



Association of Fruit and Vegetable Processors in
Kosovo "PePeKo"

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Advocacy and Conference on the Fiscal Policy - PePeKo

Final report

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List of acronyms

EUR	Euro
CAP	Common Agriculture Policy
CEFTA	Central Europe Free Trade Area
EC	European Commission
EU	European Union
EUROSTAT	European Union Statistical Database
FAO	Food and Agriculture Organization
FAOSTAT	Food and Agriculture Organization Statistical Database
FTA	Free Trade Agreement
MAFRD	Ministry of Agriculture Forestry and Rural Development
IPARD	Instrument for Pre-Accession Assistance on Rural Development
MoAFCP	Ministry of Agriculture, Food and Consumer Protection
MoES	Ministry of Education and Science
Mt	Metric Tons
Mln	Million
Bn	Billion
NSDI	National Strategy for Development and Integration
SME	Small and Medium Enterprises
UNSTAT	United Nation Statistical Database
USAID	United States Agency for International Development
VAT	Valued Added Tax
WB	World Bank
WTO	World Trade Organization

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Executive summary

In accordance with the ToR and the strategic orientations of the fruit and vegetable processing industry, the primary purpose of the task was to assist the PePeko Fruit and Vegetable Process Association Society in developing a study and Action Plan for Advocacy, for the improvement of fiscal policies and competitiveness of the fruit and vegetable processing sector in the Republic of Kosovo.

The main objective of the study was to define concrete activities, responsible holders and deadlines for implementing the recommended changes within fiscal package in the country. Along with this study, an Action Plan for the time period 2018-2010 was also developed. The findings of the study and the Advocacy Action Plan will create a favorable political environment and greater support from partner institutions and donors for changing fiscal policies such as further escalation of VAT, excise and other new changes, regarding the supply conditions in the domestically produced goods, similar to those of the import. Therefore, the Action Plan aims to advance the preparation of promotional activities on the ground with the partners and donors to support the necessary changes to the fiscal package, in support of the interests of the entire value chain of the sector.

The Advocacy Action Plan addresses the main challenges and needs for the release of VAT and other taxes throughout the value chain of this in the Republic of Kosovo. The plan seeks to ensure a coordinated stakeholder action in the fruit and vegetable processing industry related to the effect of VAT changes across the sector's value chain and the impact on the state budget.

1. Introduction

In very simple terms advocacy is an activity of an individual or group that aims to influence decisions within political, economic and social systems and institutions. Advocacy is a direct form of influence that is made to policymakers on a particular issue that can influence changes in public policy. Advocacy within an Action Plan in the context of the "Pepeko" Association, as it derived from the task defined in the ToR, implies the commitment to fill in the present fiscal package in support of promotion and the interests of its members. The Strategic Advocacy and Strategic Action Plan is designed to capture the current state of fiscal policies as well as propose concrete changes and measures to improve competitiveness of the fruit and vegetable processing industry in the Republic of Kosovo. The Action Plan and Advocacy Strategy clearly outline the activities, with a clear division of responsibilities roles and time frames. The Action Plan is based on best practices in developed and emerging economies, with a careful adjustment of actions to the latest demands of the fruit and vegetable processing industry in the Republic of Kosovo including budgetary implications.

For the effective advocacy of evocation, at first priority issues to be evoked should be identified. Subsequently, research on those issues should be developed and in the next stage staff training for the successful implementation of the advocacy plan should be provided.

The Action Plan contains sufficient details on activities that need to be undertaken for successful advocacy changes in the fiscal package, following clear objective addressed by "Pepeko" as a representative of the fruit and vegetable processors interests.

As "Pepeko" Association exists to serve the interests of their members, it is important to emphasize that companies have been actively involved in identifying issues and priorities that should be advocated. In this case, the main commitment is to reform the fiscal package and in particular the VAT. At the end, meetings with policy-makers and legislative staff, officials from governmental and non-governmental agencies, coalition creation, and analysis and arguments for necessary changes to the current fiscal package, parliamentary committees and the media have been suggested.

If we go back to the shortest history, the VAT collection process in the Republic of Kosovo has begun since 1 July 2001 (Regulation 2001/11 on VAT and Amendments to Regulation No. 2002/17), and it was considered as the main source of the revenues of the Kosovo government. Based on the recommendations of the International Monetary Fund, in 2014 the Government of Kosovo has undertaken some changes in tax increases, and especially VAT, in order to balance budget revenues and expenditures. In 2015, the Government of Kosovo continued to reform the fiscal package, including the VAT law, where the VAT registration threshold is reduced from 50 to 30 thousand Euros and the VAT rate increases from 16% to 18%. The VAT rate is reduced for some products, which have led to increased productivity and technological innovations in the industry. From October of this year (2018), the Draft Law foresees the escalation of VAT into two norms, the standard of 18% and the reduced rate of 8% of the value of imported supplies and taxable domestic supplies. VAT is calculated in the price according to the applicable rate, is charged on goods and services, and carried by the last consumer. This is considered as the most important part of the current fiscal reform of the Government, which provides relief that will help the development of fruit and vegetable processing industries in the country.

The approach of the study was from the perspective of comparative industry analysis with neighboring countries and the adaptation of the Action Plan for reforming fiscal policies to new industry requirements in the upcoming time period 2018-2020.

This study and strategic action plan for advocacy of the fruit and vegetable processing industry was carried out by the "Pepeko" Association, with the support of GIZ and in cooperation with other relevant partners such as: Ministry of Finance, MAFRD, Ministry of Trade and other governmental and non-governmental institutions and agencies in the country.

The Action Plan Framework for Fiscal Policy Changes is based on the policy and strategic orientation of the development of fruit and vegetable processing industries in the Republic of Kosovo (the 2018 Standards Assessment on Current Situation for the Fruit and Vegetable Sector in Kosovo).

This Action Plan requires mobilization of many stakeholders, companies, ministries, agencies, sponsors and donors as well as improvement on many components within the fiscal package, in

order to improve competitiveness and working conditions for companies and the fruit and vegetable processing sector as whole, represented by the " PePeko " Association.

2. Overview of fresh and processed fruit and vegetable sector

In 2016, the total cultivated area with vegetables was 17,395 from which tomatoes occupied 7,864 ha; 457 ha were cultivated vegetables in green houses and 8,785 ha with fruit tree. Compared to 2015, the number of cultivated ha with vegetables increased by 14.7% and difference was even higher for fruit tree 16.2% (MAFRD, 2018). In regard to the agricultural production, vegetables are the most important category and constitute about 30% of production or 335,467 t, while fruits comprise approximately 16% or 78,502 t (MAFRD, 2018). Economic accounts (at current prices) for vegetables and garden products reached at 122.2 million Euro in 2016. The contribution of fruit sector was smaller (63.7 million Euro) when compared to the vegetables sector. Potatoes and are the most important vegetables in terms of cultivated area. A total number of 34, 827 agricultural holdings were producing vegetables in 2014 (KAS, 2014). Compared to other countries in the region Kosovo produces pepper more than Albania and Montenegro but only half the production of Serbia and Macedonia. Kosovo's trend of pepper production has followed the world trend, while the European production has been stable (Imami D, 2016). Pepper production is dominated by small farms that accounts for around 2/3 of the total pepper farms.

In 2016, Kosovo had a total area of 4,390 ha of orchards, out of which 3,520 ha were plantations with fruits. Most of fruit plantations areas were planted with apple (1,973 ha), followed by plum (699 ha), and other fruits. Strawberries area increased by 36% in 2016, compared to 148 ha in 2013. Similar to strawberries, raspberry area has increased from 23 ha as it was in 2013 to 141 ha in 2014. Other crops that faced an increase in terms of ha, are cherries, and hazelnuts. The overall production was 13,519 tons. The imported amount of apples in 2016 was 15,808 tons, while the exported amount was very symbolic 7 tons. The self-sufficiency rate covers about 46% of needs. The domestic use was 29,319 tons, while the processing accounted for about 1,217 tons, the overall consumption was 27,968 tons, and the

losses in 2016 amounted to 1,352 tons. The price of apples for the year 2016 was 0.49 €, and in terms of the value of production it was 6.0 million €.

The horticultural and fruit processing capacity comprises at least 10 processing companies. Following the privatisation of large former-Yugoslavian factories, the current overall capacity is more than abundant for the processing needs of the domestic production but still largely unexploited, as the majority of local processors are still relatively small and able to cover a minor part of the processed fruit and vegetable demand. The horticultural and fruit product lines comprise pickles, juice, canned vegetables, jam, marmalade, ajvar.

In Kosovo, although the overall agri-business is not highly developed, some processing companies have managed to carry out big investments with important implications for the economy and employment opportunities.

The fruit and vegetable processing industry in Kosovo is growing and its processing technology is improving. Based on their processing capacities, there are three categories of processors:

- Industrial processors (Abi&Elif, Euro Food, Koral, Asks-Foods, Moea)
- Medium-scale processors (Bio Pak, Fitimi, Rizona, Etlinger, AnanasImpex, Fungo FF, MIB Trade)
- Small-scale processors (Association of women and individuals with a small capacity and home-made processing recipes) (Imami D, 2016).

3. Agricultural policy in Kosovo

Kosovo's National Agriculture and Rural Development Plan (ARDP) is the overall implementation framework which guides the development of the agricultural and rural development sector in Kosovo. The overall objectives of the ARDP 2014-2020 are defined as follows (Bajramovic et al., 2016):

- (i) Development of a competitive and innovation-based agri-food sector characterized by an increased production and productivity and meeting EU market standards;
- (ii) Protection of natural resources and the environment in rural areas;

- (iii) Improvement of the quality of life in rural areas and a diversification of employment opportunities.

The Rural Development Policy of Kosovo 2014-2020 focuses on the following six priorities:

- (i) Fostering knowledge transfer in innovation in agriculture, forestry and rural areas;
- (ii) Enhancing competitiveness in all types of agriculture and enhancing farm viability;
- (iii) Promoting food chain organization and risk management in agriculture;
- (iv) Restoring, preserving and enhancing ecosystems dependant on agriculture and forestry;
- (v) Promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in the agriculture, food and forestry sectors;
- (vi) Promoting social inclusion, poverty reduction and economic development in rural areas.

Funding for the implementation of the direct payments and rural development measures comes from the national budget, the European Union (EU) in the framework of IPA II and international donors such as World Bank (WB), USAID or DANIDA. Funding of international donors and IPA focuses on rural development measures.

Kosovo's agricultural policy relies mainly on direct payments as well as support for on-farm investment and food processing. Market support type measures such as administered prices or public intervention are not implemented. Measures aiming at economic diversification of rural areas have been introduced since 2010. Direct payments are mainly linked to current area or number of animals (coupled direct payments), except implemented scheme for milk quality. Support for agricultural producers from the MAFRD increased more than tripled between 2011 and 2016 (see Figure 1). The amount for direct payments in 2016 was 26.1 Mio Euro. Less budget was allocated for rural development 21.8 Mio Euro.

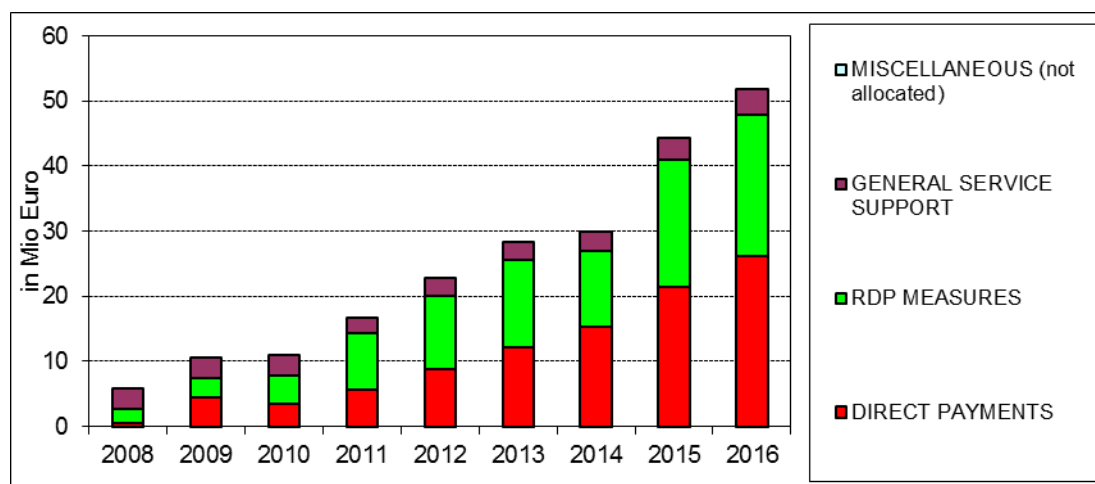


Figure 1: Budgetary support for agriculture

Source:

The allocated budget for direct payments and rural development increased at an approximately similar rate over the time period 2012-2016. The combination of support measures was not that much diversified. Input subsidies for fuel for harvesting existed only between 2008 and 2012 while no other input subsidies like for fertilizers or seeds were introduced.

Direct payments and rural development measures together, among agricultural products varies substantially from one year to the other. The largest share of support is distributed to producers of fruit and vegetables as well as wine (35%), cereals (25%)¹ and livestock producers, especially dairy production (23%). On-farm investment support is mainly targeted towards fruit and vegetable production, dairy production from cows, sheep and goats, and poultry, both eggs production and fattening of broilers.

¹All figures refer to the most recent year (2016).

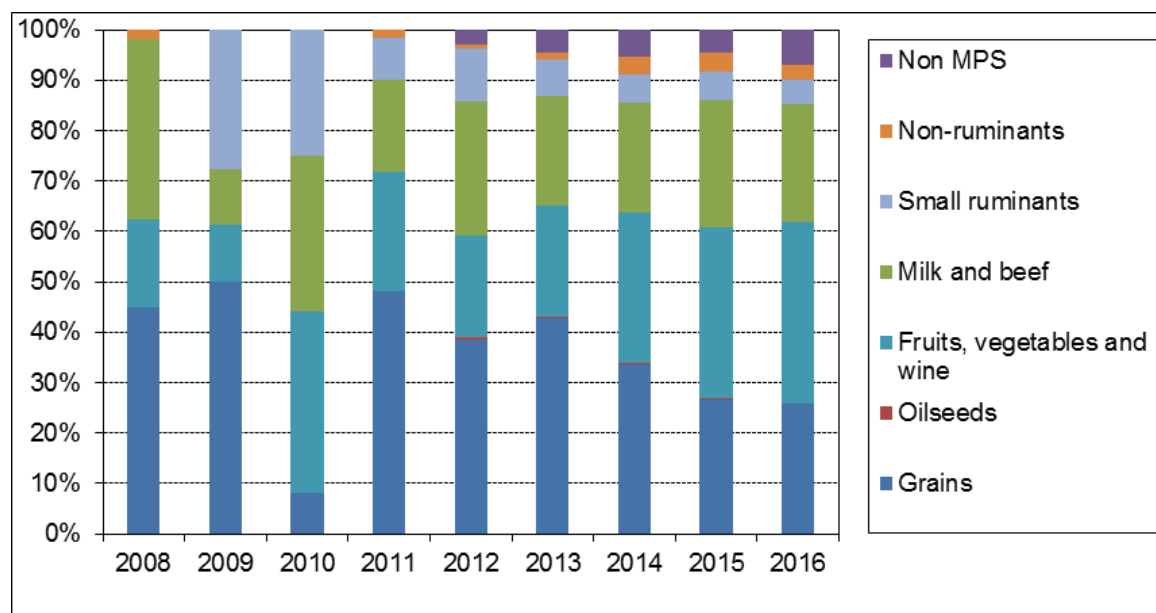


Figure 2: Support by commodities

Source:

A tariff rate of 10% applies for agricultural products from other countries than CEFTA and EU. Trade with CEFTA countries (Central European Free Trade Agreement) is governed by the common agreement which guarantees tariff free trade of industrial goods between signatory states (Albania, Bosnia and Herzegovina, Macedonia, Moldova, Montenegro, Serbia and Kosovo). Tariffs for agricultural products should be gradually eliminated. A Stabilization and Association Agreement with the EU has been signed in October 2015 with the intention to get improved access to EU markets within the next 10 years under the condition of meeting EU standards.

The Western Balkan countries are reducing the average level of tariffs on agriculture products but the budgetary transfers to agriculture have been increasing rapidly, whilst in others they have fluctuated (Albania and Serbia). A low level of budgetary support is usual for countries with low level of economic development. In all analyzed Balkan countries, state budget support for agriculture is very low compared to the EU¹⁰.

A wide range of support instruments and measures are applied across the WBs. Export subsidies are used in Serbia, and in some cases in Montenegro. In the case of Montenegro, a

public-owned company (Plodovi) buys excessive quantities of certain fruits and vegetable produce at pre-determined prices, and sells such produce to wholesalers at 50% discount, who in turn usually export them¹¹. Direct producer-support measures are the most important instrument of agricultural policy in all the Western Balkans Countries¹²(see Table 3). In particular, the share of the budget for direct producer support is significantly higher compared to the New Member States during the steps of pre Accession.

Table 3. Total budgetary support for agriculture in WB countries (million euros), 2010-2015

	2010	2011	2012	2013	2014	2015
Albania	19.0	26.8	23.6	20.1	27.8	35.0
Bosnia and Herzegovina	82.2	71.2	82.7	71.0	67.4	63.2
Kosovo*	11.0	16.7	22.7	24.0	27.0	59.1
FYR Macedonia	83.9	72.6	102.3	82.5	128.9	73.3
Montenegro	14.6	18.1	17.5	17.6	17.4	20.0
Serbia	191.1	197.5	257.1	268.3	315.4	212.0

Source: agriculture and agricultural policy database.

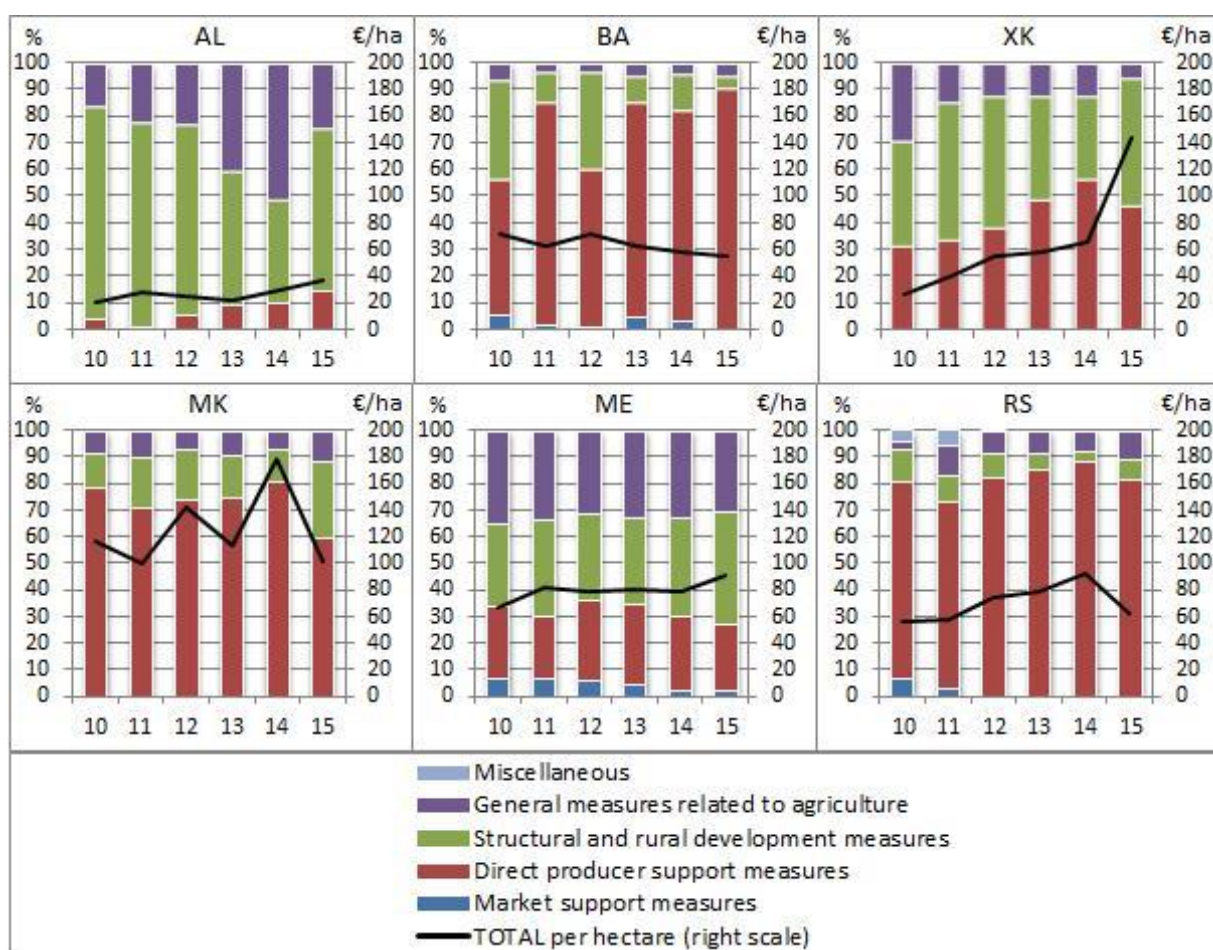


Figure 3: Composition of total budgetary support for agriculture by APM pillars in WB countries, 2010-2015

Source: Source: agriculture and agricultural policy database.

Table 4. Direct producer support in WB countries (million euros), 2010-2015

	2010	2011	2012	2013	2014	2015
Albania	0.9	0.4	1.6	2.0	3.0	5.3
Bosnia and Herzegovina	41.7	58.8	48.7	56.9	52.6	56.6
Kosovo*	3.5	5.7	8.7	11.9	15.3	27.8
FYR Macedonia	66.1	51.3	75.7	61.4	103.6	43.6
Montenegro	4.0	4.4	5.3	5.3	4.9	5.0
Serbia	141.9	138.1	210.8	229.1	278.9	172.5

Source: agriculture and agricultural policy database.

In almost all neighboring countries, crop and livestock production are supported through price aids, area and/or head age payments and input subsidies, all of which are forms of support non compliant with the reformed Common Agricultural Policy (CAP). All basic forms, except for decoupled payments, are introduced¹³. The other means of support, payments based on output (price aids) are still quite important in all Western Balkan countries. In Serbia, the prevailing direct producer support form is input subsidies, whereas in Bosnia and Herzegovina it is direct payments based on output, and in Croatia, Albania and FYR Macedonia direct payments per animal and (cultivated) area prevail (See Table 4). In all neighboring countries, the use of inputs (e.g. seeds, fertilizers, etc) is also subsidized. In Serbia, input subsidies are the most important form of direct producer support. Comparative figures show that Albania similar to Bosnia and Herzegovina and Kosovo offer a low support of inputs to its agriculture sector (see Table 5).

Table 4: Breakdown of direct producer support (%), 2014

Types of support	Kosovo	B&H	Croat	FYROM	Mont	Serb	EU	US	OECD
Payment based on output	1.14**	57.6	22	0	22	20.2	25	18	48
Payment based on current area planted/animal	86	41.6	62.5	97.7	39	0.9			
Decoupled payments		0	0	0	0	0			
Variable input subsidies	1*	0.7	15.5	2.3	29.3	78.9	14	30	13
Other direct payments	12.8	0	0	0	9.8	0			

Source: IAMO, 2010, OECD 2010, Data of Kosovo are of 2014

*plastic sheets for greenhouses

**extra virgin olive oil and bio

4. Methodology

The study is based on the revision of laws, regulations and a number of published works, reports and projects related to the current impact of VAT on the sector. Subsequently, key stakeholders of potential interview interest as well as specific activities to be undertaken within

the Action Plan and advocacy strategy for fiscal package changes in the Republic of Kosovo have been identified. This process has been developed in coordination and compliance with all relevant stakeholders.

The contacted consultants in close cooperation with the Pepekko Association officials for several days contacted the representatives of several companies, with whom were conducted in-depth interviews of their current situation in the industry and especially in their company, the experiences and challenges they face in dealing with fiscal policies and in particular with current VAT. Their suggestions and assessments are included in the final version of the Action Plan, which best reflects their requirements and needs for VAT changes in the upcoming short term and mid-term period.

In addition, the need to complete the legal basis and how to approach the elimination of other obstacles to the reform of the fiscal package and in particular VAT, has been elaborated. For the realization of this goal it is envisaged the development of an advocacy strategy, which describes the way of communication among all interest groups. The role of government in adapting the legal basis is crucial.

We have not managed to calculate the costs of implementing the new fiscal package, since we did not have to speculate on the cost calculation for these activities that preceded the changes. The role of the Pepekko Association at this stage is dominant. This is also done in co-operation with consultants and other stakeholders. The Action Plan will then be a document for joint action by all stakeholders, who will work to promote changes in the current VAT system and other taxes, in order to improve working conditions in the sector processing of fruits and vegetables in the Republic of Kosovo.

The methodology used in conducting this study includes desk research and in depth interviews with main stakeholders which were considered relevant and supportive in analyzing main policy reforms and the tax regime. The study focuses on three types of output markets: ajvar, jem, and pickles Kornishon and three other input markets: chemical fertilizers and inputs; energy (fuel and electricity) and packaging. The study tries to compare policy support and tariff regime with other countries in the region (FYROM and Serbia) in those components when data from international databases were available. Cost benefit analysis was used to compare financial

effect of the change in tax regime for both sides three inputs and outputs considered in the study. A partial budget model was conducted to evaluate the effect of fertilizers, fuel and packaging on the production and processing of fruit and vegetables. Based on the information provided by MAFRD for cost structure in vegetables production and processing, the effect of various input tax exclusion on input markets and on the gross margin was assessed. Partial budget model assumes fixed technology, package and does not take into consideration options for fertilizer substitution. Therefore, this model have a propensity to underestimate positive income effects from tax exclusion. According to partial budget models, an input price decrease due to the tax exclusion with no changes on input demand nor productivity. It simply reduces production costs. Partial budget approach has its own limitations as the elasticity of factor substitution is assumed to be zero, but besides limitations it is still a useful tool to predict short short-term farm income effects of input taxation.

The study considers farm models cultivating vegetables in green houses with/out heating and in open fields, as well as processed fruits and vegetables. Implication costs on the basis of an average model farm on fruit and vegetables production and processing costs was estimated. The data on quantity and costs of inputs were collected based on structured sheet costs reported by interviewed processing fruit and vegetables companies. The costs analyses are prepared in current prices of agricultural season of year 2018 where information was available for both production seasons. The study uses available price data and production from MAFRD Data accuracy has been subject of crosschecking and improvement through interviews. Therefore, with the purpose of strengthening the data set and its analysis, relevant secondary sources were included. The information, collected data and farm enterprise budgets presented in this study are based on discussions with agricultural extension workers, experienced agronomists, agribusiness firms, agro-input dealers and other actors with good knowledge on the sector's performance and agricultural conditions in Kosovo.

5. Fiscal implications for agriculture

5.1 Value Added Tax

Kosovo applies a Value Added Tax (VAT) rate of 18% on domestically produced goods. VAT as provided by Law No. 05/L -037 is applied to all activities carried out by a business. The VAT makes up approximately X% of the tax revenues in Kosovo. For all agriculture products in Kosovo (local or imported) a fixed 18% VAT is applied. An 8% VAT refund is given to farmers and processing industries purchasing inputs (raw fruits and vegetables for processing) based on formal invoices issued by a taxable subject. The VAT disbursement is designed for processing companies buying raw material from the farmers equipped with a fiscal identification number that issue an invoice. The Kosovo Government also runs a scheme for deferral of VAT payment on "imported machinery and equipment" to facilitate business investments in Kosovo. All undertakings that import machinery and equipment for investment purposes may benefit from the deferral of total VAT payment for a 12-month period. Despite the positive trends in revenues forgone from the government because of this scheme - similarly with the VAT exemption on agricultural producers - also the VAT payment on imported machinery and equipment is scarcely applied (interviews with agribusiness managers). Table X shows some main indices of the VAT exemption schemes in other Balkan countries. In Kosovo there is no VAT exemption on agricultural inputs as it occurs in other neighboring countries, as is the case of Macedonia and Kosovo.

Table X: VAT policies and exemption in Balkan countries

Country	VAT	Preferential	Agricultue
Kosova	18	5 and 0	0% for entire raw material, inputs and equipments for agriculture (Regulation 2007/31).
Albania	20	14 and 0	There is no VAT exemption for inputs A VAT partial exemption for agricultural output of 6% still not fully operating
Macedonia	18	5 and 0	5% for seeds and planting materials, fertilizers, plant protection chemicals, plastic folios for agricultural use and agricultural machines
Montenegro	17	7 and 0	7% tax to fodder, fertilizer, devices for plant protection, reproduction seeds, planting material, veterinary medicine and breeding stock

Serbia	18	8 and 0	8% for fertilizers, pesticides, seed stock, nursery stock and complete fodder mixtures for animal feeding.
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Differences on VAT policies between countries have increased the competitiveness of farming and processor operators for products which compete with the Albanian fresh products such as apples and grapes. The effect is clear when the seasonal tariff on agricultural products with the countries of the region is lifted. The following chapter suggest a gradual tax exemption at 6% (as a regional average) in order to reduce the costs of inputs imported without reducing the controlling effect provided by such tax.

6. Tariff policy on inputs for processing industry

Energy: excise duties apply to some local and imported goods including fuel. In order to help the development of the private sector, namely producers within the country and other possible investors, from 1st of January 2018 started all exemptions from customs duties and excise duties on raw material used in the production process, the semi-products that are used in the production process, all production lines of machinery, the information technology equipment, all energy sources used as inputs in the production process (heavy oil, gas, diesel etc.) regardless of whether they import themselves or through contractors are exempt from excise tax. According to the Ministry of Finance this was the first step of fiscal policy measures harmonized with business requirements. The aim of all these measures of exemption from customs duties and excise taxes will create better and more attractive environment for foreign investment as well as for local producers.

Table 1: Excise taxes on fuel, in 2014 in Kosovo

Tariff code	Description	Tax rate in 2014	Tax rate in 2018
2711	Petroleum gases and other hydrocarbons nitrogenous	EUR 0.15/l	EUR 0/l
2707	Oils and other destillations products of coal tar at high temperatures	EUR 0.325/l	EUR 0/l
27101931 to 27101949 (new no. 27101948)	Heavy heating oils	EUR 0.25/l	EUR 0/l
3811	Other which are used for the same purposes as mineral oils	EUR 0.36/l	EUR 0/l
3814	Organic composite solvents and solvents	EUR 0.36/l	EUR 0/l

Source: Ministry of Finance, Division of Fiscal and Public Policies in Kosovo, 2014.

Some countries offered schemes for the fuel used for agricultural purposes. For example, Croatia applies a zero excise scheme upon the use of fuel card for agricultural purposes. However, in Kosovo the excise on fuel used for agricultural purposes by farmers still remains refundable. The electricity prices used in industry (non-household consumption), are much higher as compared to the electricity prices in household consumption.

Table 2: Electricity prices in EUR/kWh, 2017

Electricity use	Kosovo	Albania	Serbia	Macedonia	Montenegro
Household consumption	0.0654	0.0856	0.0695	0.0811	0.1003
Non-household consumption	0.0799	:	0.0751	0.0561	0.0751

Source: EUROSTAT, 2018.

The electricity price for household consumption in Kosovo is the cheapest when compared to other countries in the region. However, the electricity price for non-household consumption/industry is the highest in the region. Macedonia and Montenegro has significantly lower price electricity for non-household consumption. Water price for non-household consumption are considerable higher 0.85 EUR per m³ than household for household consumption 0.42 EUR per m³. Glass jars and bottles used in food processing industry are exempt from customs and excise. However, such packaging (glass jars and bottles) is not exempt from 18% VAT, which increases the price of final domestic produced products. The import of inputs for agriculture are mostly duty free and exempt from VAT except for insecticides that are burdened with 18% VAT. And according to the interviews conducted with agricultural input suppliers insecticides were accidentally not exempt from VAT, due to poor reasoning...

Table 3: Tariff policy on inputs for agriculture

Input	Customs	VAT
Seeds	0%	0%
Fertilizers	0%	0%
Pesticides	0%	0% (except insecticides)

8. The impact of VAT reduction and excise exemption on production and processing costs

Table 4: Gross margin for pepper production in open field

Red pepper production cost in open field							
	Actual situation			Scenario 1			
Item	Quantity	Price	Value	Quantity	Price	Value	Change
Pepper in Kg	30,000	0.26	7,800	30,000	0.2392	7,176	-8%
VAT 8%			7,176			7,176	
Variable costs							
Seedlings	70,000.00	0.01	700	70,000.00	0.01	700	

Organic fertilizer (kg/ha)	50,000.00	0.01	500	50,000.00	0.01	500	
NPK 15:15:15 (kg/ha)	1,000	0.53	530	1,000	0.53	530	
Foliar fertilizer (l/ha)	3	5	15	3	5	15	
Fungicides (kg/ha)	4.5	20	90	4.5	20	90	
Insecticides (l/ha)	1	40	40	1	32.8	32.8	-18%
Herbicides (l/ha)	4	8	32	4	8	32	
Water	1	150	150	1	150	150	
Bag	1,800.00	0.05	90	1,800.00	0.041	73.8	-18%
Boxes	1,500.00	0.25	375	1,500.00	0.25	375	0.205
Total inputs			2,522.00			2,498.60	
Machinery expenses							
Fertilization (l/ha)	40	0.98	39.2	40	0.80	32.14	
Plowing	40	0.98	39.2	40	0.80	32.14	
Disking *2	40	0.98	39.2	40	0.80	32.14	
Harrowing	10	0.98	9.8	10	0.80	8.04	
Work between rows with tiller	30	0.98	29.4	30	0.80	24.11	
Spraying	5	0.98	4.9	5	0.80	4.02	
Transport from field to market			300			300	
Transport from field to collection point			100			100	
Maintenance			150			150	
Total machinery costs			711.7			682.594	
Total variable expenditures			3,233.70			3,181.19	
Gross margin			4,566.30			3,994.81	
Total labour force expenditures			1,815.00			1,815.00	
Gross margin before depreciation			2,751.30			2,179.81	
Depreciation			200			200	
Net income			2,551.30			1,979.81	
Subsidies			300			1500	
Net income + subsidies			2,851.30			3,479.81	

Note: 30,000*0.05 EUR = 1,500 EUR/ha.

Table 5: Gross margin for apple production

Apple production cost							
	Actual situation			Scenario 1			
Item	Quantity	Price	Value	Quantity	Price	Value	Change
Apple in Kg	40,000	0.36	14,400	40,000	0.3312	13,248	-8%
VAT 8%							
Variable costs							
Organic fertilizer t/ha	60	5	300	60	5	300	
Mineral fertilizer kg/ha	825	0.53	437.25	825	0.53	437.25	
Pesticides kg/ha	14	60	840	14	60	840	
Other expenses (flat rate)			50			50	
Total inputs			1627.25			1627.25	
Machinery expenditures							
Cultivations (service)	3	30	90	3	24.6	73.8	-18%
Spraying 6 times (service)	6	30	180	6	24.6	147.6	-18%
Other work (flat rate)			100			100	
Total machinery expenditures			370			321.4	
Marketing expenditures							
Boxes	2,000.00	0.4	800	2,000.00	0.328	656	-18%
Transport	14.00	50	700	14.00	41	574	
Total marketing expenditures			1500			1230	
Total variable expenditures			3497.25			3178.65	
Gross margin			10,903			10,069	
Labour force							
Shearing	1600	1	1,600.00	1600	1	1,600.00	
Organic fertilization (p/d)	8	15	120.00	8	15	120.00	
Fertilization (p/d)	2	15	30.00	2	15	30.00	
Spraying (p/d)	6	15	90.00	6	15	90.00	
Irrigation (p/d)	2	15	30.00	2	15	30.00	
Weed cleaning (p/d)	6	15	90.00	6	15	90.00	
Picking (p/d)	80	15	1,200.00	80	15	1,200.00	

Other work (flat rate)	2	15	30.00	2	15	30.00	
Total labour force expenditures			3,190.00			3,190.00	
Groosmarin before depreciation			7,712.75			6,879.35	
Depreciation			651.31			651.31	
Net income			7,061.44			6,228.04	
Subsidies EUR/ha			400.00			1600	
Net income + subsidies			7,461.44			7,828.04	

Table 6: Gross margin for ajvar production

Industrial ajvar production cost							
	Actual situation			Scenario 1			
Item	Quantity	Price	Value	Quantity	Price	Value	Change
Ajvar Kg	1000	2.2	2,200	1000	2.2	2,200	
VAT 18%							
Variable costs							
Red Pepper K.Kapia	3500	0.26	910	3500	0.23	805	-8%
Eggplants	175.00	0.2	40.25	175.00	0.2	40.25	
Carrots	175	26.25	40.25	175	26.25	40.25	
Salt, Suger, vinegar, preservatives		Lump sum	60		Lump sum	60	
Jars	666	0.35	233.1	666	0.287	191.142	-18%
Labeling and packing			12			12	
Energy			112			112	-1.50%
Water			34			34	
Total inputs			1,441.60			1,294.64	
Machinery							
Transporti	Lump sum		100	Lump sum		82	-18%
Marketingu	Lump sum		100	Lump sum		82	-18%
Maintenance	Lump sum		150	Lump sum		132	-18%
Total machinery costs			350			296	
Total variable cost			1,791.60			1,590.64	

Gross margin			408.40			609.36	
Total labour force	10	15	150.00	10	15	150.00	
Gross margin before depreciation			258.40			459.36	
Depreciation			50			50	
Net income			208.40			409.36	

Table 7: Gross margin for marmalade

Industrial marmalade production cost							
	Actual situation			Scenario 1			
Item	Quantity	Price	Value	Quantity	Price	Value	Change
Marmalade in Kg	1000	1.9	1,900	1000	1.9	1,900	
VAT 18%							
Variable costs							
Apple	2100	0.1	210	3500	0.092	322	-8%
Plum	750.00	0.12	90	175.00	0.1104	19.32	-8%
Figs	150	0.3	45	175	0.276	48.3	-8%
Sugar	400	0.3	120	400	0.3	120	
Jars	666	0.35	233.1	666	0.287	191.142	-18%
Labeling and packing			12			12	
Energy			112			112	-1.50%
Water			34			34	
Total inputs			856.10			858.76	
Machinery							
Transporti	Lump sum		100	Lump sum		82	-18%
Marketingu	Lump sum		100	Lump sum		82	-18%
Maintenance	Lump sum		150	Lump sum		132	-18%
Total machinery costs			350			296	

Total variable cost			1,206.10			1,154.76	
Gross margin			693.90			745.24	
Total labour force	10	15	150.00	10	15	150.00	
Gross margin before depreciation			543.90			595.24	
Depreciation			50			50	
Net income			493.90			545.24	

Advocacy Strategy

The advocacy effect will be achieved when fiscal policy makers seriously understand how the change in fiscal policies can and can work in practice, who will help and hinder it - and to what extent , for positive practices and examples from other countries. Always, it should emphasize who are the stakeholders and the main supporters of the changes in the current fiscal package.

The Action Plan emphasizes the need to keep the relevant public and politicians informed about what you want to achieve. To this end, we suggest that public officials and politicians be invited to the conference and the main presentation on November 5, 2018. They are offered the opportunity to visit the "Pepeko" association and get acquainted closely with the work, objectives and challenges in support of the fruit and vegetable processing sector in the Republic of Kosovo.

Be sure to keep the media regularly informed. Their power is indisputable. All these activities within the Action Plan are very important to create a more convincing public political and professional image for changes in the current fiscal package.

Members of the Pepeko Association should be regularly provided with up-to-date information on advocacy objectives, actions being taken, actions that will be useful to undertake and how progress advocacy efforts are being made. Your members and those who are not members will judge the success of your association as a whole over how impressive and successful your advocacy efforts appear to be.

Organize the Action Plan for VAT Changes

Starting point of the Action Plan was the design of the implementation of short-term and mid-term advocacy activities as follows.

The plan begins with the organization of the conference with stakeholders (on November 5, 2018), discussing the research results together with the Action Plan and ending with recommendations for further development of the fiscal package in the Republic of Kosovo (end of April 2020).

Proposals for Key Activities of the "Pepeko" Association

The proposed activities for the "Pepeko" Association, shown in Table 1, are divided into four main ones for changing current fiscal policies such as:

1. Organization of the Conference
2. Advocacy activities
3. Adjust the legal basis for fiscal and fiscal changes
4. Analysis of company-level benefits and costs and the fruit and vegetable processing sector

Tabela 5: Aktivitetet, sistemet e informacionit, produktet, rezultatet dhe ndikimet e pritshme nga aktivitetet e propozuara avokuese

Main Analytical Activities	Information Systems	Outputs (Products)	Results (Outcome)	Impact (Impact)
Organization of the Conference	Study done	Identification of activities	Start implementing activities	Companies increase invitation
Advocacy activities	Action Plan	Implement concrete activities	Support to the sector (increase in the number of companies)	Companies increase competitiveness and profitability

			and other donors)	
Adjusting the legal basis for fiscal changes	Current laws and regulations	Amending the legal basis for new requirements	Creating appropriate legal conditions	The sector becomes more competitive
Analysis of benefits and costs	Cost and profit analysis before and after VAT and excise change in €	Competitiveness and sector competition analysis	Increase processing and sector capacity	Increase Profit

Table 6: Activities and main carrier responsibilities

Activities	“Pepeko’	Ministry of Finance	MBPZHP	MTI	GIZ	Costums
Organization of the Conference	Main	-	-	-	Supporting	-
Advocacy activities	Main	Providing data	Providing data	Providing data	Providing data	Providing data
Adjust the legal basis for fiscal changes	Supporting	Main	Supporting	Supporting	Supporting	Supporting
Analysis of benefits and costs	Main	-	Providing data	Providing data	Supporting	Supporting

Table 3: Action Plan for Fiscal Package Change Activities for the Fruit and Vegetable Industry in Kosovo from 2018 (October) to 2020 (April) See excel file

9. Concluding remarks for production and processing costs

The VAT reduction and excise exemption is very important for vegetable and fruit producers and processors. Agrochemicals like insecticides inputs, which are subject of the VAT, make up 1/3 of total costs for pesticides. A reduction on fuel used for agricultural purposes will reduce production costs by X%, which on the other hand will improve gross profit margin for Y%. Reducing the VAT on glass jar reduces packaging costs by Z%. If the energy supply for non-domestic consumption/industry is sold with the same price as for domestic consumption, gross margin for ayvar and marmalade production will increase by X%.

The cost processing analysis is extended on the processing of fruits and vegetables. Ajvar and jam have been qualified for a case study, being the standard cases for Kosovo. A cost model was developed based on data obtained from interviewed processors. All analyzed processors demonstrate to have a similar structure of costs in the tables above. The variable costs are further aggregated in 4 categories where: A includes cost of raw material and direct labor work force, B includes packaging and labeling costs, C includes secondary inputs and D includes electricity includes other costs such as transport and marketing. Depends on the seasonal price of the principal raw material, the grade used and the processing ratio. B, C and D depend on the fluctuation of the international market price and the tariffs which are implemented by the fiscal authorities.

The study has identified several groups of costs related with the raw material and administration costs but will focus on two type of costs those included in A and B (see Table X). The processing cost analysis indicates that the major weight is held from the packaging expenditure (about 2/3 of the total variable costs).

This study and Action Plan is an important step towards promoting changes in current fiscal policies, before the legislative authorities in the Republic of Kosovo. The objectives set with this research can be achieved by engaging with all stakeholders, represented by government officials, agencies, ministries, companies in this industry and other communities as donors, sponsors, etc.

The successful implementation of the Action Plan for changes to the VAT package requires:

- Establish an advisory group that represents the interests and policies of the key stakeholders, which will monitor the successful implementation of the Action Plan related to the fiscal package in the fruit and vegetable processing industry in the Republic of Kosovo.
- Determine the coordination unit within the "Pepeko" Association for overseeing the implementation of the action plan regarding the implementation of changes in the VAT package.
- Develop a detailed monitoring and evaluation plan for effects and costs, according to an updated information system on the market.
- Developing a fundraising strategy for new research on the fruit and vegetable sector processed from various sources of funding, etc.

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