KOSOVO

Report

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Table of Contents

List of tables

List of Figures

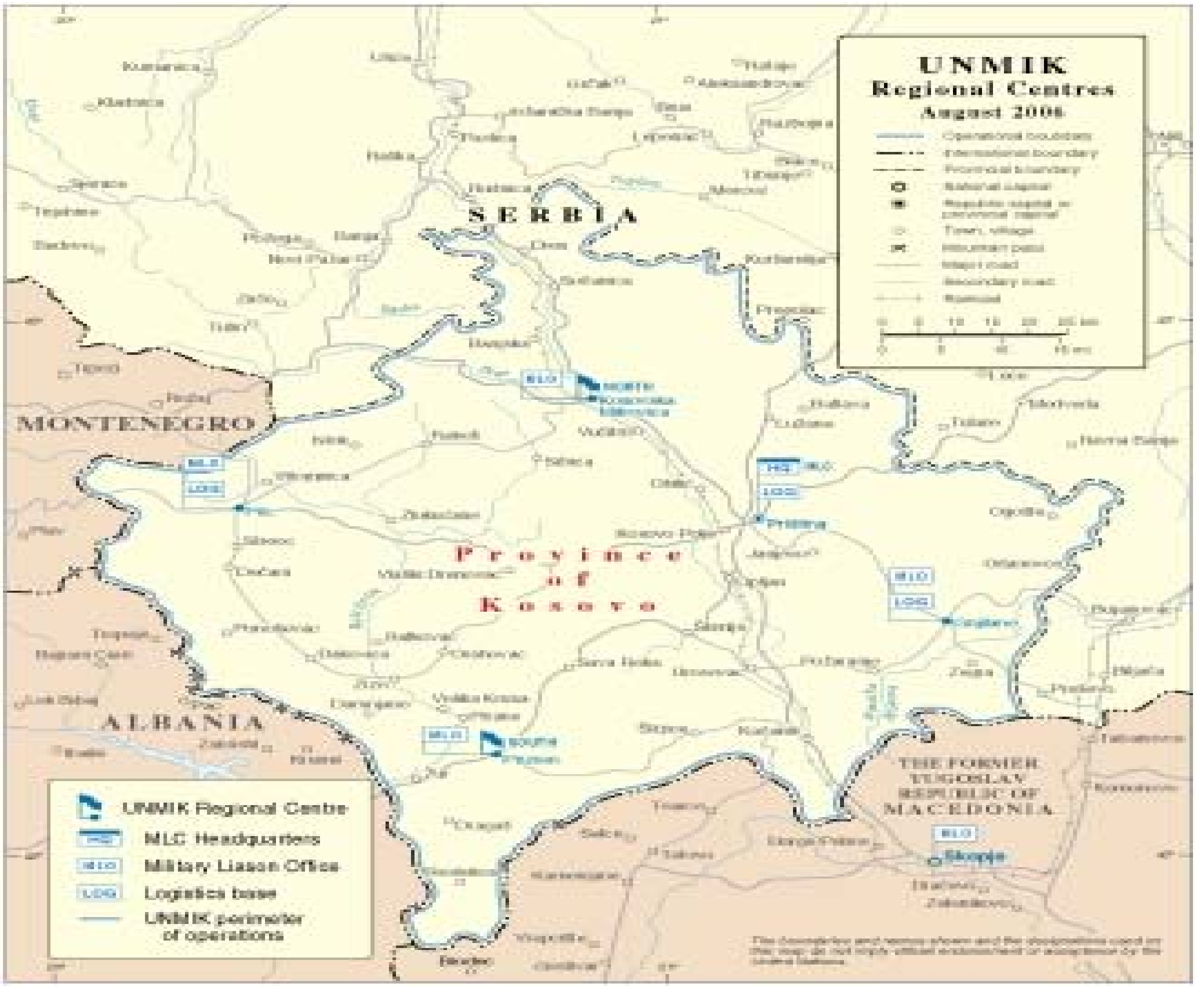
Abbreviations

CAP	Common Agricultural Policy of the EU
CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CEFTA	Central European Free Trade Area
DRA	Directorate for Rural Affairs
EAA	Economic Accounts for Agriculture
EAR	European Agency for Reconstruction
EC	European Commission
EU	European Union
Eurostat	Statistical Office of the European Union
FADN	Farm Accountancy Data Network
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FMS	Farm Monitoring System
FTA	Free Trade Agreement
g	gram
GDP	Gross Domestic Product
GNI	Gross National Income
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
GVA	Goss Value Added
ha	Hectar
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession Assistance
kcal	kilocalories
KTA	Kosovo Trust Agency
KTV	Kosovo Television
l	Litre
LFA	Less Favoured Area
MAFRD	Ministry of Agriculture, Forestry and Rural Development
Mio	million
MIS	Market Information System
Mt	Metric Tons
OECD	Organisation for Economic Cooperation and Development
PISG	Provisional Institutions of Self-Government
POEs	Publicly owned Enterprises
RRTF	Return and Reconstruction Task Force
S&M	Serbia and Montenegro
SAA	Stabilisation and Association Agreement
SAP	Stabilisation and Association Process
SAPARD	Special Accession Programme for Agriculture & Rural Development
SOE	State Owned Enterprise
SOK	Statistical Office of Kosovo
SRSG	Special Representative of the UN-Secretary General
t	tons
TA	Technical Assistance
UNECE	United Nations Economic Commission for Europe
UNMIK	United Nations Administrative Interim Mission in Kosovo
UNSCR 1244	United Nations Security Council Resolution 1244 (dated June 1999)
USD	United States Dollar
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organisation

1 INTRODUCTION

1.1 BACKGROUND AND OVERVIEW

Kosovo is a small entity of 1.1 million hectares. It is a geographical basin situated at an altitude of 500 meters, surrounded by mountains and divided into two sub-regions by a central north/ south ridge[1]. Kosovo's population has been ethnically diverse over the years. Estimates on the size of it's population vary from 1.8 million to 2 million. The last Population Census was carried out in 1981, since when there has been high levels of migration. The population comprises predominately Albanians, with minority communities of Serbs, Turks, Gorans, Bosnians, Romas and other ethnic groups. Average household size is large (on average 6-8 persons)[2] and the overall population is one of the most youthful in Europe.



During the period 1989 – 1999 ethnic tensions emerged, culminating in an armed conflict in 1999. The international community intervened at this time. The war ended on 10th of June 1999 with the Serbian and Yugoslav governments signing the Kumanovo agreement which agreed to transfer governance of the province to the United Nations. Based on United Nations Security Council Resolution 1244 (UNSCR 1244) an interim civil administration was subsequently established and named the United Nations Administrative Interim Mission in Kosovo (UNMIK),

[1] MAFRD, 2003, The Kosovo Greenbook, A Strategy for Sustainable Agricultural and Rural Development in Kosovo
[2] The average household for Serb communities is lower.

headed by a Special Representative of the UN-Secretary General (SRSG). A NATO-led Kosovo Force (KFOR) entered the province following the Kosovo war, tasked to provide security to the UNMIK.

In May 2001, UNMIK promulgated the Constitutional Framework, which established Kosovo's Provisional Institutions of Self-Government (PISG). Since 2001, UNMIK has been gradually transferring increased governing competencies to the PISG, while reserving some powers that are normally carried out by sovereign states (e.g., foreign affairs). Kosovo has also established municipal government and an internationally-supervised Kosovo Police Service. According to the Constitutional Framework, Kosovo shall have a 120-member Kosovo Assembly. The Assembly includes twenty reserved seats: ten for Kosovo Serbs and ten for non-Serb minorities (e.g., Bosniak, Roma, etc.). The Kosovo Assembly is responsible for electing a President and Prime Minister of Kosovo.

In November 2001, the OSCE supervised the first elections for the Kosovo Assembly. In the following years, powers have been gradually transferred from the SRSG to the PISG although the SRSG remains, until now, the ultimate legal authority. All laws passed by the Assembly must be promulgated by the SRSG. Police and courts, protection of minorities, customs, banking supervision and the privatisation process remain the responsibility of the SRSG. Parliamentary elections were held again in 2004. Elections were reported by OSCE to be free and fair, although they were largely boycotted by the Kosovo Serbs.[3] As reported by the World Bank, 'the capacity of the PISG to take on all new responsibilities remains a key challenge.[4]

In December 2003 'Standards for Kosovo' was published and endorsed by the UN Security Council. The aim was to identify a series of standards and associated actions documented in the 'Kosovo Standards Implementation Plan' that were to be undertaken by the PISG and other institutions to realise a 'multi-ethnic, stable and democratic Kosovo, which is approaching European standards'.[5] Progress in achieving these 'standards' has been a consideration for the start of negotiations on Kosovo's final status.

A UN-led process was begun in late 2005 to determine Kosovo's future status. This process will determine whether Kosovo should be independent or remain a part of the state of Serbia. UNSCR 1244 did not address Kosovo's status, but did envision an eventual political process to resolve this question. In October 2005, a UN-commissioned report written by Norwegian diplomat Kai Eide assessed that Kosovo's undefined status was a factor for regional instability and should be settled soon. As a result of this report, the UN Security Council issued a Presidential Statement in November 2005 to endorse Eide's conclusions and authorize the launch of a status process.

In November 2005, the Contact Group countries released a set of "Guiding Principles" for the resolution of Kosovo's status. These principles notably included the requirement that there be no return to the situation prior to 1999 and that there be no change in Kosovo's borders (i.e., no partition of Kosovo) and no union of Kosovo with any neighbouring state. At a January 2006 meeting of foreign ministers, the Contact Group further declared that a settlement "needs, inter alia, to be acceptable to the people of Kosovo" and that "all possible efforts should be made to

3 World Bank, International Development Association Interim Strategy Note, March 2006
4 ibid
5 Kosovo Standards Implementation Plan, March 2004

achieve a negotiated settlement in the course of 2006." Contact Group public statements have also emphasized the need to preserve Kosovo's multi-ethnic character.

In January 2006 the European Council adopted a European Partnership with Serbia and Montenegro including Kosovo. This European Partnership forms the basis of relations between the EU and Kosovo, whereby together with Serbia and Montenegro, Kosovo became a potential candidate to the European Union. In early 2005 the PISG proposed an Action Plan for implementation of the European Partnership agreement and regularly reports to the European Union on progress made within this framework through the Stabilisation and Association Process (SAP) Tracking Mechanism.[6]

The initial status negotiations focused on technicalities important for Kosovo's long-term stability, particularly the rights and protection of Kosovo's minorities, particularly the Kosovo Serbs. The first direct dialogue took place in February 2006 to discuss decentralization of local government, which is an important measure to protect Kosovo Serb communities. Subsequent meetings addressed economic issues, property rights, protection of Serbian Orthodox Church heritage and institutional guarantees for the rights of Kosovo's minorities.

On July 24, 2006, in Vienna the first high-level talks on the future status of Kosovo were launched. Serbian President Boris Tadić and Prime Minister Vojislav Koštunica and Kosovo President Fatmir Sejdiu and Prime Minister Agim Çeku attended and presented their respective platforms for Kosovo's future status.

On the 30th Sept, 2006, the Serbian Parliament unanimously adopted a new constitution which describes Kosovo as an integral part of Serbia; this Constitution was later adopted after a successful referendum on October 28-29, 2006. The UN Civilian Administrator in Kosovo, Joachim Rücker, has argued that this move will have no effect on the final political status of Kosovo.

Due to the above developments and the current negotiations on the future of Kosovo, a separate report for Kosovo is presented.

1.2 DATA AVAILABILITY AND SOURCES

The availability of reliable and consistent data on the agro-food sector in Kosovo is limited. The Statistics Office of Kosovo (SOK) was established just in 2001, and before all statistics were collected by the Statistical Office of Serbia. SOK is gradually developing mechanisms for data collection and publication but, developing effective and reliable systems takes time. The constant changes in the recent past in the region (namely the establishment of Kosovo itself as a separately governed region and the recent independence of Montenegro) make it almost impossible to compare data over the last ten years as it is often not possible to verify whether data (e.g. on yields, growth rates, trade etc.) includes Serbia, Montenegro and /or Kosovo or not. During the ethnic tensions that led up to the armed conflict much data was destroyed. Additionally, data on land use and farm structure suffers from an incomplete and often outdated land registration system. In order to crosscheck and complement the data we have made use of other data sources (e.g. FAO, World Bank, USAID) where available, relevant and considered reliable.

[6] European Commission, Dg Enlargement: www.europa.eu.int/comm/enlargement

2 ECONOMIC BACKGROUND

2.1 MACRO- AND SOCIO-ECONOMIC SITUATION

Kosovo has experienced a post-conflict boom, with positive economic growth since 2000. Economic growth is attributed to high levels of public and private investment. This has been financed primarily by (i) official aid flows, amounting to Euro 1,96 billion during 1999-2003, and (ii) remittances, estimated at Euro 550 million per annum. In spite of economic growth, unemployment rates are high. Official figures indicate that approximately half the labour force is unemployed, although once the informal sector is taken into account it is estimated that the unemployment rate is about 30 per cent.[7] Women and youth are disproportionately affected by unemployment and more than half the population live in poverty[8].

Following the conflict, Kosovo adopted first the Deutschmark and then the Euro in February 2002 as the domestic legal currency. This has resulted in a stable exchange rate and low levels of inflation. With effectively no monetary instruments or the ability to borrow domestically or on the international markets, Kosovo is not able to run a budget deficit. Better than expected revenue performance, combined with limited absorption capacity of public institutions, has resulted in a budget surplus for the past few years.

Table 1: Main macroeconomic indicators in comparison with EU, (2005)

	2001	2002	2003	2004	2005	EU-25 (2005)
Population, total (1000)	1,868	1,900	1,932	1,965	1,999	459,488
Surface area (sq km)			11,000			3,975,043
Population density (No per sq km)	170	172	175.6	178.6	181.7	115.6
UAA (1,000 ha)	N/A	N/A	N/A	N/A	543	162,393*
GDP (current Mio. Euro)	1,625	1,735	1,797	1,895	1,999	2,697,935
GDP per capita (current Euro)	870	913	930	964	1000	22,600
Exports of goods and services (% of GDP)	16,55%	12,51%	10,91%	10,66%	10,26%	9.3*
Real GDP development (growth rate)		1.2	3.1	3.2	1.7	1.6
Imports of goods and services (% of GDP)	75,38%	60,81%	55,82%	54,09%	52,28%	9.9*
Inflation, GDP deflator (annual %)	21.6	5.5	0.5	2.2	3.7	2.2
Registered unemployment rate			30,1	29,5	28,9	9.0*
Euro-Exchange rate (1 Euro = x units NC)	2	1	1	1	1	

Source: *IMF estimates 2005, UAA: MAFRD, Export and Import Data from: IMF Staff Mission April 20 – May 4, 2005*
** 2004 data*

The macro-economic situation in Kosovo in 2005 was affected by a decline in donor support and a lack of dynamism in the economy. According to IMF estimates, GDP seems to have increased in 2005, by 5%. Although there are some signs of recovery in the first months of 2006, the overall economic situation in Kosovo nevertheless remains bleak: Kosovo has one of the lowest per capita GDP in Europe (around EUR 1,000); around 37% of the population live in poverty, with around 15% living in extreme poverty (WB estimates); growth has been weak in recent year and insufficient in view of the territory's considerable development needs.

7 ibid

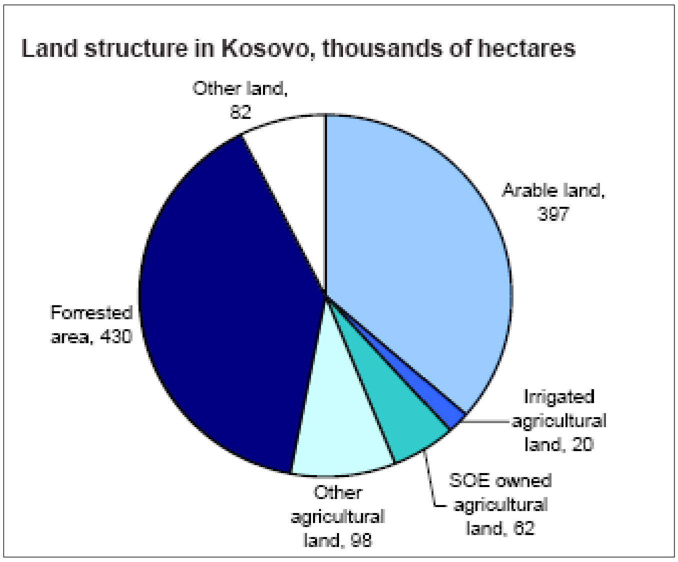
8 World Bank, May 2004, Report No. 28023-Kos, Kosovo Economic Memorandum. GDP growth rates are based on IMF and World Bank staff estimates. Kosovo is at the very early stages of establishing a system of National Accounts. These figures are therefore estimates and should be treated with caution.

2.2 AGRICULTURE IN THE ECONOMY

Agriculture is one of the most important sectors of the economy. It contributes about 25% of GDP and accounts for the largest share of employment. In the rural areas (in which an estimated 60% of the population live) it is the main source of income. It also provides a social safety net for a large number of poor and elderly people that depend on subsistence farming for their livelihoods. It is estimated that more than 50 per cent of agricultural production is consumed on the household[9] whilst food remains a high proportion of total household expenditure (60%)[10]. The last agricultural census took place in 1960s and Population Census in 1981. The data presented is based on a number of different sources, with consideration given to the availability and reliability of the various data sources.

The land structure in Kosovo is represented in the diagram below.

Figure 1: Land structure in Kosovo (2005)



Source: *World Bank (2006): Kosovo Monthly Economic Briefing, 31 January 2006*

There are significant differences in data about total agricultural land and its utilisation. Using the SOK Agricultural household Survey total land is estimated at 858,063 ha, of which 369,289 ha or 43% is agricultural land. Data provided by the Ministry of Agriculture, FAO and World Bank (see figure 1) show a total agricultural area of 543,000 ha and an arable area of 263,000 ha. The differences to the results of the Agricultural household survey are due to the big number of "kitchen gardens" which were not included in the above survey, but are part of arable area counted by the agricultural Ministry and international bodies. Anyhow, land-use data need further investigation.

According to the Agricultural Household Survey 2005, arable land accounts for 138,861 ha of agricultural land and permanent crops (farmed privately) 4923 ha. Together they account for 143,784 ha or 17% of the total land use.

The share of agricultural labour in the total labour force of 49% is also presented in Table 2. This figure is calculated using the most recent data on labour force in Kosovo. The Labour

9 Agricultural Household Survey 2005, SOK
10 Standard of living Statistics 2002/2003 and 2003/2004, SOK

Market Statistics Survey reports that in 2004 the labour force accounted for 46.2% of the total population. Using the IMF estimate for the total population in 2004 (presented in Table 1), the total labour force in Kosovo is estimated at 907,830. Agricultural labour is estimated based on the Agricultural Household Survey 2005. Households reported the number of members engaged full-time, part-time or occasionally on own farm. In addition they reported the number of working days of hired labour. The latter has been converted into annual work units using 1800 working hours per unit. Taking only household members engaged in agriculture of working age (16 – 65 years) and including the full-time equivalent hired labour the agricultural labour force amounts to 447,592 (49% of the total labour force). However if part-time and occasional household members are converted to full-time equivalent the agricultural labour force declines to around 278,000 (including workers on SOEs) or 28% of the total labour force. The latter is consistent with what is reported by the Labour Market Statistics Survey which reports 25% of employment in Kosovo in the agricultural sector.

In 2005 agriculture accounted for 16% of the value of export earnings while agricultural imports account for one quarter of the value of total imports. Reliable agricultural trade statistics for Kosovo are only available from 2004[11].

Agriculture has been identified as one of the three areas for potential economic growth and employment creation. In order to realise this potential significant improvements in competitiveness of domestic production will be needed. This will require substantial investments in the sector, for which financing must be sought.

Table 2: Key agricultural indicators in comparison with EU

	Kosovo			EU-25 2004
	1995	2000	2005	
Share of Agricultural land in total land use	N/A	N/A	43*	40.8
Share of Arable Land and Permanent Crops in total land use	N/A	N/A	17	N/A
Share of Agricultural GDP in total GDP	N/A	N/A	25	1.6
Share of Agricultural Labour in total Labour	N/A	N/A	49	5.0
Share of Agricultural Export in total Export	N/A	N/A	16	6.0
Share of Agricultural Import in total Import	N/A	N/A	25	6.0

** According to SOK Agricultural Hosehold Survey 2005, World Bank and Ministry of Agriculture estimate the share to be higher, i.e. approximately 53%*

***Source**: MAFRD estimates, SOK Agricultural Household Survey 2005, UNMIK Customs Service 2005, Labour Market Statistics Survey 2003/2004 SOK.*

***EU 25 data** – Dg Agri "Agriculture in European Union"*

[11] Prior to 1999 Kosovo did not have external borders and between 2000 – mid-2003 UNMIK customs service was being established and items were recorded by delivery rather than according to categories of goods and services.

3 LAND USE, FARM STRUCTURE AND INCOME

3.1 LAND USE AND QUALITY

Kosovo possesses diverse soils due to its varied landscape. It is estimated that 15% of soils are of high quality, 29% of medium quality and 56% of poor quality.[12] Medium to high quality soils are composed of humus soil (11%), grey carbonate land (8.4%), alluvial (7.8%) and other dark and serpentine soils. Poor soils are mainly in the hilly and mountainous areas of Kosovo. A considerable amount of fertile land, including some irrigated land, has been lost in recent years to house and road construction, dumpsites and other constructions[13]and the quality of agricultural land continues to be eroded by poor land administration and management practices and pollution from industrial effluents and peri-urban waste. In 2005 farmers reported that approximately 30% of agricultural land, owned by agricultural households, was irrigated. Further investment in the irrigation system is needed to ensure optimum use.

The largest share of agricultural land is arable land and kitchen gardens. These together account for about one half of the total agricultural land. Meadows and pastures account for 37% of private agricultural land whilst nearly one tenth of agricultural land in the private sector is fallow.[14] Additionally there is large areas of agricultural land under SOEs which are left fallow. Farmers report that most of the land left fallow is due to poor economic prospects for agricultural products.

The forestry sector is very important. Kosovo possesses 464,800 ha of forests. 60% (278,880 ha) are classified as state forestlands, while 40% (185,920 ha) are owned by private persons[15].

3.2 LAND OWNERSHIP AND PRIVATISATION

Most agricultural land is privately owned and farmed by a large number of agricultural households (estimated at about 170,000)[16]. It has been regularly quoted that approximately 12% of agricultural land is socially owned. Recent data suggests that the share of agricultural land belonging to Socially Owned Enterprises (SOEs) and cooperatives may be higher, although privately owned land certainly predominates.

The Kosovo Trust Agency (KTA) established in June 2002, has a mandate to privatise all socially owned enterprises (based on a 99-year lease) in accordance with Regulations 2002/12, 2002/13, and 2003/13. There are 28 primary agriculture oriented SOEs, sometimes split into smaller units, totalling 109 entities, a mixture of SOEs and cooperatives. Of these approximately 50-60 are SOEs[17]. Cooperatives, which do not fall under the SOE status, will not be privatised and are entitled to register under the new Law on Farmers Cooperatives. It is estimated that agricultural SOEs and cooperatives account for approximately 42,000 ha and 18,000 ha respectively, whilst approximately 40,000ha belongs to business entities.[18] The privatisation process has experienced serious delays. However the process is now proceeding and the KTA

[12] Draft Agricultural Master Plan for Kosovo, 2006
[13] *ibid*
[14] SOK Agricultural Household Survey 2005
[15] FAO, Forest Inventory 2002/2003
[16] SOK Agriculultural Household Survey 2005
[17] Arnolli, 2004, Policy paper on establishment of the Kosovo Land Trust, ASPAUK Project.
[18] There remains uncertainty about the status of some cooperatives.

have an ambitious mandate to privatise all SOEs by the end of 2006. To date 13 sales have been achieved (some subject to contract) covering a total land area of 4,623 ha. These 13 entities include both agro-processing facilities and SOEs with agricultural land.

3.3 FARM STRUCTURE

Agricultural holdings are very small and mostly semi-subsistent. Average land holding per family is about 3,2 ha, of which 1,6 ha is arable typically fragmented into 6 to 8 plots. Ninety-seven per cent of holdings are less than 5ha, while there are less than one per cent of holdings above 10ha. Similarly herd size is small. The majority of agricultural households with cattle have 1-3 cows.[19]

The privatisation of agricultural SOEs provides an opportunity for improving the farm structure in the short to medium term. Most of the larger holdings already depend on land rented from socially owned enterprises (more than half of their land is rented from SOEs)[20].

Table 3: Farm Structure in Kosovo, (2005)

	2005 Survey		
	Number of holdings	**% of holdings**	**Share in Agricultural area (%)**
Total	171.739	100	100
Up to 2 ha	133.473	77.71	45
Above 2 ha to 5 ha	32.325	18.82	36
Above 5 ha to 10 ha	4.893	2.84	11
Above 10 ha to 100 ha	1.048	0.61	7
Above 100 ha	--		

***Source**: SOK Agricultural Household Survey 2005*

Table 4: Agricultural land area by ownership and farm structure

Ownership	**Small farms**		**Large and specialised**		**Total**	
	Area (ha)	**%**	**Area (ha)**	**%**	**Area (ha)**	**%**
Owned	339,392	95.27	1,575	30.24	340.966	94.34
Rented from private individuals	7,379	2,07	759	14.58	8,138	2.25
Use private land for free	4,633	1.03	63	1.21	4,696	1.30
Rented from the State	3,655	1.03	2,806	53,87	6,471	1.79
Use state land for free	999.	0.28	6	0.12	1,005	0,28
Other	163	0.05	0	0.00	163	0.04
Total	356,230	100.00	5,209	100.00	261,439	100.00

***Source**: SOK Agricultural Household Survey 2005*

The above table shows that there are still severe uncertainties regarding the real agricultural land size in Kosovo. As mentioned in chapter 2.1 above. The 2005 agricultural household survey just covered a total of about 360,000 ha, whereas other sources (FAO and World Bank) reports a total agricultural area of 543,000 ha.

19 KVS Livestock Census, 2003
20 SOK Agricultural Household Survey 2005

3.4 FARM INCOME AND EMPLOYMENT

The table below illustrates the progress that is being made in establishing a Farm Accountancy Data Network (FADN). A Pilot FADN was established with a test phase involving fifty (50) farms in 2004. This was expanded to 159 farms in 2005, supported by a European Agency for Reconstruction Project, funded by the EU. The absence of a farm register prevents the use of a statistically representative sample. The farms in the sample were purposely selected to include a range of farm typologies and sizes.

The size of the sample means that drawing robust conclusions about profitability in different sectors is not possible. However the following general observations can be made:

- Farms in the sample to some degree are mixed farms – this can be partly attributed to the semi-subsistence nature of most agricultural holdings that rely on a range of enterprises and the limited number of specialised commercialised farms in Kosovo. For example farms in the category of field crops and horticulture, presented in the Table, also keep a range of livestock.
- Average farm size among the sample across all categories is 6.2ha, with farms in the granivore category being smallest (average 1.95ha) and farms focusing on field crop production being the largest (average 8.6 ha) in the sample.
- Land on farms in the sample tends to be owned rather than rented, with the exception of horticulture holdings where an average 43% is rented.
- Average farm income is highest in the grazing livestock category (€22,987), with mixed farms in the sample having the lowest farm income (€5,567). Farms in the grazing livestock and granivore categories have the highest gross margins of €24,131 and €21,014 per annum respectively.

Due to the small sample size, having one or two farms with a high standard deviation from the average can skew figures. For example the high average number of poultry in the granivore category can mostly be attributed to one farm. Similarly the noticeably high income for crops in the horticulture category is due to the high value flower production on a small number of farms.

The establishment of the FADN Pilot is beginning to provide an insight into the profitability of different agricultural enterprises in Kosovo. However the size of the sample used to date and its lack of statistically representation does not provide a generic or significant view of the sector. Farmers involved in FADN have been encouraged to take a more methodical approach to recording farm accounts and book-keeping, which in the future will aid more accurate results of farm income for analyses.

Additionally, data was collected on farm revenue and expenses through the annual agricultural survey. This data is representative although the figures indicate only that which was reported by the farmers and is not based on farm records. This indicated that for a typical agricultural household the mean expenditure is 703 Euro and the cash revenue is 744 Euro, whilst for the larger (semi-commercial and commercial) farms the average expenditure is 30,780 Euro and the average revenue is 41,849. The 159 farms in the FADN system have an average farm income of about 10,000 Euro.

Table 5: Average profitability of different size groups by farm typology, (2005)

	Field crops	Horti-culture	Grazing livestock (dairy)	Grani-vore (poultry, pigs, sheep)	Api-culture	Mixed	Total
Number of farms in sample	28	38	9	8	8	68	159
Land in property (average) ha/farm	8.44	4.51	3.19	1.95	2.55	5.43	5.29
Rented land (average) ha/farm	0.16	3.50	0.00	0.00	0.00	0.10	0.91
Number of livestock (average)/farm							
Dairy	7.61	2.61	10.67	0.50	1.88	6.72	5.56
Sheep	1.11	0.79	94.44	0.00	0.00	7.82	9.08
Goats	0.00	0.03	0.00	0.00	0.00	0.13	0.06
Poultry	1.96	3.03	2.33	2,273.13	0.00	9.70	119.72
Bees	0.57	0.21	0.00	3.75	127.50	2.50	7.82
Pigs	0.54	0.00	0.00	0.00	0.00	2.29	1.08
Economic indicators (averages/farm) in Euro							
Gross revenue	19,075	15,187	30,235	39,393	11,310	8,217	14,765
Gross margin	15,496	10,524	24,131	21,014	7,206	6,512	10,815
Farm income	14,200	9,628	22,987	19,209	7,008	5,567	9,803
Gross revenue livestock	13,509	2,613	25,282	37,026	11,214	7,501	10,070
Gross margin livestock	11,998	2,000	20,248	18,894	7,491	6,594	7,885
Farm income livestock	11,736	1,631	19,571	17,403	7,463	6,341	7,528
Gross revenue crops	5,565	12,563	4,286	2,367	95	638	4,622
Gross margin crops	3,498	1,222	3,882	2,082	-285	-266	1,104
Farm income crops	2,464	8,005	3,416	1,806	-455	-713	2,303

Source: *MAFRD 2005 Pilot FADN Publication*

Traditionally, agricultural has been an important sector and provided employment to a large share of the labour force in Kosovo. Its importance increased during the decline of the economy during the 1990s and following the conflict in 1999, as opportunities for employment in other sectors (such as mining and public service) declined. The agricultural sector provides employment to about half of the persons living in rural areas[21].

The total number of household members engaged in farming is 534 thousand. This comprises: full time (135,000); part time (181,000) and occasional (218,000). Additionally hired labour amounts to approximately 1,640 full time equivalents (assuming 220 working days per year). The total number of full time equivalent workers in the sector is 278,000. The share of males in the agricultural labour force for all age groups is much higher than for females. Males account for 80 % of all full time persons; 60 % of part time workers, whilst occasional workers are equally split between males and females[22].

[21] Including full-time, part-time and occasional employment.
[22] SOK Agricultural Household Survey 2005

4 AGRICULTURAL PRODUCTION AND CONSUMPTION

4.1 TOTAL AGRICULTURAL PRODUCTION (GAO, MAIN PRODUCTS)

Kosovo is endowed with fertile land suitable for agricultural production. The sector could be a potential source of growth, but small average farm size, high dispersion of land tenure, low productivity and quality (particularly in food standards) together with a poor use of inputs and technology, high seasonal concentration, and underdeveloped infrastructure and advisory services do not allow Kosovo to compete with production from neighbouring countries and the EU itself.

As reported by the World Bank[23], the vast majority of agricultural land and livestock is owned by the private sector (88 and 95 percent respectively). Small farms, averaging 2.4 ha of land and one cow and primarily producing for self-consumption, dominate the sector. Only around 10 percent of farms can be defined as commercial producers; the figure decreases to 1 percent for dairy farms and 2 percent for meat producers. In 2001, the annual mean output per cow was 1,400 litres, whereas the EU average was ten times higher. The land market is also not functioning properly, due to speculation related to the expected value of land for non-agricultural usage (residential and commercial properties).

Kosovo is a net-importer of agricultural and food products. In 2004, imports of food products accounted for more than 27 percent of total imports (more than €290 million), largely made of beverages, meat and dairy. Food exports accounted for over 11 percent of total exports in 2004 and were dominated by fruits and beverages. In the table below is showed the percentage of Consumption and Import of agricultural goods. Kosovo imports 81% of Domestic Demand of meat, whereas the local production of milk and vegetables covers about the 75% of Domestic Demand.

Table 6: Consumption and Import of agricultural goods in Kosovo (2004)

	Local Production (% of Dom Demand)	Import (% of Dom Demand)	Self-Consumption (% of Production)
Milk	74	26	47
Meat	19	81	-
Vegetables	75	25	26
Fruit	80	20	54
Wheat	71	29	27
Wine	125	2	-

***Source**: World Bank (2006): Kosovo Monthly Economic Briefing, 31 January 2006*

No Economic Accounts for Agriculture (EAA) in Kosovo are available yet, since they have not yet been produced. There is very limited official data on Gross Agricultural Output by commodity type. According to World Bank[24], the share of the agricultural sector in the overall gross value added in Kosovo decreased from 25% in 2000 to around 20% in 2004. However, a large proportion remains unrecorded, due to widespread subsistence farming activities.

[23] World Bank (2006): Kosovo Monthly Economic Briefing, 31 January 2006
[24] World Bank (2006): Kosovo Monthly Economic Briefing, 31 January 2006

In 2005 the Statistical Office of Kosovo published for the first time gross agricultural output for livestock products (sold). The total value of livestock production sold was Euro 20.3 million. The most important products were milk (35%), eggs (23%), cheese (17%) and meat (13%). Most agricultural production (more than 50%) is used for household needs. The value of this output is not included in the data below.

Table 7: Gross Agricultural Output for main agricultural commodities in Mio. Euro, (2004)

	2005 (in million)	%
Livestock Products (total)	**20.3**	**100**
- Meat	2.7	13
- Milk	7.2	35
- Cheese	3.4	17
- Fat (grease)	0.3	1
- Other dairy products	0.9	5
- Eggs	4.8	24
- Honey	0.8	4
- Other products (various)	0.2	1

***Source**: SOK Agricultural Household Survey 2005*

4.2 CROP PRODUCTION

Cereals and fodder crops account for the largest cultivated land in Kosovo, representing around 90%, while fruit and vegetables account for the remaining 9.5%.[25] No major changes are observed between 2004 and 2005 although a slight improvement in production and yields is observed. An exception is the production of fruit, which reportedly dropped significantly between 2004 and 2005. In 2005 farmers reported lower yields for most fruit compared with 2004. Data is available for period 2000 – 2003 but it is not comparable with 2004 and 2005 due to large variations in the estimates used for the population (sample frame).[26]

Table 8: Crop area, production and yield trends in crop production for Kosovo, (2004-2005)

	2004	2005	EU-25 (2005)
Crop area (1000 ha)			
Cereals	112	114.6*	52,013
Oilseeds	N/A	N/A	11,349
Pulses	4.7	6**	1,868
Roots and tubers	0	0	2,037
Fruits	5.7	4.9	5,838
Vegetables***	11.4	11.7****	2,460
Production (1000 t)			
Cereals	408	441	260,561
Oilseeds	…	…	10,021
Pulses	7.3	8.2	4,486
Roots and tubers	0	0	59,599

25 SOK 2005
26 The last Agricultural Census was in 1960s. It is unknown how many agricultural holdings there are in Kosovo. Population Census is planned to take place this year.

	2004	2005	EU-25 (2005)
Fruits	51.5	29.6	63,001
Vegetables	211.4	223.1	66,037
Yield trends (t/ha)			
Cereals	3.8	3.9	5.0
Oilseeds	N/A	N/A	8.8

Source: *SOK 2005*

EU data *– faostat.fao.org/faostat/collections?version=ext&hasbulk=0&subset=agriculture*

NOTES: * *Fodder crops are not included in the table: 96,777 ha*

** *Of which 5349 is mixed crop*

****Area under beans has been excluded from the data presented in SOK for vegetables and presented separately under pulses for comparative purposes.*

******* In SOK 2005 publication hectare under vegetables includes pulses (beans) and is 17,333. In Table 6 they have been excluded for comparative purposes.*

4.2.1 GRAINS AND FODDER CROPS

Wheat and maize are the most important crops in Kosovo in terms of cultivated area and production, as presented in the Table 9 below. The wheat area and production is two times bigger than the maize ones, confirming that wheat is the main crop in Kosovo.

Table 9: Cereal crop area, production and yield trends (2004-2005)

	2004	2005
Crop area (1000 ha)		
Wheat	69.4	69.3
Rye	0.4	0.5
Barley	3.5	3.4
Malting Barley	1	1
Oats	3.5	3.5
Maize	34.6	37
Production (1000 t)		
Wheat	262.3	273.4
Rye	1.2	1.4
Barley	9.6	11.3
Malting Barley	3.1	2.8
Oats	7.4	9.8
Maize	124.2	142.1
Yield trends (t/ha)		
Wheat	3.8	3.9
Rye	2.7	2.9
Barley	2.9	3.4
Malting Barley	3.2	2.9
Oats	2.1	2.8
Maize	3.6	3.8

Source:*SOK 2005*, ***Note:*** *This table does not include production of the second crops and autumn crops.*

Regarding the production trends, in 2005 maize production has increased by 14% compared to 2004 whereas wheat production increased just by 4%. Area under Maize increased by 6% from 2004 to 2005 and as the only area increased from 2004 to 2005. Indeed, oats production increased by 32% and barley by 18% due to yield increases.

Although wheat constitutes, together with maize, the dominant crop[27], Kosovo is very dependent on the import of wheat and flour. The self-sufficiency rate for all cereals for Kosovo is only 23%. Wheat demand is approximately 400,000 t per year. On average only 54% of the demand has been met by domestic production over the past 10 years. Wheat farmers using traditional methods are mainly subsistence or semi-subsistence type of holdings with marketing only the surpluses. There are 82 flour mills in Kosovo of which 77 are privately owned. The mills are mostly old with outdated equipment. There is approximately 800,000 t of storage capacity which is twice the amount actually needed.[28]

Table 10 shows the fodder crop area, production and yield trends. Hay and alfalfa are the most widely produced fodder crops.

Table 10: Fodder crop area, production and yield trends (2004-2005)

	2004	2005
Crop area (1000 ha)		
Hay (meadow)	68.4	65.7
Grass	4.6	7.5
Lucerne	17.4	13
Trefoil	3.8	3.6
Vetch	0.3	0.2
Wheat fodder (green)	0.1	0.2
Rye fodder (green)	0.7	0.08
Barley fodder	0.08	0.03
Oat fodder (green)	4.7	5
Maize fodder (green)	1.3	1.5
Production (1000 t)		
Hay (meadow)	176.6	187
Grass	13.2	31.3
Lucerne	62.6	55.4
Trefoil	12.7	13.3
Vetch	1.1	1.1
Wheat fodder (green)	0.6	1.1
Rye fodder (green)	1.7	0.2
Barley fodder	0.2	0.2
Oat fodder (green)	12	24.5
Maize fodder (green)	21.4	25.6
Yield trends (t/ha)		
Hay (meadow)	2.6	2.8
Grass	2.9	4.2
Lucerne	3.6	4.3
Trefoil	3.3	3.7
Vetch	3.7	5.5
Wheat fodder (green)	3.9	5.4
Rye fodder (green)	2.5	3.2
Barley fodder	3.0	6.0
Oat fodder (green)	2.6	4.9
Maize fodder (green)	16.9	17.6

***Source**: SOK 2005*

***Note:** This table does not include production of the second crops and autumn crops.*

[27] World Bank (2006): Kosovo Monthly Economic Briefing, 31 January 2006
[28] USAID-An Assessment of Technology transfer and Info. Networking in Kosovo

4.2.2 FRUITS AND VEGETABLES (incl. Grape)

The most important vegetable crop areas are beans (particularly as a mixed crop with maize), potato and pepper[29], as shown in the table below. The main production is potato, pepper and cabbage, with an increase of potato production by 27% from 2004 to 2005.

The yields for potatoes (approximately 16 t/ha) are in line with the average yields in other Western Balkan Countries but far below the EU-25 yields (approximately 30 t/ha). The yield pattern for the other important commodity, beans, is similar: The yields for pulses (approximately 1.4 t/ha) are in line with the average yields in other Western Balkan Countries but far below the EU-25 yields (approximately 2.4 t/ha).

Overall production levels of vegetables are very low and can't satisfy domestic demand. The self-sufficiency rate for all vegetables for Kosovo is only 13%.

Table 11: Vegetable crop area, production and yield trends (2004-2005)

	2004	2005
Crop area (1000 ha)		
Potato	3.2	3.8
Tomato	0.8	0.7
Pepper	2.8	2.6
Pumpkin	1.2	1.4
Cucumber	0.3	0.2
Water melon	0.7	0.6
Cabbage	0.8	0.8
Onion	0.9	0.9
Beans	4.7	5.6
Other (various)	0.7	0.7
Production (1000 t)		
Potato	68.6	87.4
Tomato	15.2	15
Pepper	55	55
Pumpkin	8.7	9
Cucumber	8	6.1
Water melon	12.9	13.5
Cabbage	20.7	18.9
Onion	13.8	11
Beans	7.3	8.3
Other (various)	8.5	7.2
Yield trends (t/ha)		
Potato	21.1	23.0
Tomato	18.0	20.3
Pepper	19.6	21.0
Pumpkin	7.4	11.3
Cucumber	29.1	25.8
Water melon	19.0	21.3
Cabbage	26.6	24.4
Onion	15.1	12.9
Beans	1.6	1.5
Other (various)	12.1	10.3

***Source**: SOK 2005*

[29] SOK, Agricultural Household Survey 2005

Concerning orchards (see Table 12), the largest area is under plums and apples. Although the agri-ecological conditions for fruit production are relatively good and labour is available, the sector faces several impediments such as lack of investments, old orchards and low quality varieties. The self-sufficiency rate for all fruits for Kosovo is only 6%. In 2005, 23% of the total planted area with fruit trees had zero production[30]. The main reasons for the lack of production were too old orchards or too new plantings, hail and frost, and plant diseases. This is well illustrated by the drop of production in 2005 (as compared to 2004) for apple, pear and plum.

Table 12: Fruit crop area, production and yield trends, (2004-2005)

	2004	2005
Crop area (1000 ha)		
Apple	0.9	1.1
Pear	0.3	0.4
Plum	2.6	2.1
Strawberry	0.02	0.06
Vine grape (see also separate table further down)	3.5	3.5
Table Grapes	1.1	1.1
Other (various)	0.6	0.3
Production (1000 t)		
Apple	12.1	7.1
Pear	3.8	2.8
Plum	25.4	12
Strawberry	0.09	0.3
Vine grape (see also separate table further down)	1.8	2.2
Grape	3.9	3.5
Other (various)	5.4	2.1
Yield trends (t/ha)		
Apple	13.2	6.6
Pear	12.6	7.3
Plum	9.6	5.6
Strawberry	4.5	5.4
Vine grape	4.2	6.0
Grape	4.6	6.4
Other (various)	9.0	7.0

***Source**: SOK 2005*

Although wheat and maize constitute the dominant crop, given the small land holding pattern, a steadier source of growth may be found in fruit, vegetables, meat, poultry and dairy products. Value added exists in agro-processing, which can help boost the private sector, particularly semi-commercial and commercial farms. However, producers prefer to sell their produce at harvest on the fresh market. The processing market is not well developed. In the case of apple producers, when they cannot sell they put apples in storage on their farms, usually a converted garage.

Storage facilities are poorly designed and as much as 20 percent of the crop can be ruined during storage. Grades and standards do not exist in the wholesale and retail trade. Retailers stated that packaging and quality are not up to their standards. Retailers also want a regular supply and consistent product, preferably throughout the year. The market price will not vary much from the harvest price because of competition from imported apples and other fruit during

[30] SOK, Agricultural Household Survey 2005

the winter. Fruit associations are being developed and the opportunity for organized marketing already exists.[31]

Kosovo has a considerable tradition in wine production with an extended area of vineyards covering the zones of Anadrinit/Podrimlje and Dukagjin/Dukadjin. Nowadays the total area under vine is about 4,600 ha, while before the conflict the vineyard area was about 9,000 ha. The main wine production areas are presented below[32]:

Table 13: Vineyards and Wine Production in selected areas

MUNICIPALITY	PRIVATE SECTOR			PUBLIC SECTOR		
	Area (ha)	Yield (t/ha)	Production (t)	Area (ha)	Yield (t/ha)	Production (t)
Rahovec/ Orhahovac	2500	9	22500	620	6.45	3999
Theranda/Suhareka	271	8.5	2303.5	567.9	5.4	3066
Prizren	250	8	2000	300	3.56	1068
Malisheva/Malisevo	88	7.5	663.3	120	2.23	267.6
Istog/Istok	-	-	-	100	2.8	280
TOTAL	**3109**	**8.8**	**27446.8**	**1707.9**	**5.1**	**8680.6**

Source: *UNMIK*

4.2.3 INDUSTRIAL CROPS (incl. Oilseeds, sugar beet, tobacco).

Industrial crops production represents only 0.1% of the total crops production. Sufficient data are not provided. Sunflower has been the principal oilseed crop with a major processing plant, Alcon, at Ferizaj. The best lands in the Balkans Region for sunflower are reported to be in Kosovo. Farmers sell to the plant at the prevailing cash price. The plant has a capacity requiring 10,000 HA of sunflowers. Because of the limited market options for farmers, sunflower production has fallen in Kosovo. Kosovo imports approximately 3,700 mt.[33]

4.3 LIVESTOCK PRODUCTION

The table below shows a small expansion in the livestock sector between 2004 and 2005. In Kosovo there are a number of relatively large household farms specialised in livestock. However, the statistics underline the subsistence character of livestock sector in the small household farms. The cattle are very dispersed between agricultural holdings with an average of 1.3 cows per agricultural household. Production of pigs is concentrated in specific areas where non-Albanian communities live.

Table 14: Livestock numbers and production and comparison with EU, (2005)

		2004	2005	EU-25-(2005) FAO
Cattle	Thousand heads	335.2	351.8	88,116
Goats	Thousand heads	14.5	8.9	12,093
Sheep	Thousand heads	91.6	142.9	101,394
Pigs	Thousand heads	54.9	47.5	152,164
Chickens	Thousand heads	2139.2	2386.5	1,187,103
Beef and veal	1000t	11.2	N/A	7,91
Milk	1000t	...	N/A	146,859
Pig meat	1000t	2.5	N/A	21,562
Sheep/ goat meat	1000t	0.7	N/A	1,082
Wool	1000t	...	N/A	172

Source*: SOK 2005 for livestock numbers. 2006 MAFRD / AMPK working group on livestock and meat for estimates of production in 2004.* ***EU 25 data –*** *FAO Data*

[31] USAID-An Assessment of Technology transfer and Info. Networking in Kosovo
[32] UNMIK, Invest in Kosovo
[33] USAID-An Assessment of Technology transfer and Info. Networking in Kosovo

4.3.1 COWS (Beef & Dairy)

Cattle are the major livestock, of which 53% are dairy cows. The average number of milk cows for those households that have milk cows is 1.53 in the small farms and 4.4 in the large and specialised farms.

Table 15: Cattle number by type of farms (2005)

	Small farms	Large & specialised farms	Total
Total Cattle	*349,196*	*2,631*	*351,827*
Calves less than 6 months	76,282	447	76,729
Bulls and heifers	86,997	773	87,770
Milk cows	185,316	1,391	186,707
Buffalo	602	20	622

Source: *SOK, Agricultural Household Survey 2005*

There is no data on the annual domestic raw milk production in Kosovo. However, it seems that Kosovo still imports far more processed milk than it produces, and only 5 % of the packed milk consumed is processed and packed in Kosovo[34]. Boosting milk production is a key part of sustainable rural development. The World Bank estimates that almost half of the domestic raw milk is consumed on-farm and that approximately three quarter of the domestic demand in raw milk is satisfied with local production. The per capita consumption is 150 lt milk equivalents. If annual consumption is estimated at 300 million lt, then Kosovo produces approximately 225 million lt and imports approximately 75 million lt (see also table 6). This estimate would result in a very low annual milk yield of 1200 lt/cow.

The major constraint facing the marketing of fluid milk is the present low level of quality. Milk produced is consumed both in the home as well as converted into traditional cheese products. Producers can face a problem of selling in an oligopsonistic (small number of buyers) market that could result in a price disadvantage to producers. There are 20 milk processors but only eight firms are viewed as viable businesses. Compounding the problem is the small size of dairy herds and their dispersed location resulting in a high cost of milk collection. The important dairy products are yogurt, whole milk and cheese in Kosovo. Dairy production, collection and processing and distribution are labor-intensive and could provide rural employment. Milk production is important to the rural economy of Kosovo. A major constraint to dairy production and the viability of commercial dairy processors is the low test results on milk quality.[35]

The beef industry is primarily a by-product of the dairy industry. Small farm operators prefer the Simmental breed because it is a moderate milk producer as well as a good beef animal. Producers sell to traders at rural livestock markets that rotate on a weekly basis. The Pristina market is the largest cattle market. Traders visit these markets to purchase cattle. It is reported that large numbers of uninspected slaughter cattle enter from Serbia and this affects the local price for livestock. There are 10 meat plants as well as many small meat shops. The largest plant is LGB in Gijlan which can also slaughter sheep and poultry. Red meat, especially beef, is a popular product and offers opportunities for import substitution. However, it will be necessary to implement forage systems of production that are more efficient than currently present.[36]

[34] The vast majority of packed milk on sale in the shops is imported from Slovenia, Hungary and other countries from the region
[35] USAID-An Assessment of Technology transfer and Info. Networking in Kosovo
[36] USAID-An Assessment of Technology transfer and Info. Networking in Kosovo

4.3.2 SHEEP AND GOATS

The small farms have on average 17 sheep and goats, whilst the large farms have much higher numbers. The total Sheep and Goats number by type of farms is presented below:

Table 16: Sheep & Goats number by type of farms (as of Oct-Nov2005)

	Small farms	Large & specialised farms	Total
Total Sheep and Goats	*135,789*	*16,091*	*151,880*
Lambs	19,826	3,337	23,163
Sheep for breeding	93,672	10,982	104,654
Rams for insemination	14,327	821	15,148
Goats	7,964	951	8,915

Source: *SOK, Agricultural Household Survey 2005*

In Kosovo the demand for lambs (meat) and Sheep and Goat cheese is relatively stimulating the development of small ruminant production. The domestic market for sheep meat is completely reliant on domestic production[37]. The estimated consumption of retail weight sheepmeat is estimated to be 1,725 mt and the per capita consumption is estimated at 0.78 kg/capita. This is significantly below the estimated consumption of 2.6 kg/capita in FYR of Macedonia, while the EU's annual per capita consumption of sheep meat is roughly 5.6 kg.

One problem is the weak knowledge of modern production technology and animal welfare and health requirements. Before and after the war, there were neither trainings nor production of information materials regarding sheep health issues for the farmers in Kosovo.

4.3.3 OTHER LIVESTOCK (Pigs, Poultry, etc.)

The following table presents the number of poultry and swine by type of farms, as recorded during the survey carried out by SOK in Oct-Nov05.

Table 17: Other livestock number by type of farms (as of Oct-Nov2005)

	Small farms	Large & specialised farms	Total
Subtotal pigs	*47,348*	*116*	*47,464*
Piglets up to 6 months	24,390	83	24,473
Bearing sows	14,678	23	14,701
Boars for insemination	8,281	10	8,291
Subtotal poultry	*2,160,466*	*470,549*	*2,631,015*
Chickens	1,978,242	408,209	2,386,451
Other poultry	182,224	62,340	244,564
Beehives	*69,378*	*194*	*69,572*

Source: *SOK, Agricultural Household Survey 2005*

After 2000, improvements can be observed in egg and chicken production, as well as in the feed mill industry. However, further investment in the sector would be required until poultry production is able to cover local needs for quality poultry products. The current domestic demand for poultry meat is estimated at 30,000 metric tons or 18,000,000 broiler chickens and around 300,000,000 eggs or 1,100,000 laying hens per year.[38] There are two large farms producing eggs for consumption, and one broiler production farm with small processing facility. There is also a hatchery with 70,000 annual chicks' production. The total domestic feed

[37] SOURCE: USAID- Development of Sheep Industry in Kosovo, G.Sullivan 2005
[38] SOURCE: usaid – STTA Report, R. Bakalli, 2005

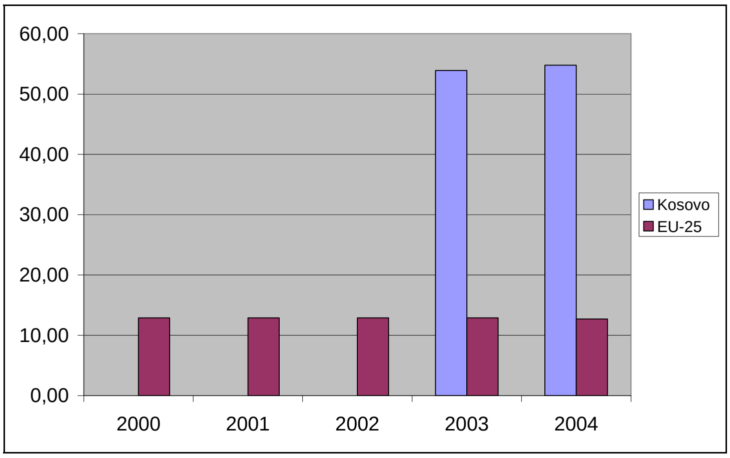
production is 57,000 MT produced by 13 feed mill facilities. The estimated broiler meat production in Kosovo is around 30,000 MT. Three supply sources currently exist: Whole frozen broilers (mostly imported from Brasil), frozen legs quarters (imported from USA) and whole fresh broilers from domestic production.

Pig production is very modest in Kosovo. Pork demand is to be found in the Kosovo Serb and Catholic areas, and it is reasonable to assume that parts of pork meat enter Kosovo from neighboring Serbian regions without being recorded. The herd size is (in relative terms) much smaller than in all other Western Balkans Countries (WBC) and the pig meat production is also modest (both herd size and pig meat production account for less than 1% of the total WBC herd size or production).

4.4 FOOD CONSUMPTION

According to the most recent household budget survey carried out by the Statistical Office of Kosovo, presented in Figure 3, 55% of household expenditure is on food and beverages (excluding alcohol and tobacco). Food expenditure including tobacco and alcoholic drinks is 60% of total household expenditure. This figure is high, compared to former EU accession countries and EU members, but corresponds to the low per capita income in Kosovo.

Figure 2: Average share (in %) of household expenditures on food and non-alcoholic beverages in comparison with the EU, (2000 – 2005)



***Source**: SOK, Standard of Living Statistics, 2002/03 and 2003/04[39].*

Per capita consumption of the main agricultural products is presented in Table 18. These figures have been estimated by MAFRD using domestic production and net imports as well as estimates for the population. The table shows a relatively high consumption of wheat (140kg) and vegetables (148 kg). The latter is mainly fresh vegetables.

The total value of food consumed by a household is an average of 154 Euro per month. The main food items, in terms of expenditure, are bread and cereals (23%), meat (17%), vegetables (13%), and milk, cheese and eggs (11%).[40]

[39] Data presented for 2003 covers the period June 2002 – May 2003. Similarly for 2004 data presented in the table.
[40] SOK, 2003/2004 Standard of living Statistics – per cent calculated by author

Table 18: Per capita consumption of basic agricultural products (2005)

		Kosovo	EU-25
Total cereals	kg/head/year	N/A	91.9
- Wheat	kg/head/year	140,0	68.7
Potatoes	kg/head/year	N/A	76.9
Sugar	kg/head/year	N/A	31.8
Fruits	kg/head/year	20,0	no data
Vegetables	kg/head/year	147,5	no data
Meat (total)	kg/head/year	40,9	no data
- Pigmeat	kg/head/year	1,71	43.4
- Poultrymeat	kg/head/year	16,1	23.0
- Beefmeat	kg/head/year	22,7	17.9
- Sheep meat	kg/head/year	0,38	2.9
- Other meat	kg/head/year	N/A	no data
- Offals	kg/head/year	N/A	no data
Milk (exl butter)	litres/head/year	170	no data
Butter	kg/head/year	N/A	4.1
Cheese	kg/head/year	N/A	17.6
Eggs	No/head/ year	147	13.4

***Source**: MAFRD / AMPK working groups & SOK 2003/2004 Standard of living Statistics – per cent calculated by author*
***EU 25 data** - Agricultural Situation in EU 2005, from tables on supply balances for year 2003/2004; 2004/2005 and DG-Agri "Prospects for agricultural markets 2004-2011", Tables A.9-A.17, July 2004*

**data only for Eggs*

4.5 AGRICULTURAL PRICES

Due to the open trade regime and the high proportion of agricultural imports, both for inputs and final products, prices are determined largely by the import price. In certain sectors, a small number of traders have substantial market power, which may also be affecting domestic prices.

SOK started collecting price data for agricultural products in November 2003. Prior to this various institutions collected data and published it in various forms. In most cases the prices varied substantially between sources and in some cases from the same source. Similarly various expert opinions gathered in Kosovo also showed large variations in the price data presented.

Comparing prices for main products in Kosovo with EU averages proofs the relatively high price level in Kosovo. With the exception of Maize, all cereal prices are above EU 25 averages. Anyhow, there is a recent tendency in grain prices coming down to EU levels. Pork prices are also above EU averages in Kosovo.

Table 19: Prices for Agricultural and Food products in Euro/t, (2004-2005)

	2004	2005	EU-25[1)]
Crop products	Euro/t	Euro/t	Euro/t
- Wheat	149,6	109,6	105,8
- Corn/Maize	124,8	110,4	104,1
- Barley	154,5	148,2	no data
Sunflower	237,6	230,4	no data
- Potatoes	90,0	110,0	111,5
- Apples	250,0	250,0	410,5

	2004	2005	EU-25[1)]
Livestock products			
Adult cattle for slaughter (live weight)	1.080,0	N.A.	2,785,7
Pigs for slaughter (live weight)	1.040,0	N.A.	1,268,3
Poultry for slaughter (live weight)	1.160,0	N.A	no data
Lambs for slaughter (live weight)	1.776,0	N.A	no data
Raw cows milk (fat content 3.2. litres)	280,0	N.A	no data
Eggs for consumption (1000 pieces)	48,0	N.A	no data

Source: *SOK Output Price Index and Prices in Agriculture Nov.03 – Jun. 04 and Jul. 04 – Dec. 04 (averages calculated by the author using 12 monthly observations for 2004 and 2 months observations (Nov. – Dec) for 2003). Some vegetables and fruit prices from Swiss Project SPHP-K, 2003 in MAFRD Agricultural Statistics Database ; No other data available.*

As there were no aggregate data on EU 25 prices for 2005 data for selected products were calculated as a 3-year-average (2002 - 2004).

5 AGRI-FOOD INDUSTRY

5.1 OVERVIEW

In the past agro-processing was carried out by Socially Owned Enterprises. These facilities still exist and in some cases are leased out to private enterprises on short –medium term contracts, pending privatisation. A small number have been privatised (subject to final contract) including: a winery and seed factory.

SOEs still account for 90% of all agro-processing in Kosovo. Private processors have also emerged. In the past five years, an estimated 43 million Euro of private capital has been invested in the Kosovo food industry[41].

The Business Registry in the Ministry of Trade and Industry records 2000 agri-businesses, however a large number of the enterprises listed are either not functioning or are involved in other business activities. No data is collected systematically on the food industry.

5.2 MAIN FOOD INDUSTRIES

The main areas of agro-processing are milk, juices, water, fruit, vegetables, mushrooms, sunflower oil and grain and animal feeds. Table 20 presents the key statistics for some of these sectors[42].

Table 20: Main areas of agro-processing

Product	Available Production Capacity	Current Usage	Notes
Milk	84.300 l/per day	34.350 l/per day (20% of total capacity)	Total production capacity is sufficient to process 22.34% of total available milk
Meat	89.8 tonnes/per day. 9 industrial slaughterhouses exist and with an installed technical capacity of between 3-36.3 tonnes/per day.	20.07 tonnes/per day (18.03% of total capacity)	Livestock is slaughtered in each village and sometimes at point of sale
Concentrate Animal Feeds	There are 21 feed mills with a total production of 248 tons /per day	29 tonnes/per day (12% of total capacity)	75% of concentrated animal feed is being imported
Drinks	Carbonated drinks 1.035.000 HL/per year Beer processing 340.000 HL/per year Fruit juices 560 million l/ per year	84.756 HL/per (9% of total capacity) 78.200 HL/per year (23% of total capacity) 347.2 l/per year (62% of total capacity)	100% capacity is currently used for gassed and natural water processing
Grain	45 grain processing mills have a total capacity of 1.648.773 tonnes/per year	577.070 tonne/per year (35% of total capacity)	Local mills obtain70% of their grain from Kosovo Mills produce 2000 tonnes of seed per year
Fruit and Vegetables	10 enterprises process 350.869 tonnes/per year	171.926 tonnes/per year (48% of total capacity)	50% of raw material comes from Kosovo

Source: *J. Millns, 2004 Agricultural Statistics and Policy Advisory Unit Kosovo (ASPAUK) Project*

The table above highlights two important characteristics of the food industry: (i) most agro-processors are operating well below capacity, and (ii) in most cases, raw materials are largely imported. The latter is a result of high domestic production costs of primary producers and the

[41] Primarily local investors - chamber of commerce estimates, in J.Millns, 2004, Agricultural Statistics and Policy Advisory Unit Kosovo (ASPAUK) Project
[42] MAFRD figures, ,in J.Millns, 2004, Agricultural Statistics and Policy Advisory Unit Kosovo (ASPAUK) Project

absence of large-scale production for industrial processing and unreliability of supply both in terms of quantity and quality. Moreover farmers prefer to sell at higher prices into the fresh market.

A survey carried out by the MAFRD on a sample of forty agri-businesses in 2004 identified the main impediments to the sector to be (i) unreliability and high cost of electricity, (ii) unfavourable fiscal environment – which has since been reformed, and (iii) unreliability of supply of raw materials. Further progress in privatisation of agricultural SOEs is also a critical factor in development of the sector.

6 SUPPORT SERVICES AND SYSTEMS

6.1 FINANCIAL SUPPORT SERVICES

The financial sector comprises: seven commercial banks, ten savings and credit associations, twelve micro-finance institutions and four non-bank financial institutions. During the past four years there has been rapid growth in loans to the private sector. However the level of financial intermediation remains low and only 40% of current borrowing requirements are satisfied.[43] Furthermore interest rates for short term credits remain high (14% on average), as banks often can not apply modern risk assessment tools (no appropriate accounting done by borrowers) and loans are predominantly short term with limited grace period. In June 2003, agriculture accounted for only 2% of the total loan portfolio of the commercial banks[44]. In 2004 there has been an increase in lending to the agricultural sector as other sectors have slowed down.

The main financial institution providing credit to agriculture has been the EU funded, Agri-Business Unit (ABU). However it has recently ceased new lending activities. Constraints to increased lending in the sector are lack of long-term lending to agriculture and high interest rates, slow legal process for taking collateral, poor planning by borrowers and lack of viable business plans, absence of legal framework for leasing, and inadequate insurance to support some forms of lending.[45]

6.2 AGRICULTURAL EDUCATION, EXTENSION AND INFORMATION SYSTEMS

In Kosovo today there are a number of institutions (municipalities, Ministry staff, NGOs, donor projects, KFOR, individual experts) providing different types of advice and support services, often sectorally focused in specific geographical locations. However currently, no coordinated, effective, agricultural extension service exists and it is reported that half of farmers have never received advice.

MAFRD is in the process of establishing an Advisory Service, with EU Project support. The intention is to establish a Pluralistic Advisory Service, meaning one that uses both public and private providers of advisory services. During the last 18 months, advisers at municipality level have been identified and trained. However effective operation of the system depends on operational funds being made available both to mobilise public advisers and to contract out services to the private sector. MAFRD has requested funds to the Government and donors but no funds have forthcoming.

In recent years the agricultural research station the Kosovo Institute of Agriculture (KIA) (previously known as the Peja Institute) has also been transferred to the MAFRD. KIA is mainly involved in seed trials and analyses rather than research *per se*.

Finally there are a number of Institutes and Agencies, which report directly to the Deputy Ministry, including:

- The Forestry Institute;
- The Kosovo Forest Agency, and;

[43] From commercial banks or micro finance institutions. Source: World Bank, May 2004, Report No. 28023-Kos, Kosovo Economic Memorandum
[44] ibid
[45] AMPK Inception Report, 2004

- Kosovo Veterinary and Food Agency (public veterinary tasks are out-sourced to private practitioners).

There are a number of agricultural schools and a faculty of agriculture at the University of Prishtina. The Faculty provides technical agronomic training but not business-oriented courses such as agribusiness management or marketing.

There is no comprehensive market information system in place. Few producers and agri-processors have reliable information on market conditions (buyers, prices, quantities, production levels, consumer preferences). Current, limited, activities include: a Swiss NGO monitoring consumer prices on 12 consumer products and 20 vegetables sold in Prishtina market; the Statistical Office of Kosovo (SOK) monitor each month 74 items in the 7 largest municipalities of Kosovo, and; Kosovo television (KTV) monitor on an irregular basis consumer prices at three Prishtina markets, not limited to food items[46]. MAFRD collects price data from these sources (compiled in the Agricultural Statistics Database) but as yet does not disseminate it. A two-year EU funded Project to support agricultural marketing has just begun. Technical assistance will be provided through this Project to support the establishment of some kind of pilot MIS.

6.3 INPUT SUPPLY (FERTILISERS, ENERGY, MACHINERY, SEEDS)

To encourage investment in the agricultural sector, the Kosovo government developed and implemented two fiscal reforms, as a result of collaboration of the MAFRD with the Ministry of Finance and Economy, UNMIK Pillar IV and UNMIK Customs Service[47]

The first reform, which was implemented in June 2005, removed the universal 10% customs duty for inputs and capital goods for agriculture. However, most of agricultural inputs came from the neighbouring territories (Serbia Montenegro, Albania, Macedonia) which already had duty free arrangements with Kosovo. Therefore, this first reform had little direct impact on farmers. MAFRD, then, pressed for removal of Value Added Tax (VAT) from agricultural inputs and capital goods used in farming. This led to the second reform, which is the agreement to charge no VAT on critical inputs for agriculture. This decision (no VAT) reduces the production costs in agriculture and enhances competitiveness.

In 2003, EC assisted MAFRD to develop an EU compatible legal and regulatory framework for the production and trade in seeds and planting materials. This has included the drafting of the Seed Law (2003/05) which was subsequently approved by the Assembly, and training for staff from the Ministry and agriculture institutes to ensure the effective supervision of the seed/planting materials.

[46] Millns, 2004, Agro-processing and marketing, ASPAUK Project
[47] David Addis, Agricultural Statistics and Policy Advisory Unit Kosovo

7 AGRICULTURAL AND FOOD POLICY

7.1 INSTITUTIONAL FRAMEWORK AND POLICY CONCEPTS

The Ministry of Agriculture, Forestry and Rural Development (MAFRD) was formed from the Department for Agriculture, established by UNMIK administration following the 1999 conflict. The Directorate for Rural Affairs (DRA) exists in parallel and retains responsibility for UN 'reserved powers' within the agricultural sector. The role of DRA has gradually contracted as areas of responsibility, such as the Kosovo Veterinary Services, have been transferred to the MAFRD. DRA still retains responsibility for Border Inspection.

MAFRD comprises the offices of the Ministry, Deputy Minister and Permanent Secretary, Legal Office, Procurement, Auditing, Agricultural policy and Agricultural statistics, as well as a Department of Central Administrative Services.

It also comprises a series of technical departments, including the Department of Rural Development and Advisory Services; the Department of Plant Production and Protection; the Department of Animal Production, and the Department of Forestry.

The MAFRD has five regional offices. These offices comprise representatives of the MAFRD technical departments (including a rural development officer, and animal and phytosanitary inspectors). They report directly to their respective departments in the Ministry.

MAFRD has a staff of about 650. The Forestry Agency accounts for more than half of the total staff, while the Kosovo Veterinary and Food Agency accounts for 123 staff.[48]

Kosovo is divided administratively into 30 municipalities. Each municipality has an Agricultural Department. These departments are autonomous to the MAFRD. The capacity of these departments varies dramatically, typically comprising between 3 – 6 members of staff. Some efforts have been made to coordinate activities, for example in the field of agricultural statistics and extension services. MAFRD is dependent on these departments to implement policy at the local level. Municipality administrations are under the Ministry of Public Services.

While some progress has been made to strengthen the institutional capacities (mainly at central level) institutions remain extremely weak and substantial institutional strengthening will be necessary to harmonise with EU standards. Staff lack both experience and in some cases relevant qualifications and relatively low public sector salaries (approximately euro 180 per month compared with private sector salaries ranging around 250 Euro/month) result in low levels of commitment and motivation in most cases.[49]

There is one university faculty of agriculture at the University of Prishtina. Students graduate with traditional agronomy qualifications while courses in agri-business and marketing are extremely limited. The faculty has acquired new curricula through an exchange programme with EU Universities but report that they need further assistance in order to implement the curricula acquired.

[48] MAFRD 2006 Budget
[49] For example the Agricultural Policy Unit comprises about 3 staff who are not qualified to carry out agricultural policy analysis. Similarly there are no qualified agricultural statisticians working in the agricultural statistics department of the MAFRD or in the agricultural statistics department of the Statistical Office of Kosovo, which it-self comprises only 4 staff.

A number of associations have been established in the private sector, mainly with donor support. These include the Alliance for Kosovo Agribusiness and the Alliance for Kosovo Business. Sub-sector specific associations for milk, livestock, horticulture have also been established. Producer associations are relatively weak.

A number of NGOs (international and local) are active in specific technical and geographical areas, mainly providing extension advice to farmers. Farmers also depend on local input suppliers for advice, in the absence of a properly functioning public extension service.

The agricultural Ministry especially intends to increase the focus on alternative income and employment generation. Support to farm tourism is seen as one option.

Medium to long term policies, point at transition from mostly semi-subsistence to commercial farms by:

- assisting farmers in the identification of market and other opportunities,
- support in drawing up business plans for farm and non-farm business activities and diversification of economic activities.

In the crop sector, policy measures shall focus to raise productivity and competitiveness of high-value crops. In particular, it is foreseen to promote production under glass, plastic tunnels etc. and production using modern irrigation techniques/facilities; various vegetables and fruits (hard fruit with long term storage capacity, potatoes for fresh markets, tomatoes, cauliflower, etc. and different kind of berries) shall become more important in terms of policy consideration than other crops.

Livestock production shall increase by the formulation and implementation of a technical strategy (key contents are: supply of quality feed, enforcement of standards, improvement of pastures, monitoring and continuous improvement of breeding herds, etc.). In addition, farmers and entrepreneurs shall be trained accordingly.

Targeted programmes will be formulated to further develop agro-processing industry as well as contract farming. Food and safety standards in agro-processing will be brought more in line with international standards.

Administration tries to encourage the banking sector to start lending to the farming sector in order to push the required structural changes. In addition, the development of a dedicated lending fund for agriculture has been proposed, but as yet no financial resources have been secured. Policy plans to assist, in particular, the process of lowering risk through better business planning, better marketing and collateral.

Farmers shall be better informed about prices, standards, etc. In order to improve their market position, the establishment of public market (places) and farmers organisations with more market power will be supported. Market information shall be provided via a market information system.

A special task is the rehabilitation of the Kosovo's irrigation system. Farmer participation in the regional irrigation companies (Public Owned Enterprises) is encouraged. A monitoring and extraction system with respect to ground water will be developed. More important, however, is to improve the irrigation management on scheme and local (farm) level in order to make a better use of the valuable resource.

Privatisation of state owned farms and agri-processing units will continue (based on a 99-year lease according to UNMIK regulations). Investment in the agri-business sector is expected to provide an important market for domestic produce thus encouraging commercial farming.

Policies and programmes will be further developed and implemented to ensure protection of agricultural land (from uncontrolled construction and environmental degradation) and the development of a properly functioning land market. Efforts will be made to promote land consolidation by encouraging medium term leasing of agricultural land.

Development of an agricultural statistics system is still on-going. The lack of reliable information to guide sector policy making and entrepreneurial decisions remains problematic. The last Agricultural Census was in 1960s and Population Census in 1981. The total number of agricultural holdings or agricultural households is unknown. Sample surveys carried out until now have therefore had to estimate the total number of agricultural households in order to calculate weights from which to estimate for the population as a whole. It is expected that the planned Population Census will provide sufficient information to establish a Farm Register from which further statistics work can be carried out. The Population Census is planned to take place this year (2006) but until now the necessary funding has not yet been secured. Plans to establish a Pilot market information system through an EU funded, EAR implemented market support project are also underway.

7.2 BUDGETARY RESOURCES

The Ministry of Agriculture is facing the problem of having little means for supporting agriculture. The annual Budget is 5,4 Million Euro. There is no scope for any subsidy or any other direct budgetary support to the agricultural sector. The only support agriculture is receiving is zero-rated VAT for agricultural inputs and zero duty on most capital goods for agriculture and agri-business.

The table below shows the MAFRD budget and the distribution to different categories of expenditure for the period 2003 – 2006. One third of the budget is allocated for salaries (in 2006 there are 649 staff employed by MAFRD). A large share of the increase in budget during this period can be attributed to the inclusion of veterinary services in MAFRD budget, previously financed under the Directorate of Rural Affairs (UNMIK reserved powers).

Table 21: Agricultural Budget in Kosovo according to Ministry departments, (2003 –2006)

Departments	2003 corrected	2004 approved	2005 approved	2006 approved
Plant Production and Protection Services	112,751	140,363	91,363	101,568
Animal Production	104,792	101,733	56,833	117,575
Kosovo Forest Agency	744,466	836,807	822,173	1,457,483
Rural Development & Advisory ser.	139,315	145,624	134,362	115,618
Agriculture Institute of Peja	135,780	161,583	137,183	489,281
Central Administration	605,520	412,750	342,340	339,726
Central Admin	127,294	-	-	-
Office of the Minister	144,952	135,260	94,260	125,942
Office of Permanent Secretary	98,210	114,318	-	
Forestry Department	23,880	120,330	75,790	145,072
Agricultural Policy and Statistics	63,040	171,725	96,725	133,185
Veterinary Services & Food Agency	-	-	1,889,964	2,326,754
Agjencia Kontr. Ushqimit		159,517	50,507	-
Total	2,300,000	2,500,000	3,791,500	5,352,204
Annual change in %		9	52	41

Source: *Kosovo Ministry of Finance and MAFRD*

There is not a good match between stated policy objectives (such as establishment of an effective advisory service) and budgetary allocation between departments of the MAFRD.

Table 22: Agricultural Budget in Kosovo by economic category, (2006)

Departments	2004 Employees	Wages and Salaries	Goods & services*	Capital Investments	Total
Plant Production and Protection	23	71,568	30,000	-	101,568
Animal Production	15	47,575	23,000	47,000	117,575
Kosovo Forest Agency	353	734,893	474,590	248,000	1,457,483
Rural Development	25	73,618	42,000	-	115,618
Agriculture Institute of Peja	33	81,001	78,280	330,000	489,281
Central Administration	26	94,946	244,780	-	339,726
Office of the Minister	8	65,822	60,120	-	125,942
Forestry Department	22	66,646	78,426	-	145,072
Agricultural Policy & Statistics	21	62,545	70,640	-	133,185
Veterinary Services & Food Agency	123	461,754	203,000	1,662,000	2,326,754
Total	**649**	**1,760,368**	**1,304,836**	**2,287,000**	**5,352,204**
% in Total		33	24	43	100

Source: *Kosovo MAFRD,* ***Note:*** ** includes expense category 'municipal expenses' of Euro 43,000 in total.*

7.3 AGRICULTURAL AND FOOD POLICIES (PRICE POLICIES, MARKET MEASURES, INPUT SUPPORT, TAXATION)

The major aim in the agricultural and food sector is to support farm incomes through an increased level of productivity. The government plans to promote an environment that encourages increased development of commercial farms.

Import-export prices shall be monitored and policy measures can be applied against "unfair competition". Concrete measures are not implemented, yet.

Fiscal incentives shall help to reduce costs. Tax reforms (i.e. elimination of VAT on agricultural inputs) have passed the government to reduce input costs. Government is willing to support further investments by providing adequate advisory services, reliable market information and assistance in accessing new markets. How this may look in reality is not visible, yet

The government introduced fiscal incentives for agriculture in the form of duty free entry of all inputs to agriculture and agricultural machinery in June 2004, followed by zero-rating VAT on broadly the same inputs introduced in September 2004. Prior to this, agricultural inputs were subject to the standard duty and VAT of 10% and 15% respectively.

There is no land tax in Kosovo. Most farms are outside the tax net because of their small size. Less than 10 commercial farms are registered for VAT. Larger agro-enterprises are registered for VAT but often fail to claim for VAT paid at the border on imported inputs as they do not want to pay VAT on their outputs[50].

7.4 FOOD SAFETY (FOOD, VETERINARY AND PHYTOSANITARY)

Food control services are currently the responsibility of a number of different institutions including municipalities (sanitary and phyto-sanitary); central government (Ministry of Health for sanitary inspection) and MAFRD (phyto-sanitary).

[50] AMPK Inception Report, 2004

According to the Law on Veterinary 2004/21 and the Administrative Instruction no. 11/2004 of the MAFRD, Kosovo Veterinary and Food Service (herein KVFS) is the Executive Agency of the Ministry of Agriculture, Forestry and Rural Development, responsible for the health of animals and control of the safety of the food products of animal origin, though its remit is expanding with the introduction of new legislation (Veterinary Law and pending Food Law). Border inspection, which provides sanitary, phyto-sanitary and veterinary control services are under the responsibility of the Directorate of Rural Affairs (UNMIK reserved powers).. Organization and work of KVFS is regulated by the law and this Administrative Instruction. KVFS is organized in the following divisions:

The Division of Animal Health. This division incorporates all the activities that deal with the protection and improvement of the health state of the animals in Kosovo. This division is structures in three divisions, and those are:

a) The coordinating section of border points

b) The section for supervision of animal health and

c) The section for identification and registration of animals

The Division of Public and Veterinary Health This division incorporates all animal relevant activities and activities that deal with the protection of consumers. This section is structured in three units:

a) The Section for the Supervision of Medicaments and Residues

b) The Section for the Supervision of Food and Hygiene

c) The Section for Veterinary Inspection

The Animal Welfare Division. This division deals with activities relevant to animal welfare, this division also includes the program for dog control.

There are three laboratories that carry out analyses related to official food control: Institute of Public Health (Ministry of Health); Kosovo Institute of Agriculture, and; Kosovo Veterinary Laboratory (MAFRD). Laboratories outside Kosovo are also contracted as required.

Veterinary Laboratory of Kosovo (VFK), its main function is ensuring basic laboratory services for analysis of animals, food of animal origin, and will analyze samples from processors of food of animal origin. VFK is organized in the following units:

- Microbiology

- Serology

- Parasitology

- Pathology and Histology

Kosovo Institute of Agriculture, as executive body within the Ministry of Agriculture, Forestry and Rural Development, carries out different professional and laboratory services in different fields of activity – agricultural production and quality control, different agricultural crops, food of plant and animal origin, agricultural inputs, soil and potable water and irrigation water analyses. Laboratory services provided, include:

o Seed and seedling quality control

- Control of agricultural inputs – fertilizers, protection means, etc.
- Pedological analyses and soil agri-chemical analyses
- Chemical-physical and microbiological analyses of polluted water and water for irrigation
- Physical – chemical analyses of agricultural and food products
- Microbiological, phytopatological and entomological analyses of agricultural and food products.

KIA plays a supporting role by testing for standards and quality (soil tests, etc.). The institute conducts adaptive research and tests, and certifies seed and other inputs entering Kosovo. The institute at the present is undergoing administrative change. A laboratory supports these areas with soil analysis, food analysis and phyto-sanitary and virology examinations. The lab is doing wine certification for trade with Germany but other certifications are not possible at this time. MAFRD must authorize KIA to do the certification for Kosovo which has not been done for other commodities except wine. After authorization, KIA can then seek third party certification as a licensed laboratory.

The main elements of the food safety system therefore exist but the system is uncoordinated and subject to varying degrees of effectiveness[51]. The stated aim is to harmonise towards EU standards. However there is lack of knowledge among stakeholders of the food safety acquis and the draft Food Law, which has been passed to the Assembly for approval, is in potential conflict with this objective[52]. Considerable physical and human investment, both in the public and private sector, is needed to achieve EU standards in food safety.

With the EU support (EAR project - Development of a food safety control system for Kosovo) the Kosovo Safety Control Agency has been established which will coordinate food safety policy making and food inspection mechanisms. Also, in this framework, a Kosovo-wide cattle identification and registration scheme has been launched. As soon as the EU compatible system is fully implemented, only ear tagged cattle will be allowed to be transported and sold in the markets and slaughterhouses in Kosovo and abroad. A central database supported veterinary surveillance and control programme is also being introduced to facilitate domestic and international trade.

8 AGRICULTURAL TRADE AND TRADE POLICY

8.1 TRADE POLICY

Kosovo has one of the most open trade regimes in Europe, with a single tariff barrier of 10% (with some exemptions, most recently for inputs, including agriculture inputs) and excise duties applied on a limited range of products. A substantial trade deficit prevails, currently estimated at 125% of GDP. Kosovo's main trading partners are the European Union, Serbia and Montenegro and the former Yugolsav Republic of Macedonia which together account for more than 60% of total trade value[53].

There is no export support mechanism in Kosovo.

Kosovo has duty free access to EU markets since 2000 under the Autonomous Trade Preference (ATP) scheme. However in most cases safety, sanitary, phytosanitary, and other standards such as packaging and labelling are not met by domestic producers.

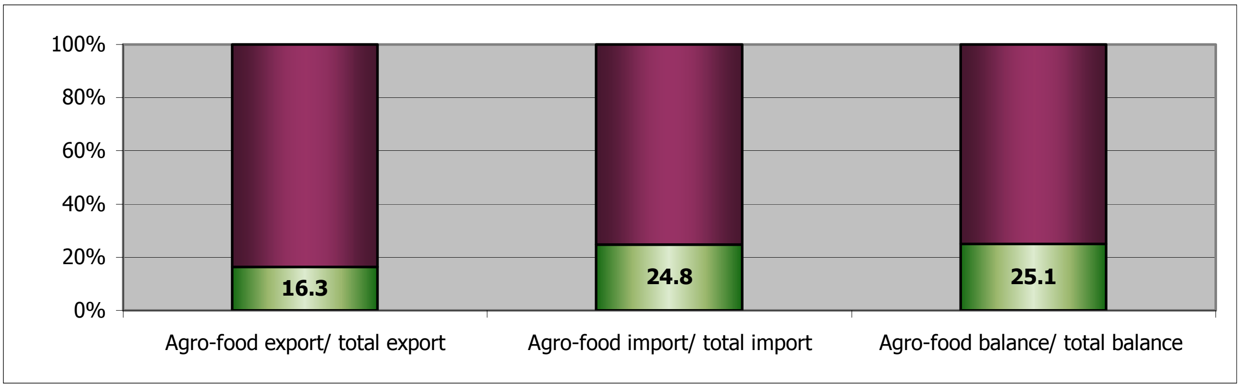
A Free Trade Agreement is in place with Albania since 2003. An Interim Free Trade Agreement was concluded in 2005 between UNMIK Kosovo and the FYR Macedonia Government. It allows for the continued free movement of goods, with a few temporary exceptions, including a small number of agricultural products (vegetables). Kosovo has appled a customs duty on these products which is being reduced over time (8% until 31st December 2005; 7% in 2006; 6% in 2007; and 0% in 2008).

Imports from Serbia are subject to an additional 5% charge by the Serbian tax authorities (the VAT differential between Kosovo and Serbia).

8.2 AGRICULTURAL TRADE

Kosovo is a net-importer of agricultural products. As presented in Figure 3, trade in agricultural and food represents a significant share of total exports and imports; 16% and 25% respectively. These figures reflect the importance of agriculture in the economy as a whole and the high proportion of household income spent on food. Overall agriculture accounts for one quarter of the total trade deficit.

Figure 3: Share of Agro-food trade in total trade, (2005)



Source: *Calculated by author using trade statistics from UNMIK Customs Service*

[51] MAFRD Addendum to the Greenbook, 2004
[52] AMPK draft Agriculture and Rural Development Plan 2007-13
[53] Ibid

Reliable trade statistics for Kosovo are only available from 2004. Data is therefore presented for 2004 – 2005 only. During the period 2000 – 2004 the UNMIK Customs Service was being established and data was not systematically recorded according to product type or country. Prior to 1999 trade statistics are not available at Kosovo level.

Kosovo has a large agriculture trade deficit. According to official figures the agricultural trade deficit was Euro 291 million and Euro 280 million in 2004 and 2005 respectively. The small decline during the period 2004 and 2005 can be attributed both to an increase in the value of exports by Euro 3 million (41%) and a decrease in the value of imports by Euro 8 million (3%). A large share of trade in agricultural products is with the European Union; 41% of exports and 31% of imports. In 2004 60% of exports of agricultural products was to the EU-25.

Table 23: Agricultural Trade (global) in Million Euro, (2004-2005)

	2004	2005
EXPORT		
World	4,58	7,77
Thereof EU-25	2,76	3,16
IMPORT		
World	295,54	287,51
Thereof EU-25	95,32	88,48
BALANCE		
Thereof World	-290,96	-279,74
Thereof EU	-92,56	-85,32

***Source**: MAFRD Statistics Office using trade statistics from UNMIK Customs Service*

Table 24 presents imports and exports by selected product groups. The main agricultural exports are beverages, spirits and vinegar (Euro 2.4 million) – this can be attributed primarily to the export of wine; edible vegetables (Euro 2.1 million), and vegetable and fruit preparation (Euro 1.2 million). The most important imports of agricultural products in terms of value are: beverages, spirits and vinegar (Euro 40 million); edible meat (Euro 26 million), dairy products (23 million) and pastries and milk preparation (Euro 23 million). For all agricultural and food categories (SITC code 01 – 24) a negative trade balance prevails.

Table 24: Agricultural and food imports and exports in Mt, (2005)

	Imports	Exports	Balance
Meat	25,68	0,036	-25,644
Cereals	9,75	0,031	-9,719
Feeding stuffs			
Milk equivalent			
Oilseeds			
Sugar	18,96	0,044	-18,916

***Source**: MAFRD Statistics Office using trade statistics from UNMIK Customs Service*

Kosovo's main trading partners are: EU-15; Albania; SCG; former Yugoslav Republic of Macedonia, and Turkey. Table 25 shows exports and imports of agriculture and food products by export destination / import origin. The table shows that since 2004 there has been significant increases in the value of exports to countries in the region, notably Albania and the former Yugolsav Republic of Macedonia as well as an increase in the value of exports to the EU, albeit from a very low level.

Table 25: Agro-food export and import according to export destinations/import origin in Million Euro, (2004-2005)

Country:	2004	2005
EXPORT		
Total	4,58	7,77
EU15	2,53	2,66
New member states (EU10)	0,24	0,50
Non EU member states in the region		
Albania	0,39	1,72
BIH	0,11	0,14
Bulgaria	0,00	0,26
Croatia	0,00	0,02
Macedonia	0,49	0,92
Romania		
SCG	0,57	1,27
Other	0,26	0,29
Exchange rate used	N/A	N/A
IMPORT		
Total	295,54	287,51
EU15	78,53	64,74
New member states (EU10)	16,79	23,74
Non EU member states in the region		
Albania	7,35	7,10
BIH	4,81	5,41
Bulgaria	7,74	11,33
Croatia	9,76	10,38
Macedonia	30,51	36,74
Romania		
SCG	52,44	57,75
Other	87,62	70,32
Exchange rate used	N/A	N/A

Source*: UNMIK Customs Service trade statistics in MAFRD Agricultural Statistics Database*

9 RURAL DEVELOPMENT AND RURAL POLICY

9.1 MAIN CHARACTERISTICS OF RURAL AREAS

Rural areas in Kosovo are predominantly agricultural. The majority of the population are engaged to some degree in primary agriculture, which is predominantly subsistence in nature. Small agro-processing units have developed to meet domestic or local needs. Some investment has taken place to establish private agribusiness, in part stemming from the privatisation process. This sector is expected to provide an important source of economic growth and employment in rural areas. Non-agricultural sources of employment and income in rural areas are at present limited. There is believed to be some opportunities for developing nature based tourism in rural areas. Rural infrastructure (roads and basis services) is poor, particularly in mountainous areas.

The information presented in this section is focused primarily on the agricultural population rather than the rural population due to the availability of data. The agricultural population is estimated to account for at least 70% of all households in rural areas. The planned population census in 2006 will provide additional information on the rural population.

Kosovo has a large rural population of 1.3 million (about 60% of the population live in rural areas)[54.] The agricultural population has a large share of young persons; 30% of the agricultural population are between 15-29 years old and 60% are below the age of 30 years[55.] Approximately 6.5% of the population are older than 65 years although this figure is higher in areas where minority communities live. The average agricultural household has 7.8 members, while most agricultural households have between 5-8 members. Agricultural households account for an estimated 70% of all households in rural areas. There are slightly more males than females among the agricultural population; this gender balance is consistent throughout Kosovo[56.]

Education attainment levels are low, especially for women. Approximately 60% of the male population have completed secondary school compared to only 25% of females. Overall 88% of the agricultural population has completed primary education[57].

According to the Agricultural Household Survey 2005, 533,755 members of agricultural households of working age have some degree of engagement in on-farm work. This represents nearly 57% of all members of agricultural households above 14 years of age. The primary agricultural sector provides an additional 1,600 full-time equivalent jobs; this figure is extremely low compared to persons engaged on own farm and reflects the predominantly subsistence nature of agriculture in Kosovo. The wage per day for hired labour is between 10-12 Euros per day.[58]

It is clear from the figures presented above that whilst the primary agricultural sector provides the main source of employment for the rural population in Kosovo it can not be relied upon as the sole source of employment. MAFRD recognises the need to stimulate off-farm income

[54] SOK Agricultural Household Survey 2005 and 2001 and Labour Force Survey
[55] SOK (2006) Agricultural Household Survey 2005. Agrcultural population are all members of the agricultural household whereby one person in the household is farming.
[56] ibid
[57] ibid
[58] ibid

earning opportunities in rural areas but until now resources have been limited. Successful privatisation of agro-processing units is expected to provide increased employment opportunities in rural areas.

9.2 RURAL DEVELOPMENT POLICY

Currently there is no rural development policy in Kosovo. MAFRD, with the support of an EU funded Project is preparing a Rural Development Plan (2007 – 2013). It will be consistent with the emerging National Development Plan. The objectives of the Rural Development Plan are:

- Increased income for farmers and rural dwellers, leading to improved living standards and working conditions in rural areas;
- Improved competitiveness and efficiency of primary agricultural production;
- Improved processing and marketing of agricultural produce, through increased efficiency and competitiveness;
- Improved on farm / in factory quality and hygiene standards;
- Sustainable rural development and improved quality of life through promotion of farming and other economic activities that are in harmony with the environment;
- Creation of employment opportunities in rural areas, and;
- Alignment of Kosovo's agriculture with that of the EU.

The policy is expected to be finalised and formally accepted by Government during this year. Assuming funds can be secured, implementation will follow.

The development of a rural advisory service is seen as one of the most important measures to help increase productivity and induce a commercial farming and competitive food production. MoA intends to apply a range of immediate targeted measures:

- o the provision of knowledge and technology to raise productivity,
- o comprehensive training on agricultural diversification and enterprise development, and
- o Dissemination of appropriate training and information materials) aim at directly increasing farm income.

9.3 REGIONAL POLICY

The current (2004-2006) regional policy of the Ministry for developing the rural sector highlights the following objectives[59]:

- o The aim of rural development in Kosovo is to improve the standard of living of the rural population, irrespective of gender or ethnicity. This will be achieved through increased employment opportunities and income of the rural population as well as improved access to services (education, health, water, electricity, roads, social services etc.). This should lead to reduced rural – urban migration which should itself support development in the sector.
- o Agriculture is the main economic activity in rural areas and is therefore critical to achieving these objectives. An accelerated transition from predominantly subsistence / semi-

subsistence agriculture to commercial farming must be realized as well as the development of non-farm income generating activities. Increased productivity and competitiveness in both primary production and agro-processing are the key elements necessary to achieve this.

The main priorities are:

Establishment of an enabling environment for private sector development in rural areas: The creation of an enabling environment for private sector development in rural areas involves consideration of the following key aspects: fiscal regime; rural infrastructure; legal and regulatory framework.

Land Reform: Land reform is critical to the competitiveness of the agriculture sector in Kosovo. Average farm size is estimated at 2.2ha (divided into 8 plots)2 and the situation is worsening as a result of further land fragmentation. In order to support the emergence of viable, commercial farming in Kosovo land consolidation programme should be supported as a long term goal.

Rural Finance: The private banking sector is lending only X% of its portfolio to the agriculture sector and is unlikely in the medium term to expand lending activities to the rural sector. Moreover the duration of the loans are too short for the purposes of agricultural activities. To develop the agriculture sector it is necessary to ensure better access to rural finance for farmers and agro-processors that meet the specific needs of the agriculture sector both for working capital and investment. Micro-finance should also be encouraged to support the diversification of rural income sources.

Development of Agro-processing: Marketing is relatively unsophisticated and local products face increasing competition from better 'positioned' and 'marketed' imports. The agro-processing sector needs to be supported through privatization of existing agro-enterprises, improved access to finance and the introduction of new technology and modern management practices.

Marketing: Improved marketing of agricultural products and enhanced market orientation of economic activities in rural areas is critical to the development of the sector. This can be achieved largely by investing in human resources. Development of institutions to support marketing should also be encouraged including market information systems, improved public markets, and rural organizations, for example service cooperatives, producer associations, etc.

Access to information and advice: There are substantial opportunities in Kosovo to improve productivity at the farm level through improved animal husbandry and adoption of modern farming techniques.

Institutional strengthening / Training: Institutional strengthening and training of both public and private organizations involved in rural development is critical to its future development and the development of Kosovo as a whole.

9.4 AGRI-ENVIRONMENTAL POLICY

Water quality in lowland areas is poor due to the lack of waste-water treatment and waste disposal; in upstream rivers the water quality is good. Only 28% of homes are connected to a sewage system.[60] Rivers are polluted from industrial effluents from both operating and obsolete

[59] Project Coordination Unit, MAFRD
[60] MAFRD / AMPK Draft Agricultural and Rural Development Plan 2007-13

factories, power plants and mines. Some areas are more severely affected than others; a notable case is the River Sitnica.[61]

Air pollution is also a major concern in Kosovo. The major sources of air pollution are the Prishtina coal power plant, vehicle traffic, and dust in urban areas due to poor waste management.[62]

Agricultural land is lost each year to uncontrolled construction, in some cases agricultural land under irrigation is built on. Land fragmentation is also a problem due in part to traditional inheritance practices of dividing the land among males in the family. Landfill sites also pose a threat to agricultural land; both controlled, but not well maintained, and uncontrolled landfill sites[63], some of which have also resulted in the loss of irrigated agricultural land.

Kosovo is rich in plant and tree species. Thirteen plant species have been identified which only grow in Kosovo, and 200 species that are found only in the Balkans. About 40% of Kosovo is covered by forest although only one third is considered ecologically healthy. Kosovo also has a high level of animal diversity; 46 mammal species including brown bears, lynx, wild cats, wolves, foxes wild goat, roebuck, and deer and 225 species of birds. However the biodiversity is threatened largely as a result of human actions and the absence of effective protection measures. Several plant species are on the verge of extinction and animal species are threatened by the destruction of forests. Furthermore aquatic ecosystems in rivers are highly threatened as a result of the water pollution. The Environmental Protection Law and the Law on Forests were promulgated in 2003 and provide the broad legal and institutional basis for conserving these assets.[64]

The Ministry of Environment and Spatial Planning, with assistance from Sida, is preparing the Kosovo Environment Action Plan. According to the draft document one of the objectives, which relates to agriculture, is to 'provide legal, technical, financial and human capacities for sustainable development of the agricultural sector'. To achieve this objective the identified measures are:

Measure 1: Mainstreaming environmental concerns in the sector

Measure 2: Promotion and support to organic production

The associated activities identified in the action plan are:

- Completing of legislation for environmental protection from / for agriculture and its harmonisation with international and EU norms;
- Drafting of agriculture strategy with action plan;
- Repairing and improving the irrigation network;
- Enforcement of rural tourism
- Introduction of incentive instruments for applying alternative methods of agricultural products and compost;

[61] ASPAUK (2003), Mission Report on Agricultural Land
[62] MAFRD / AMPK Draft Agricultural and Rural Development Plan 2007-13
[63] ibid
[64] ARD/ USAID Kosovo Biodiversity Assessment

- Ensuring suitable conditions when importing input for ecological agriculture and placement of ecological products;
- Maintaining traditional farming methods;
- Development of training programmes for farmers tackling the issues of good agricultural practices and environmental protection;
- Pilot projects for reuse of organic waste and wastewater
- Developing agro-environment indicators
- Establishment of a modern certification system for organic products.

Furthermore on the issue of forest management the Environment Action Plan sets the objective of 'sustainable management of forests'. To achieve this objective the following measures will be implemented: (i) 'Creation of the necessary administrative – economic basis (adoption of necessary sub legal acts together with the National Sustainable Forest Management Strategy with Action Plan and ensuring investments)' and (ii) Strengthening the technical, resource and organisational – institutional forest management capacities'. Associated activities include:

- Stopping of illegal cutting and damaging of forests by introducing preventive measures;
- Completion and implementation of legislation;
- Full inventory of forest ecosystems;
- Drafting of long-term management plans;
- Announcing natural protected areas;
- Improvement of professional structure in the sector;
- Development of strategy for forest fire prevention;
- Resolving issues of legal and property conflicts;
- Licensing of enterprises working with use and processing of forest products;
- Monitoring and identification of entomologic and fitopatologic damaging factors that cause massive damage in the forest
- Development of activities for producing forest seeds and seedlings;
- Preventative remediation of erosive areas;
- Raising public awareness and education about the importance of protecting forests.

Furthermore the draft Rural Development Plan, referred to above, has identified two measures associated with agri-environment, namely: managing water resources for agriculture, and improving natural resource management.

Neither plans have been formally adopted by Government yet. Further work is needed to ensure their consistency, to secure the necessary financing, and to prioritise actions in the face of serious budgetary constraints.

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