As mentioned below, most processors plan their processing activities based on consumer demand. Note that raw material availability is also a strong determinant of processing activities according to 4 respondents. As such, the lack of raw material has been one of the most critical issues in the upscaling of processing activities for several companies.

Table 9. Factors considered by processors to plan processing activities, by no. of responses (more than one answer per company allowed)

Decision-making factors	No. of responses
Consumer demand	9
Financial feasibility	4
Raw material availability	4
Contract obligations	3
Other	1 (company strategy and know-how)

In line with the findings above, activities related to upscaling and/or optimising processing of fruits & vegetables in Kosovo were mentioned as the most critical intervention areas by more than half of the processors interviewed, more specifically:

- Increasing processing capacities
- Create a market information system / obtaining more accurate data, so as to better plan activities
- General infrastructure and machinery
- Processing technology
- Farmer trainings: harvest and post-harvest, so as to improve raw material quality and availability

5.4.5. *Promotion & marketing*

Promotion of domestically-processed fruits & vegetables was generally perceived as being (one of) the weakest item(s) by different stakeholders of the supply chain. This finding provides a solid basis to investigate the gap in promotion which exists between the processing and the market level.

During the interviews, Kosovar processors of fruits & vegetables mentioned the most common types of promotional activities they engaged in to sell their products; in-store promotion was the most commonly mentioned among interviewees. However, as interviews with retailers revealed, the active promotional efforts of processors are only one among several factors which determine the successful promotion of processed fruits & vegetables in retail outlets. Most of the factors influencing in-store promotion are outside of the direct influence of domestic processing companies.

Table 10. Promotional activities implemented by Kosovar processors, in no. of responses per type of activity (more than one answer per company allowed)

Type of promotional activity	No. of responses
In-store promotion (e.g. degustation booths)	4
Trade fairs	3
Flyers and other visual materials	3
Media (especially radio)	1
Promotional activities are outsourced	1

Business relationships: Processors – Retailers II
During the focused interviews, domestic processors of fruits & vegetables revealed an existing gap between local and export markets in terms of contractual agreements. It was mentioned by nearly all processors that contracts with domestic retailers are established at an annual basis. At the same time, 3 of the largest processors revealed that longer contracts are the norm with export partners.

In terms of market positioning, it can be observed that domestic processors still lack the knowledge and tools to place their products strategically on the Kosovar market. As mentioned previously, various companies compete on the domestic market with very similar products and entry strategies, leading to a certain level of market saturation.

In fact, a wider use of market information for both domestic and international markets could improve companies' capacities to make strategic choices based on market realities. Only 3 companies interviewed declared that they actively use market information into their business strategies, e.g. increasing competitiveness, improving market orientation and adapting their business plan. The great majority of companies admitted having information gaps, mostly: lack of regular trade and industry data (or inaccurate data, when provided), and lack of market information such as consumption trends, technological developments (e.g. in food processing and preservation).

5.4.6. *Communication between Kosovar processors and their customers*

An additional aspect of the Kosovar market for processed fruits & vegetables covered during this assessment consists of communication lines between processors and their direct or indirect clients.

All processors of fruits & vegetables interviewed claimed to receive some type of customer feedback from domestic retailers and wholesalers. The answers are recorded below:

Type of customer feedback	No. of responses
Monthly basis	3
Weekly or two-weekly	2
Purchasing basis	2
Annual surveys	2
Case-specific	1

Depending on the nature of the issue, customer feedback is usually incorporated in the following ways:

- Immediate replacement of damaged products
- Market orientation & segmentation
- New product development
- Marketing strategy
- Increase processing capacities
- Quality improvement
- Lowering price

During the focused interviews, a total of 8 out of 10 companies declared that they obtain direct feedback from consumers. One company does not carry out such activities, whereas the other company did not react to this question. Feedback is received in different ways by the 8 companies (more than one answer per company allowed):

Type of consumer feedback	No. of responses
Systematized questionnaires and surveys	3
Phone calls, e-mails, Facebook, company visits	3
Third-party feedback; i.e. supermarket representatives, market managers, merchandisers	3

A total of 6 out of the 8 companies take consumer feedback into account in their business strategy and/or in adapting their products to consumer preferences.

6. Main conclusions

This chapter summarises the main conclusions stemming from Chapters 3-5. The main conclusions are clustered per theme and combine the views of the various sector stakeholders approached during this market assessment.

6.1. Profile of Kosovo's processed fruits & vegetables sector:

- Based on the EU guide on SME definition, most of the processors are small and medium enterprises in terms of employment, while 3 of them are large companies.
- Female labour force participation is high; 62% of total employees in this sector are females.
- The business and employment profile of small-scale processors is essentially different from large-scale processors. On the one hand, small processors have a significantly higher share of female employment and, on the other hand, they are to a great extent located in minority areas of Kosovo.
- There is an ever increasing trend in the manufacturing of processed fruits and vegetables in Kosovo; the gap between processing capacities and actual processing quantities is narrowing at a consistent basis.
- The Kosovo Fruits and Vegetables Association (PePeKo) is the only association representing the processed fruit & vegetable sector in Kosovo. During the interviews, a total of 5 interviewed processors claimed to be represented by PePeKo; the two small-scale processors interviewed are not part of this group. Other forms of representation mostly happens through chambers of commerce. Most companies believe that the associations/chambers representing them do not provide sufficient support.
- The level of product diversification at the processing level in Kosovo is very low. Not only is there a concentration on specific raw materials such as peppers and gherkins, but also in terms of processing (e.g. pickling).
- There is a focus on vegetable-processing in Kosovo, whereas fruits are still underutilised as a raw material due to the low production of raw material and low prices offered by processors in relation to the fresh market. This is also reflected onto the main product groups exported from Kosovo, which are concentrated around pickled vegetables and ajvar.
- At the retail level, the average ratio of imported / domestic processed fruits is 70/30, whereas the situation is completely different with processed vegetables; on average 60% of processed vegetables in retailers' shelves in Kosovo is processed domestically.
- Various processors compete with each other and with foreign suppliers, targeting the same market segments with very similar products and market entry strategies.
- The Kosovar industry is focused on finished products, whereas little activity is detected in the processing of semi-finished products (e.g. frozen purées, aseptic purées, [freeze-] dried and frozen fruits & vegetables, etc.). Most companies in Kosovo produce products targeting the retail market directly, not the food-processing industry, as ingredients. A wider product portfolio covering semi-finished fruits & vegetables could favour exports and entry into the EU market.

6.2. *Main conclusions per product group*

Processed fruits

- ***Fruit juices*** account for 22% of Kosovo's total processed fruit & vegetable imports, but do not see major industrial activity domestically. At the same time, there is a high market demand which points toward a positive prospect for domestic processors to gain market share in relation to foreign suppliers.

- ***Smoothies,*** specifically, were mentioned by 3 retailers and independent wholesalers as a top product in terms of sales, and are produced by two Kosovar companies. The product group was also mentioned by consumers and the catering sector as a widely consumed product. As such, opportunities to upscale current processing activities and to cater for a growing market in Kosovo are promising. In addition, opportunities in the market for frozen and/or aseptic purées (i.e. as semi-finished products) can be explored.

- ***Jams & marmalades*** account for around 15% of total Kosovar imports and were mentioned as a top-processed product by four Kosovar companies. All retailers and independent wholesalers interviewed mentioned jams & marmalades as one of the top products in terms of sales, indicating that market demand is very high for this product group. There is an important opportunity to develop and promote jams & marmalades as a quality home-made product.

- ***Dried fruits*** account for around 7% of total imports. Currently, demand for dried fruits seems to be high, while little activity has been detected at the domestic processing level. Dried fruits can also be explored as either finished or semi-finished products, targeting raw materials from the local biodiversity. These possibilities should also be explored in the sub-sector non-wood forest products.

- ***Canned and frozen fruits*** attained lower mentions during interviews at the retail, independent wholesale and consumer levels. In addition, these product groups account a low share of Kosovo's total imports of processed fruits & vegetables, at 2% each.

Processed vegetables

- ***Ajvar:*** although the product is an important product in the domestic industry, it accounts for 7% of Kosovo's imports of processed fruits & vegetables, mostly sourced from Macedonia. *Ajvar* was mentioned by consumers as the most commonly-purchased processed vegetable product, also attaining a high level of sales according to interviews at the retail and wholesale levels. In addition, *ajvar* accounts for 17% of Kosovo's exports of processed fruits & vegetables. Despite the competition from Macedonia, *ajvar* offers opportunities in import substitution and export markets.

- ***Pickled vegetables*** are handled by the majority of Kosovar processors, also accounting for more than 60% of Kosovar exports of processed fruits & vegetables. Still, the product group accounts for around 6% of total imports of processed fruits & vegetables and attain very high sales levels, indicating that market demand is substantial. As in the case of *ajvar*, there are opportunities both in import substitution as well as in the expansion of exports.

- ***Ketchup*** was mentioned by half of the respondents at the retail and wholesale levels as a top product in terms of sales, which is in fact produced in Kosovo, but still accounts for around 15% of total imports (together with tomato sauces). As such, market demand for ketchup exists, but the domestic industry does not capture a large share of this market, which is highly focused on imported brands.

- ***Canned vegetables*** did not attain many mentions at the different levels of the value chain, including at the consumer level. However, canned vegetables account for around 15% of Kosovo's imports, with the highest share accounted for by canned tomato, which points toward the importance of processed vegetable products having tomato as a raw material base.

- ***Frozen vegetables*** (accounting for 9% of Kosovo's imports) did not receive many mentions from consumers, but have actually been identified as a top-selling product at the retail and wholesale levels. A high share of frozen vegetables (peas, beans, mixtures, etc.) is sourced in Serbia, whereas the domestic industry is underdeveloped for frozen products, where there could also be a potential for import substitution.

6.3. *Main conclusions per theme*

Quality:

- Quality is a strong determinant in supplying and purchasing decisions at different levels of the value chain for processed fruits & vegetables
- The perception of quality of domestically-processed fruits & vegetables between processors and other sector stakeholders, including the end consumers, varies significantly. Whereas the bulk of processors believes this to be their main competitive edge, their direct and indirect costumers point out that quality is the main aspect which needs further improvement.
- Improvements in quality of domestically-processed fruits & vegetables has been one of the main drivers for the growth in consumption in the last 3 years.
- Few companies have Quality Management Systems (QMS) implemented at the processing level, but half of the companies interviewed are following a QMS trajectory.

Price & costing:

- Price is important in supplying and purchasing decisions at different levels of the value chain for processed fruits & vegetables, but it is perceived as second to quality.
- The perception of retailers, wholesalers and the catering sector is inconsistent with the findings at the consumer level. These stakeholders believe that consumers are more price-oriented than quality-oriented.
- Price of domestically-processed fruits & vegetables is perceived as satisfactory by the different stakeholders in the value chain, with the exception of the representatives of the catering sector, who consider domestic products to be more expensive than imported ones.
- The main challenge faced by processors of fruits & vegetables is to keep the prices of their products at a competitive level and, in this respect, to carry out a correct costs calculation for their activities. Reaching a competitive price level is an important aspect for domestic processors to compete with imported products.

Availability & volume:

- The great majority of consumers is satisfied with the availability of domestically-processed fruits & vegetables in retail outlets.
- The perception of retailers, wholesalers and the catering sector does not reflect the findings at the consumer level. Delivery and volume insufficiencies / inconsistencies are the main forms of non-compliance faced by these stakeholders in relation to domestic processors of fruits & vegetables.
- Availability of raw material is one of the main issues faced by Kosovar processors of fruits & vegetables. The low availability of fruit and vegetable raw material in Kosovo is considered to be the most critical aspect of the raw material supply.
- Processors of fruits & vegetables plan their processing activities mostly based on consumer demand. The domestic market for processed fruits & vegetable is growing rapidly, and processors are keen on receiving assistance so as to adapt to this reality and to keep up with the market demand.

Promotion & marketing:

- Promotion is the aspect having the least influence on consumer decision when purchasing processed fruit & vegetable products.
- At the same time, consumers and other stakeholders (i.e. retailers, wholesalers, catering sector) perceive promotion as being one of the weakest aspects of Kosovar processed fruits & vegetables. Interviews with processors did not detect this perception / awareness at the company level.
- Processors make use of a wide range of promotional strategies, whereby in-store promotion was the most commonly mentioned during the interviews. However, retailer interviews revealed that processors have only partial influence on whether their products will be effectively promoted in outlets or not. In addition, domestic processors compete against strong financial incentives provided by foreign companies, essential in guaranteeing shelf space and positioning at the retail level.

- A low number of companies make use of market information to place their products on the market in a strategic manner. Several information gaps have been identified among the interviewed processors, such as trade & industry data, consumer trends and technological developments.
- An additional conclusion can be drawn from the nature of the relationship between processors and retailers. Although 2 of the 9 retailers claim to offer contractual and logistical benefits to domestic processors, relationships between retailers and domestic processors still seem to be based on a high level of flexibility and informality.
- The above-mentioned point is reflected onto the contractual differences between domestic and export-market customers: processors revealed that longer-term agreements are common among export partners, whereas they are mostly bound to annual contracts at the domestic level.

Communication between sector stakeholders:

- Half of the processors interviewed have regular contact with their direct costumers (i.e. retailers & wholesalers), ranging from a weekly to a monthly basis. At the same time, 3 processors only receive customer feedback sporadically, in case-specific situations. 2 other processors receive customer feedback annually, which is a potential bottleneck for continuous improvement.
- Only 3 of the 10 processors claim to have a system of questionnaires and surveys to obtain feedback directly from the consumer. Other types of feedback are given sporadically, via phone calls, e-mails, social media and company visits. At the same time, 3 companies admitted to use feedback from third parties.
- Only 6 out of 10 companies claimed to incorporate consumer feedback into their strategy.

7. Recommendations: identifying opportunities, threats and intervention areas

In this chapter, the themes discussed in previous sections come together and provide a basis for recommended interventions at the sector and company-specific levels. These interventions aim at capturing opportunities and managing the threats in the Kosovar market for processed fruits & vegetables, in order to help propelling the sector and to enhance employment creation in Kosovo. The recommendations herewith elaborated address the following objectives:

- Streamlining sector efforts and creating an inclusive sector governance model
- Improving the availability and use of fruit & vegetable raw materials
- Identifying strengths and weaknesses of specific fruit & vegetable processors in Kosovo
- Providing individual business planning support to processors
- Improving the quality of domestic products and quality management processes
- Enhancing market intelligence capacities for better planning and market positioning
- Diversifying Kosovo's product offer and introducing innovation
- Improving the communication between different sector stakeholders
- Building / improving the image of Kosovo's processed fruit & vegetable products
- Articulating Kosovo's potential as an exporter of processed fruits & vegetables

A) *The fruit & vegetable processing sector needs joint market efforts*

A first step in realising interventions in the processed fruit & vegetable sector in Kosovo is to identify and strengthen associations which unify the interests of the different stakeholders involved in the sector. Strengthening and clarifying the role of sector support associations is a key element in achieving sustainable interventions. It will also serve as a basis to achieve synergies among different stakeholders and to enhance impact. Currently, the Kosovo Fruits and Vegetables Association (PePeKo) is the main association representing the processed fruit & vegetable sector in Kosovo.

Through a *capacity assessment*, it will be possible for service providers to determine which intervention areas can be realized in partnership with the sector association. In turn, a *needs assessment* will allow for the identification of the most critical support areas to the association. Both the capacity and needs assessment can be realised through the technical assistance of an external expert.

Once the assessment / diagnosis activities are carried out, capacity-building support to the sector association should be given in areas such as:

- Establishing a clear mandate and sector strategy
- Creating a management structure
- Building (management) capacities (also in identifying and managing risks)
- Developing a service portfolio and revenue model

In this initial phase, service providers can facilitate the work of the external sector expert in making the sector association fully functional, and slowly phase it into the execution of the interventions proposed for the processed fruit & vegetable sector.

In addition, and considering the fragmentation of the sector into large and small-scale processors, it is important to use this platform to phase small-processors into the sector association. The integration of small-scale processors into the mainstream association for fruits & vegetables would allow for an inclusive and representative sector governance model, with a gender and minority-sensitive component. Through the facilitation of PPSE, the sector association could receive appropriate sensitisation trainings so as to facilitate the integration of these groups into the association's structure and activities.

B) Organising and optimising the use of raw materials

During this market assessment, the raw materials used in processing activities were analysed from a market perspective, but not in terms of (pre)harvest aspects. Therefore, the interventions recommended herein only focus at post-harvest and processing levels of the raw material.

Three aspects of the raw materials have been covered during this assessment: quality, volume and consistency. Whereas the quality of the raw materials was generally considered satisfactory, volume and (supply) consistency presented clear bottlenecks to processors, as they are competing in price and quantities with the fresh fruit & vegetable market. In addition, price / volume volatilities prevent long-term supply agreements with farmers and collection centres. Hence, the following is recommended through the intervention of service providers:

- Supporting farmers and collection centres with appropriate sorting & grading mechanisms: Clear distinction between fresh vs. processing grades, with a respective pricing structure for the different products and their different grades.
- Creating a platform to improve communication between processors and their raw material suppliers, in order to: 1) create a better match between expected and delivered qualities and volumes; 2) improve contractual agreements and guarantee more consistency in supplies.

C) Company audits and business planning support to processors of fruits & vegetables

It is recommended to carry out individual company audits (i.e. not to be confused with financial audits) of all processing companies which will receive support. Whereas previous activities and this current market assessment may have provided an overview of the main issues at the sector level, it is important to understand the needs of individual companies. This is an important step in determining the levels of the different companies involved in the project, and the types of intervention they need. A company audit can serve as a basis for individual *business planning* support, and also provide feedback to other components of the sector interventions, such as those at the farmer and collection centre levels. This intervention can also serve as a basis to identify the products with most market potential at each processing company.

The company audits can be executed by an external sector expert, in cooperation with a representative of the sector association, and facilitated by service providers.

Note that individual company support does not replace the need to carry out interventions at the sector-level, such as those highlighted below.

D) Developing cost calculation models

Price & costing was identified as a common challenge to processors of fruits & vegetables during this market assessment. At the stakeholder meeting, it was confirmed that Kosovar companies deal with a number of costing factors which have a direct influence on the final price of their products: e.g. lack of efficiency, customs, informality of the market, infrastructure. Not all these factors are under the radar of processors, nor can they directly identify their impact level on price. In order to identify and deal with the costing factors properly, companies have to receive support in creating cost calculation models which are user-friendly and appropriate to their business activities. This intervention can be carried out through external service providers, combining the proficiency of sector experts and software development companies.

E) Quality management and improvement: process and product levels

Quality is a term which is still loosely defined and understood differently by the various actors along the value chain for processed fruits & vegetables in Kosovo. It is important to align the thinking of sector stakeholders, and work around two areas of quality management and improvement: 1) process, and 2) product.

In terms of process, Quality Management Systems (QMS) are an essential tool available to processors. During this market assessment, it was observed that few Kosovar companies have Quality Management Systems (QMS) implemented at the processing level, even though half of the companies interviewed are following a QMS trajectory. As an intervention, it will be important to raise further awareness of processors towards QMS, clarifying the objective of third-party audits and the importance of certifications in export markets.

The individual needs of companies in relation to QMS, including plant adaptation and costs involved, could be integrated to the above-suggested company audits. At the sector level, the possibility for group certification for HACCP, ISO 9001, etc. could be investigated as a strategy to reduce auditing costs.

Company audits should reveal the specific needs of companies regarding product development and improvement. On the one hand, improvement in quality management may lead to consistent and improvement products, since QMS have important elements on Standard Operating Procedures (SOPs) and continuous improvement. On the other hand, there may be some company-specific quality issues which deserve a different level of intervention, thus creating a need to involve external product specialists. For instance, some of the persisting quality issues may arise from inexperienced technologists and other staff that are in engaged directly in the processing.

F) Develop appropriate market information systems for Kosovar processors and sector associations

The development of appropriate market information systems at the sector association and at the processors' level will address some of the cross-cutting issues of the processed fruit & vegetable sector, thus helping companies to:

- Plan their processing activities better, based on real market demand
- Understand consumer trends and preferences
- Establish a competitive price level
- Learn from their competitors
- Develop a market entry strategy for each product / product group
- Get access to innovation and technological advances in the sector

In this respect, three parallel actions are recommended:

a. Developing a market information system at the sector association level, aligned with staff capacity-building. Market information should be an integral part of the association's service portfolio.

b. Providing market information training to companies, which will help them translate market information into action (i.e. incorporation into their business plans). This can be done through the intervention of market information and sector experts, facilitated by service providers. This training component should also involve a representative of the sector association, so as to develop a train the trainer component linked to the above-mentioned intervention.

c. Creating a platform for different sector stakeholders to exchange market information, sector innovations and feedback, with the aim of improving processing and product development in Kosovo. It is important to include a product diversification workgroup in this platform, since the companies currently use the same raw materials for their processing activities and utilise very similar processing methods. This platform can be organised at the sector-association level, but with the initial support of a mediating body (i.e. service providers). Different seminars with technologists, product specialists, food safety authorities and other experts can be organised in order for processing companies to get first-hand information on innovations and technology advances. It will also serve as a basis for stakeholders to improve communication and cooperation at the sector level.

G) *The image of domestic products for the consumer must be improved*

During this market assessment, it was concluded that the promotional mechanisms utilised by processors are not effectively translated to the consumer. At the same time, it was also revealed that Kosovars directly associate the consumption of domestically-processed products to the support of the local industry.

In this respect, the *Made in Kosovo* proposition should be further developed at the sector association level, to be used homogeneously by its member companies. One of the characteristics of the *Made in Kosovo* concept to be emphasized during this intervention is the home-made quality of the products, which would help highlight the role of small-scale processors in Kosovo. As such, a desired outcome of this intervention is an increasing sensation toward women and, particularly, producers in minority areas of Kosovo. Marketing support should be given to the association in terms of:

- Strategy, e.g. market positioning
- Brand development
- Product selection and focus, having the products identified on chapters 3 and 4 as a point of departure
- Promotion strategy, material and channels

H) *Providing support to export promotion activities*

In addition to exploring the domestic market, companies should have the possibility to explore and consolidate opportunities in regional and international markets. Currently, only 2 of the processors interviewed export more than 50% of their production, whereas 2 other companies do not engage in export activities yet. The idea is to create a logical framework to support Kosovar processors of fruits & vegetables in their export trajectories, based on a needs-assessment per company. For a harmonised effort at the sector level, the process below is advised:

a. ***Market audit:*** assess the opportunities of export markets, identifying trends, product potentials (including semi-finished products), requirements, market channels, main competitors, etc.

b. ***Company export audit*** (derived from company audits): parallel process to market audits, where individual companies are assessed in terms of export potential and current bottlenecks.

c. ***Gap analysis:*** resulting from the market and company audits, assess the existing gaps between the export markets and the current situation of Kosovar processors. The information from this market assessment and previous assessments of the Kosovar industry could be an interesting point of departure.

d. ***Marketing strategy:*** create a marketing strategy based on the outcomes of the gap analysis, at the sector and company-specific levels.

e. ***Matchmaking:*** once the companies have a clear individual and sector-wide strategy on their export strategies, matchmaking activities such as visits / exhibition at trade fairs and buyers' missions should be organised in order to create business partnerships.

This process should have an active involvement of the sector association, but should be led by an external sector expert and facilitated by service providers.

Annex 1. Consumer survey

CONSUMER SURVEY				
	Outlet ______________________			
1.	**Location of outlet**	______________________		
2.	**Type of outlet**			
a.)	Large retailer (supermarket)	☐		
b.)	Small neghbourhood retailer	☐		
c.)	Small retail chain	☐		
	Consumer profile			
3.	Age			
4.	Gender	Male ☐	Female ☐	
5.	Average family income	€		
6.	Municipality / Region			
	Consumer satisfaction			
7.	**What are the most consumed products: rank the top 3 products you consume most frequently in each list (1 being the most consumed and 3 the least consumed)**			

a.)	**Processed Fruits**	**b.)**	**Processed Vegetables**
i	Jams ___	**i**	Ajvar ___
ii	Juices ___	**ii**	Pickles ___
iii	Smoothies ___	**iii**	Canned ___
iv	Dried ___	**iv**	Frozen ___
v	Canned ___	**v**	Tomato sauce ___
vi	Frozen ___	**vi**	Ketchup ___
	___	**vii**	Baby foods ___

8.	**From the selected products in question 7 above, specify the products/brands that you consume most frequently?**

a.)	**Domestic** ☐	**b.)**	**Imported** ☐
i	______________________	**i**	______________________
ii	______________________	**ii**	______________________
iii	______________________	**iii**	______________________
iv	______________________	**iv**	______________________
v	______________________	**v**	______________________

9.	**What do you base your purchasing decisions for these products on? (rank 1 for most important and 4 for least important)**					
a.)	Price					
b.)	Quality					
c.)	Brand					
d.)	Promotion					
10.	**Does the origin of purchased products is important to you when making purchasing decision?**	**Yes** ☐				**No** ☐
11.	**If yes, which of the following do you prefer and why?**	**Domestic** ☐				**Foreign** ☐
12.	**What is your opinion on Kosovar products (processed fruits and vegetables) related to? (Please rate products on a 5-point scale where 1 is Poor and 5 is Great)**					
a.)	Price	**1**	**2**	**3**	**4**	**5**
b.)	Quality	**1**	**2**	**3**	**4**	**5**
c.)	Availability in retail outlets	**1**	**2**	**3**	**4**	**5**
d.)	Positioning in shelves	**1**	**2**	**3**	**4**	**5**
e.)	Promotion	**1**	**2**	**3**	**4**	**5**
f.)	Label	**1**	**2**	**3**	**4**	**5**
13.	**Is there anything that domestic processors of fruits and vegetables should do to improve your satisfaction?**					

Thank you!

Annex 2. Kosovo’s imports of processed fruits and vegetables, per product

	Total imports 2013, in value (€ 1,000)	Total imports 2013, in volume (tonnes)	Annual change 2009-2013	Main import partners
Fruit juices	**1,747**	**1,725**		
Apple	763	950	3%	Serbia 34% Macedonia 24% Austria 22%
Grapefruit	249	129	68%	Italy 85% Slovenia 7% Serbia 6%
Mixtures of fruit juices, incl. grape must and vegetable juices	172	227	-21%	Turkey 44% Slovenia 19% Serbia 9%
Cherry	169	43	148%	Serbia 45% Macedonia 30% Germany 12%
Other	152	104	-19%	Slovenia 48% Germany 21% Italy 11%
Orange	123	148	-11%	Serbia 40% Austria 28% Macedonia 23%
Mixtures of apple and pear juice	56	78	-43%	Serbia 99% Greece 1%
Single citrus	40	24	53%	France 40% Italy 27% Serbia 23%
Lemon	7	4	26%	China 83% Turkey 14% Vietnam 3%
Tropical fruit	6	6	N/A	Italy 78% Serbia 22%
Tomato	4	7	1%	Hungary 49% Turkey 14% Romania 13%
Mixtures of tropical fruit	3	4	-31%	Turkey 85% Germany 9% Lebanon 6%
Cranberry	1	0	N/A	Germany 54% Bulgaria 46%
Pear	0.6	0.9		Romania 100%

Jams, jellies, purées, pastes	**1,222**	**2,093**		
Other	1,082	1,998	10%	Greece 28% Macedonia 27% Serbia 9%
Strawberry	64	60	-2%	Macedonia 61% Turkey 35% Austria 2%
Cherry	38	18	7%	Turkey 64% Macedonia 27% Germany 4%
Raspberry	34	15	22%	Turkey 94% Germany 4% Austria 1%
Citrus fruit	3	1	N/A	Serbia 57% Austria 25% Turkey 17%
Plum	1	0.4	-43%	Germany 100%
Canned vegetables	**1,215**	**1,591**		
Tomatoes	894	1,326	22%	Italy 62% China 16% Greece 13%
Mixtures of vegetables	140	78	29%	Austria 60% Macedonia 26% Hungary 13%
Sweet corn	81	63	22%	Hungary 89% Italy 8% Poland 1%
Peas	37	55	-10%	Italy 61% Hungary 35% Poland 3%
Sauerkraut	29	37	40%	Macedonia 100%
Beans	17	17	-7%	Hungary 50% Italy 26% UK 17%
Capsicum	16	14	-17%	Macedonia 100%
Asparagus	1.3	0.3	N/A	Slovenia 100%
Tomato ketchup and other tomato sauces	**1,167**	**978**	**3%**	**Serbia 65% Italy 13% Macedonia 8%**
Frozen vegetables	**732**	**793**		
Mixtures	411	405	30%	Serbia 48% Germany 18% Poland 18%
Peas	98	126	-15%	Serbia 63% Croatia 21% Poland 8%

Beans	81	113	-31%	Serbia 88% Germany 4% Poland 4%
Other	44	45	-6%	Germany 34% Poland 33% Serbia 16%
Leguminous vegetables	44	39	71%	Ethiopia 43% Croatia 36% Italy 13%
Sweet corn	35	35	37%	Serbia 59% Croatia 22% Poland 13%
Spinach	11	20	7%	Poland 24% Belgium 23% Hungary 15%
Sweet peppers	8	11	43%	Serbia 92% Germany 8%
Sauerkraut	0.4	0.5	-48%	Macedonia 100%
Artichokes	0.01	0.00	-28%	Spain 100%
Ajvar	**592**	**373**	**3%**	**Macedonia 96% Germany 2% Serbia 0.5%**
Dried fruits	**573**	**311**		
Figs	155	84	13%	Turkey 99% Germany 1%
Other	138	26	118%	Macedonia 71% Tunisia 15% Spain 7%
Grapes	104	61	6%	Iran 80% Turkey 6% India 6%
Mixtures	69	9	99%	Germany 44% Austria 32% USA 14%
Apricots	32	12	5%	Turkey 98% Germany 2%
Prunes	21	13	-10%	Serbia 49% Austria 12% Turkey 11%
Sultanas	17	5	-25%	Turkey 57% Iran 18% Germany 10%
Apples	17	71	0%	Albania 81% Serbia 16% Turkey 3%
Peas	11	21	20%	Serbia 72% Greece 19% Albania 9%

Currants	4	1	-28%	Greece 57% Iran 35% Germany 5%
Peaches	2	7	N/A	Albania 100%
Pawpaws	1.7	0.3	7%	USA 99% Macedonia 1%
Pickled	**498**	**615**		
Cucumbers and gherkins	314	388	6%	Macedonia 85% Albania 11% Serbia 3%
Other	107	138	0%	Macedonia 83% Serbia 9% Turkey 5%
Sweet peppers	77	89	-6%	Macedonia 46% Serbia 35% Albania 18%
Canned fruits	**186**	**98**		
Other	70	22	15%	Austria 67% Serbia 16% Turkey 9%
Cherries	70	44	13%	Croatia 92% Turkey 3% Serbia 2%
Pears	24	6	-23%	Austria 90% Turkey 6% China 3%
Strawberries	22	25	20%	Greece 91% Serbia 4% China 3%
Plums	0.4	0.3	-37%	Macedonia 100%
Mixtures	0	0		France 100%
Grapes	0.04	0.2	-68%	Albania 100%
Frozen fruits	**154**	**145**		
Other	129	131	15%	Serbia 69% Croatia 11% Germany 7%
Raspberry, blackberry, mulberry, etc.	14	10	1%	Serbia 87% Croatia 9% Germany 5%
Strawberry	10	5	27%	Serbia 56% Greece 25% Germany 18%
TOTAL	**€ 8,086**	**8,722 tonnes**		

Annex 3. Kosovo's exports of processed fruits and vegetables, per product

	Total exports 2013, in value (€ 1,000)	Total exports 2013, in volume (tonnes)	Annual change 2009-2013	Main export partners
Pickled	**413**	**439**		
Other	238	240	262%	Germany 48% Austria 36% Serbia 12%
Sweet peppers	127	132	8%	Austria 33% Germany 31% Sweden 27%
Cucumbers and gherkins	48	67	13%	Austria 70% Germany 23% Sweden 5%
Ajvar	**105**	**72**	**50%**	**Sweden 44% Macedonia 38% Belgium 12%**
Canned vegetables	**56**	**88**		
Mixtures of vegetables	29	30	5%	Macedonia 55% Germany 35% Sweden 4%
Sauerkraut	16	17	102%	Germany 82% Switzerland 18%
Peas	8	11	82%	Macedonia 100%
Tomatoes	2	2	0%	Germany 91% Albania 9%
Capsicum	1	1	N/A	Belgium 100%
Jams, jellies, purées, pastes	**32**	**36**		
Other	32	36	20%	Montenegro 56% Serbia 35% Sweden 9%
Tomato ketchup and other tomato sauces	**21**	**27**	**-13%**	**Macedonia 50% Albania 26% BiH 22%**
Fruit juices	**4**	**1**		
Cherry	2.3	0.4	N/A	Germany 100%
Apple	1.1	0.4	-46%	Albania 100%
Mixtures of fruit juices, incl. grape must and vegetable juices	0.2	0.2	N/A	Belgium 100%
TOTAL	**€ 631**	**663 tonnes**		

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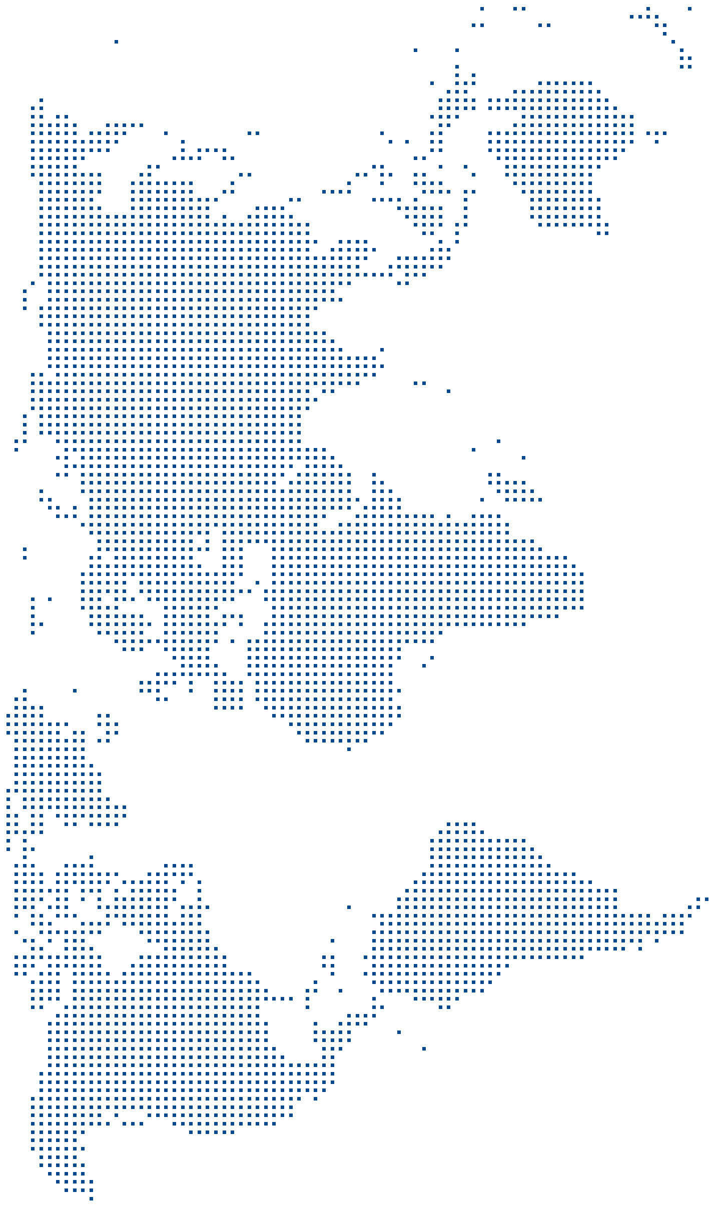

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