

Trouble Brewing for Kosovo Entrepreneurs

Author: [Arben Salihu](#)

Customs duties and marketing failures are just some of the reasons why Kosovo businesses struggle to break even.

Zijah Lenjani is a desperate man. "I invested 1.5 million euro in this factory," said the owner of the HUGOS brewery in Kamenica, 70 kilometres south-east of Pristina. "It was all the money I saved from 12 years working in Sweden - but now I regret it."

A range of problems, from customs duties to a lack of marketing funds, has made the long-term survival of HUGOS unlikely.

Since the end of NATO's Kosovo bombing campaign in 1999, which terminated Serbian rule over the territory, the local economy has crumbled away.

The advent of political freedom for the majority of the Albanian population has not brought with it a new economic dawn. Even agriculture - the main livelihood among this formerly rural community - has hit the doldrums.

While foreign money flows into Kosovo through NGOs and the territory's international authority, it flows out again as impoverished Kosovars spend their earnings on foreign imports.

A staggering 90 per cent of widely-used products are imports from neighbouring states, such as Macedonia and Serbia, as well as western Europe.

Local producers say they are handicapped by the import tax regime which imposes a flat duty of 10 per cent on almost all incoming goods, from raw materials to finished products.

Lenjani says a litre of diesel that costs 0.15 euro in southern Serbia costs him costs him 0.70 euro after customs duties, squeezing dry his profit margin. "I spend 480 to 520 litres of diesel daily for the production of my beer," he said. "Water is the only material I do not have to pay to import!"

"In the end, the beer produced outside Kosovo costs less in our market than the beer produced here."

Not everyone agrees import taxes are to blame for Kosovo's economic woes. "Trade Policy for Kosovo 2004", a paper produced jointly by the local and international financial authorities this April, (the Ministry for Trade and Industry and the European Union component of UNMIK), reached a different conclusion. "Kosovo's internal and border taxes are among the lowest in the region," it declared.

Ibrahim Rexhepi, a local economic analyst, said that although import taxes are, as the paper says, lower than the regional norm, local producers are right to complain about their unselective character.

"The duty [of 10 per cent] is fixed whether you import a bottle of beer - or barley, which is the main raw material used for brewing," Rexhepi told IWPR.

The economist added that the flat tariff rate discourages investors, and it would have been better to scrap import duties on raw materials altogether, in order to boost local production and so stimulate job creation.

"A tax policy ought to distinguish between various sorts of imports, whether they are finished products or raw materials, such as fuel," Rexhepi concluded.

Creating a variable tax band for imports is not easy, economists warn. Andreas Wittkowsky, economic advisor within the EU Economic Reconstruction Department of UNMIK, says such a system in Kosovo would be costly and difficult to administer.

"Only a few materials can be used solely for production," Wittkowsky warned. "Most can be used for consumption, too. Ensuring that raw materials will be used strictly for local production is not an easy task."

Unscrupulous businessmen would soon abuse the system of tariff exemption, he said.

Wittkowsky added that the authorities preferred to collect taxes on the border, rather than through VAT, because it was much easier this way, even though the result is to pass the tax burden on to the producer instead of the consumer.

Border tariffs account for the majority of Kosovo's tax revenue, which makes up the core of the budget used to pay for doctors, teachers and other public services.

Revenue from internally-collected taxes is only one-third as big, mainly because the local authorities have neither imposed nor inspected VAT charges on products sold in Kosovo.

The failure of Kosovo's private entrepreneurs is not only down to taxes. Products have fallen flat owing to poor marketing and perceived low quality.

Rexhep Zeka, owner of the XL café bar in central Pristina, offers more than five kinds of beer at his counter but they are all imports, except Birra e Pejes, a local brand from Peja.

He used to stock HUGOS when it first came out a few years ago but it failed to catch on. "I would have kept it because it's local and I want to support it," Zeka said. "But it just didn't sell so we had to remove it".

Whether this bias against local products is down to quality - or just fashion - is hard to fathom. British, Norwegian and Swedish KFOR troops based in Kosovo serve HUGOS in their camp bars and say it is like other western European brands.

"HUGOS is very similar to the beers we consume in Sweden," said Captain Jesper Liedholm, public information officer of Swedish KFOR.

In other words, lack of marketing funds and strategy could also be among factors strangling the efforts of local businesses.

Isuf Kqiku, manager of the Hotel Kristal, in Gjilan, says tradition plays a key role in customers' choice, which is why Birra e Pejes, on the market for more than 30 years, maintains a leading position.

"Drinking beer is like smoking," Kqiku said. "If you get used to the taste of one it is hard to switch to another. Even if you are offered a new worldwide brand, you still prefer the beer you are used to."

Building up customer loyalty based on "tradition" can take years, however, and in the meantime producers have to cover production costs. Newer brewers, such as Lenjani, are just not succeeding in this respect.

High production costs have emptied the HUGOS brewery's cash reserves and left no money to market their product.

The future looks bleak. "We know we can't beat Birra e Pejes," Lenjani said, "but the fact that the HUGOS succeeded with foreign soldiers means we deserve better conditions to appeal to a broader market."

Arben Salihu and Muhamet Hajrullahu are attending the IWPR Primary Journalism course, supported by the Organization for Security and Cooperation in Europe, OSCE.

Location: Macedonia
Serbia
Kosovo

Focus: Balkans: Regional Reporting & Sustainable
Training

Source URL: <https://iwpr.net/global-voices/trouble-brewing-kosovo-entrepreneurs>