

# The Kosovar wine cluster: A booster for regional development?

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**Abstract:** Kosovo is an economy in transition with a high unemployment, a young population and structural problems. Clusters could be considered as an appropriate approach to develop the region. This paper deals with the economic prospects of the Kosovar wine cluster, its current opportunities and the introduction of new approaches. The analysis was based on the Porter's innovation theory and the diamond model. The Kosovar wine sector could be a promising example for the future cluster development. Wine has a long history in Kosovo although wine consumption is not widespread. This paper presents the main problems and opportunities within this sector, describing its structural changes and current developments. The study aims to introduce its readers to the potential that the cluster development can offer as well as to understand the local circumstances. Its main focus is therefore to introduce the advantages and opportunities that clusters could bring to this sector, considering the three pillars of sustainable development, namely economic growth, environmental and social development, and achieving competitiveness.

**Key words:** agribusiness sector, business clusters, competitiveness, diamond model, Kosovo, Porter's innovation theory, Serbia, sustainable development, wine.

This research examines sustainable development in Kosovo by focusing on the interaction between the economic, social and environmental issues in the agricultural sector. Kosovo's economy, like most in the Balkans, is an economy in transition wherein the agricultural sector plays an important role. One of the promising industries in the agricultural sector is the wine industry. Kosovo has a long history of cultivating grapes and producing wines. Nevertheless, the current production is still based on the former state-owned enterprises and the old equipment, although a few new, small start-ups have recently begun activity using a new technology. Through the introduction of new concepts and investments, the wine industry shows promise in becoming a key factor in the agricultural and economic growth. The process of privatisation holds potential for an economic growth and a better future, this, however, necessitating both hard work and new approaches. Privatisation does not mean an immediate growth; this sector is a rare example of one in which exports are higher than imports. Climate conditions, a cheap working force and – as stated – the region's history in

winemaking all makes this sector attractive to foreign agencies and investors. The creation of clusters is not a government function, neither is it a tailor-made solution. In fact, clustering involves many roles. Each participant has certain duties, but the whole process needs coordination. The monitoring and supervision of the whole process, the identification of the needs and a permanent exchange between the participants are all organised as a cluster. In the end, a win-win situation is created, even if the competition is raised to a higher level. Competition and the functioning of free markets guarantee the success of the sector and as a result, regional development. Moreover, one cluster helps to create another; starting one process means that many others may follow. The focus of this paper is to show the advantages to be gained through the development of clusters as well as the opportunities for sustainable development in this sector that they can bring about.

This paper identifies the areas in which agencies can assist the wine industry in Kosovo and the highly specific conditions under which that assistance should be provided. The paper evaluates the benefit of the

Kosovar Cluster, providing assistance to the wineries and wine producing vineyards in Kosovo.

The purpose of this paper is helping to determine the benefit of the Kosovar Cluster providing assistance to the wineries and wine producing vineyards in Kosovo, and to recommend whether agencies should modify the Kosovar cluster to include such assistance. This paper lay out the highly specific conditions in which regional agencies can assist the wine industry in Kosovo.

The field of clusters has been thoroughly researched by numerous scholars (Marshall 1920; Porter 1990; Koeppe 2002; Swann et al. 2002; Wilson and Popp 2003; Kesidou 2007; Palcic 2007) over the 20<sup>th</sup> century. Regardless of the excellent academic coverage and significant research effort already invested in the subject of clusters, the topic remains in the centre of attention as the globalisation and the increased competition force businesses to seek new organisational patterns and competitive advantages.

On the other hand, some authors (Swann et al. 2002) argue that the geographical proximity is not vital anymore for the successful creation of clusters, as modern world technological developments provide the means of communication which enable the formation of virtual clusters which do not originate in the same district/area but still share other common features of a cluster. Pavitt (1987) also noticed how certain economic analyses have assumed that the technological knowledge could be entirely codified and transferred over great distances in the form of procedures, re-copies, blueprints and patents. Pavitt (1987) argues that, in reality, this process is not an easy one as most of the present technology is complex, target specific and cumulative in development. This kind of tacit knowledge is extremely hard or even impossible to transfer by wire, but rather it needs the geographic proximity and personal contact in order to maximise the knowledge transfer.

### **How are clusters critical to competition?**

One of the most famous scholars in the field, Porter (1998a), explains how clusters affect competition in three broad ways:

- by increasing the productivity of companies based in the area,
- by driving the direction and pace of innovation and thus the productivity growth, and
- by stimulating the formation of new businesses that supports innovation and expands the cluster.

Palcic (2007) states that developed clusters usually consist of more than one industry, but rather

a number of the related industries. Because of the importance of externalities and spillovers within the cluster, the breadth and depth of the cluster is more significant for competitive advantage than the size of the individual firms or industries within the cluster. Being a part of the cluster gives the firms access to specialised information as the extensive market, technical and competitive information accumulates within the cluster (Porter 1998a). A close proximity gives possibility for tie supply and technological linkages to develop, as repeated contacts in the cluster community would foster those ties and facilitate the information flow. A special case of the information benefit of clusters is the availability of information about the current buyer's needs.

Palcic (2007) outlines that it is not surprising that many new firms are formed within a cluster rather than in the isolated locations. Clusters offer the much needed support for the successful creation of firms as new businesses are more easily formed where a better information on innovation and market opportunities are present. Specialists working in clusters have a better chance of identifying the gaps and possible opportunities for satisfying the growing needs within cluster, and stand a better chance of starting up a company as the entry barriers are lower than elsewhere. All much needed imports are already available on the location and are ready to be employed in the new company. This is particularly important for the knowledge-based industries, but is not limited to those.

### **Less developed countries**

As supported in the previous work by Porter and other authors, Maskell (2007) reports that enhancement in productivity and knowledge transfer are the two most important benefits for local geographical clusters.

In favour of the theory that this is one of the curtail benefits that a company can gain from the cluster, there go many researches by distinguished scholars (Malmberg and Maskell 2001). For example, Kesidou (2007) examines the knowledge spillovers in Uruguay and how the local software companies in the same cluster share ideas, organisational improvements and human resource transfers in order to upgrade their competitiveness. On the other hand, Bell and Albu (1999) stress that the cluster benefits focus should also be on the systems of knowledge accumulation and not just on the production systems.

There is a disproportion in the number of studies that cover clusters in the developed and less devel-

oped countries. Therefore, a research that covers clusters in less-developed countries is very valuable and relevant to this paper. One of the scholars, McCormick (1998), has undertaken a research on what kind of impact enterprise clusters in Africa had on industrialisation of the region, answering if clusters from less-developed countries have the characteristics of successful clusters elsewhere, how enterprises in clusters are addressing the changes and opportunities in their business environment and how they are affecting a wider industrialisation in their countries. The paper of McCormick (1998) examines eight clusters in Kenya, Ghana and South Africa. The research revealed that all of the clusters have affected the industrialisation process in their countries, in the significance and volume of the level of development of the clusters. Another major point drawn out by the research is that almost all of the clusters were composed of microenterprises selling on the localised markets, while only two clusters had an internal structure and a wider market access as is typical for the successful clusters in the developed countries. This information could be significant in developing a better understanding of the Kosovar clusters, which companies form them, how they are formed and what kind of influence they are having on the industrialisation in Kosovo.

### **Economic context**

One of the key features of a business environment for every company is the economic context within which it is operating. The same economic context is critical for the performance of clusters as well. Further on, the industrial organisation literature (Scherer 1980) and the institutional economics literature (Williamson 1985; North 1990; Langlois and Robertson 1995) outline three elements of the economic context: the nature and the size of the product market, the available economies of scale and scope, and the institutions governing exchange relations.

Generally, clusters have different business strategies and market approach depending on the nature of the products that they are creating or producing. While the demand for certain lower quality products would diminish in less-developed countries as they are developing, the demand for other groups of products would rise enabling the process of industrialisation and technology transfer in the region. On the other hand, the market size is also defining the size and capacity of the companies as they are producing enough to cover the market demand. The

modern literature offers two strategies for the cluster market development: firms can expand their activities geographically and they can try to capitalise on the smallness of the market they are operating within.

Usually, small companies composing clusters find broadening their domestic market more favourable as they lack the finances and expertise for exporting. On the other hand, joining into clusters gives them the necessary bargaining power, additional capacities and economies of scale, so they could be competitive on the overseas markets. The size of the company output is definitely related to the market size, as companies which have access to larger markets have the potential to produce more and to satisfy a higher number of customers and take advantage of the economies of scale. Apart from the market size, the available economies of scale could be investing into machinery, new technologies and specialisation of labour.

In most cases, the size of companies in developed and less developed countries is not proportional and the clusters from less-developed countries are operating at an uneconomically small scale (Pryor 1972). Clusters can reach a higher efficiency if the specialisation of labour occurs on a company-to-company basis, rather than within a single enterprise. In addition, the economies of scope play a significant role in the overall performance of clusters in less-developed countries, as the companies can expand their product portfolio and benefit from the concurrent scale economies and finalise different products at roughly the same costs (Storper and Walker 1989). Similar findings are expected to be discovered among the Kosovar companies. Finally, it is very important for companies operating in less-developed countries to have full trust in institutions governing exchange relations and to secure that their contracts, which could and if needed should be enforced. Zucker (1986) outlines that trust between the parties is one of the default mechanisms of trade and prosperity. Further, he states that the institutionally based trust is crucial for the modern world where societies become larger, more heterogeneous and more geographically dispersed. However, for the institutionally based trust to exist there has to be a third party, prepared and able to enforce contracts and to prevent the opportunistic behaviour (Zucker 1986; North 1990). Contract enforcement is a very important issue in less-developed countries, as in many less-developed countries companies do not have faith in the legal system to protect them if their suppliers or customers do not fulfil the obligations from the contracts or compensate them for the breach of contract.

## The role of government

In less-developed countries, attention has focused on the role of the local and regional government in providing or facilitating access to credit, training and various real services (Brusco 1992). Real service centres tend to be specialised in helping clusters overcome the obstacles, such as testing facilities, the design and quality standards, legal stipulations, import and export regulations and the technology transfer. Local and regional governments also partly support the formation of self-help institutions such as the credit consortia and marketing cooperatives (Best 1990; Schmitz 1992; Pyke 1993). These local and regional government initiatives are known to have positive effects on the business (Schmitz 1995), and the authors outline two main conclusions:

- state intervention itself cannot create industrial districts, but such assistance can be critical to enhance the competitiveness of the local industry,
- public institutions or schemes for the support of industry are more relevant and sustainable when there is an active involvement in the policy, financing and management functions, by the parties from whom they are set up.

This requires the institutionalisation of collective bodies, such as sectoral associations in the cluster and the formation of the organic links at the local level between the industry, the government and the intermediate institutions within civil society. A number of policy initiatives and state institutions are supposed to assist small firms (especially the ones located in sectoral clusters) with various incentives and real services. Examples of such government initiatives can be found in many less-developed countries and some of them include the regional Small Business Advisory Centres in the Philippines (Tan 1991); Malaysian Subcontractor Exchange Programme (Jamil and Said 1991); the Korean Small and Medium Sized Promotion Corporation (Lee 1991); various sector specific technical centres in Pakistan (Nadvi 1992) and the regional Small Industries Service Institutes in India (Kashyap 1988; Holmström 1993).

It would be very useful, for the understanding of the Kosovar business environment, to investigate the role of the Kosovar government and effect it has on clusters in Kosovo.

Consequently, political parties and the government can decide to support a specific industry cluster or clusters in general and to allow them better policies, subsidies, promotional help, and all stated above. As this is a first study of this kind in the region, it was not possible to refer to valid Kosovar examples and situations from the past.

## Innovation policy concepts

The four long-term focused innovation policy concepts consist of the Regional Innovation System, the Cluster Initiatives, the Triple Helix and the Urban Design. The Regional Innovation System is the institutional infrastructure supporting innovation within the production structure of a region – innovation produced through regional networks of innovators, local clusters and the cross-fertilising effects of research institutions (Asheim and Gertler 2005). The geographical dimension is added to the economists' theory of innovation systems. The innovation process is about matching the two-sided activity, the technical-knowledge possibilities in constructing the products or services, and the recognition of market potential for new products or services. The Triple-Helix, as a non-linear innovation process, is used to gain an understanding of the dynamic interaction between universities, corporations and governments, and their contribution to the regional/national knowledge-based production development. Clusters, on the other hand, are defined as groups of firms that swarm together, learning from each other and drawing on the common assets in order to create urban or regional economies that can continue to grow through the continuous innovation.

The industrial competitiveness basis has shifted gradually in the globalisation process from the static price competition to one of the dynamic improvement, where knowledge and innovation management bring competitive advantages and sustainable benefit to the firms. The emerging knowledge-based economy is characterised through innovation as the reorganisation of the existing production process, the production of new or improved, redesigned goods or services with provident customer benefits. In many cases, firms in the related or the same industries tend to be located in the same place for substantial reasons, trying to profit from the location pattern and advantages linked to this concentration. Many researchers of economic geography as well as of economics and business studies assume that localised clusters are efficient and increase profits for the participants of the cluster. Of course, a cluster is not just a group of members with a different degree of membership. In fact, a cluster is more likely to be a group of independent and informally linked companies and institutions in a robust organisational form that offers advantages in efficiency, effectiveness and flexibility (Porter 1998a).

Actually, Porter defines cluster as a group of companies and institutions concentrated in a specific geographic region and linked by interdependencies in providing the same or related products or services (Porter 1990, 1998b). In addition, Porter (1990) goes

on to explain that the competitive industries in a nation or region will not be evenly distributed across the economy. A nation's successful industries are usually linked through the vertical (buyer/supplier) or horizontal (common customers, technology, channels, etc.) relationships (Porter 1990). The reasons for clustering grow directly out of the determinants of the national advantage and are a manifestation of their systemic character. One competitive industry helps to create another in a mutually reinforcing process (Porter 1990).

Clusters are thus important because they allow companies to be more innovative and productive in interconnected groups instead of acting in isolation. They are important because they reduce the barriers for new business start-ups, and provide opportunities for the entry into relative clusters and to other locations. With the activity of clusters and their geographic terms in mind, Ketels (2004) continues that by utilising the proximity among clusters, cluster participants benefit from the externalities of the positive specific locations. These are the access to specialised human resources, suppliers, knowledge spillovers, high competition, which result in a better performance and again in more innovation, and especially in closer interactions with customer and other network effects (Ketels 2003). Most clusters arise because they increase the productivity with which the companies can compete. As it becomes the focal point of new policy initiatives in the policies of the European Union today, the potential in clusters is seen as critical for reaching the ambitious goal of competitiveness, in order to make Europe the most competitive and dynamic knowledge-based economy in the world, as set out in the Lisbon Agenda by the European Council in 2000. Being part of a cluster is an important competitive strength for business.

According to the Commission communication (2006), clusters help to close the gap between business, research and resources, thereby bringing knowledge to the market faster (COM 2006). Successful clusters promote an intense competition along with cooperation. They enhance productivity, attract investment, promote research, strengthen the industrial base, develop specific products or services and become a focus for developing skills (COM 2006).

### **Porter's "diamond" model**

The diamond model promoted by Porter (1990) is helpful in understanding the position of geographic regions. The determinants of national advantage, in reality, can affect and "reinforce each other and pro-

liferate over time in fostering competitive advantage in an industry" (Porter 1990). Clusters play an important role in this model, as these agglomerations can lead to sustainable development of a nation/region. A region is able to build up a comparative advantage when the four two-way arrows interlinked with the determinants in the cluster are considered to interact positively. The government's role at the local, state and national level can influence competitive advantages in an industry if its policy influences one or more of four determinants of the diamond, these being factor conditions, demand conditions, related and supporting industries and firm strategy, strategy and structure (Porter 1990). Firm strategy and rivalry guarantee a context in which the investments and the sustained upgrading (such as the intellectual property protection) are encouraged. Direct competition enhances firms as the productivity increases. Furthermore, Porter (2003) gives a distinct role to the cluster development in strengthening the regional rejuvenation and the economic development process, emphasising the importance of the open and vigorous competition among the locally based rivalry. On the other hand, demand conditions improve competitiveness because the demand intensive conditions put a pressure on the firms to come up with constant improvements, innovations and a high-quality service or products. Furthermore, an unusual local demand in specialised segments could show global trends, and first-mover advantages are possible in larger markets. Lead-users could show the problems of the future or demand products which are not yet available but which hold potential for the future. Additionally, the exchange of information, ideas and innovations could be facilitated by a close connection in one region to the related and supporting industries. Finally, easily accessible factor (input) conditions allow the development of comparative advantages when the specialised natural, human and capital resources are available in the quality needed in this geographic region. The physical, administrative, information and scientific infrastructure help to create the key factors for comparative advantages. Here, the government has to play the role of the catalyst and pushing instance, encouraging the firms towards a higher performance and investments. The government can stimulate a demand for advanced products and build up the necessary trade conditions and regulations.

### **Cluster initiatives**

The term "cluster initiative" is used to specifically denote a cluster development project or clus-

ter organisation (Ketels et al. 2006). Cluster-based competitiveness projects, or cluster initiatives (CI) can be considered as organised efforts to achieve economic growth with a competitive environment within a region using innovative methods, and with the help of the government and educational institutes. Usually initiated by the government, industry leaders and academic researchers, cluster initiatives are not only commonplace in advanced economies but also in the economies in transition. The main goal is the coordination and implementation of strategies to achieve an upgrade in the cluster competitiveness (Sölvell et al. 2003).

One of the main models is the "Cluster Initiative Performance Model" (CIPM). This model recognises five factors, namely the social, political and economic setting (three drivers) within the region, the objectives of the initiative, and the processes of the cluster development. The performance of a cluster depends on these three drivers plus the other two factors. A cluster from one region is not, however, transferable to any other.

## Background

Grape growing and vineries have existed in Kosovo for over 2000 years, owing to a climate that is incredibly well-suited to vineyards and the cultivation of wine grapes; in fact, there are over 200 sunny days a year to help ripening of the grapes, on par with some areas of California. While the local small-scale wine-production has been rampant over the centuries, the wine industry in Kosovo only became large-scale in the 1970s through the socialist diktat. Designed to produce cheap wines primarily for the German market, and thus to earn the country hard currency, winemaking was predicated with a mass production system that valued quantity over quality.

The four state-owned wineries, based in the West and South of the Kosovo region of Yugoslavia, were not so much "wineries" as "wine factories": the capacity of the Rahovec facility alone was around 50 million litres (though it never ran at its full capacity), nearly all of which was shipped abroad. Wine was exported in bulk by train to Germany for a price of less than 1 Euro per litre, peaking in 1989 with the export of 40 million litres. After the dissolution of Yugoslavia, Serbian policies towards the wine industry in Kosovo took on a nationalist tone, since the Serbian managers and employees of the four State Owned Enterprises (SOEs) were pushed out in favour of Albanian overseers. As a result of this loss of knowledge, and coupled with other external influences such as the disruption of

commerce during the Bosnian war, the wine industry in Kosovo stagnated during the 1990s precisely as the world wine market began to bloom and become more sophisticated. The production in the wine factories in Rahovec, Suhareka, Krusha e Vogel, and Gjakova, was still oriented towards bulk wines and lesser-known varieties (but without the benefit of large export markets), while the rest of the world was experimenting with new techniques in viticulture and winemaking, and new areas (predominantly Australia, New Zealand, Chile, and South Africa) were beginning to produce world-class wines.

The great disparity between the world tastes and the socialist mentality in Serbia led to a precipitous decline in both the production of wine and the demand for Kosovar and Serbian wine in the international marketplace. The conflict in 1999 and the subsequent removal of the Serbian influence in Pristina did not arrest the decline of the wine industry, and given the slow process of privatisation and the indefinite status of Kosovo on the international stage, many acres of vineyards were abandoned or oriented towards table grapes, while the winery equipment was left to rust. The impact was disastrous in regions such as Rahovec, where, according to the local estimates, 40% of the people living in the region had been engaged in the wine industry. Weather difficulties have also played a part in the downturn in the wine industry, as the harvest was damaged due to a spring frost in 2000 and the climate once again took a turn for the worse in 2002 with a hail occurring during the growing season. The privatisation of some of the SOEs in 2006 has rekindled the hope that Kosovo can capitalise on its natural advantages and turn its wine industry once more into a reliable source of income. What remains to be seen is whether the industry will ever be able to return to its glory days after having been isolated and fragmented to such an extent.

## The current economic situation and facts about the Kosovo region

From its perch as a significant earner of hard currency for Belgrade as a part of Yugoslavia, the Kosovar wine industry has experienced a long downward slide from its peak of production in 1989. Currently, comprising about 3% of all employment within Kosovo (based on the Ministry of Finance and Economy labour force statistics), the employment in the industry has remained steady at about 5000 people throughout Kosovo since the conflict (the Ministry of Agriculture published the number of workers in

wineries and vineyards as 5380 in 2003–2004), but the production and tons of grapes grown have declined throughout the 1990s. This trend in Kosovo coincides with the world industry conditions, as a glut on the world wine market has led to a reduced production and thinner vineyards, with producers attempting to sacrifice quantity for quality. However, in Kosovo, the reduction in vineyards and production has not come about because of a conscious effort to reorient to the wine industry and streamline it in the name of competitiveness, but rather because of the degradation of the facilities built in the 1970s and the destruction of vineyards planted around the same time. In short, the wineries are doing less with the same amount of people, while the quality has suffered (at least in the former SOEs). A large reason for this decline stems from the Serbian policies during the 1990s, including the removal of much of the local knowledge of the wineries, but it is also a consequence of the socialist wine production that Kosovo was engaged in until the conflict. The market was dominated by large SOEs and produced in bulk, with private wineries only beginning to start production on a small scale during the 1990s. Finally, the protracted privatisation process has only begun to move the large wine factories out of the sand, meaning that the entire wine industry is now in a state of flux, a state that will only increase the longer that final status is unresolved. With more than two million inhabitants, the region of Kosovo is spread along 10 887 km<sup>2</sup> (or 1.1 million ha), of which 53% is arable agricultural land (around 570 000 ha), 41% forest area, and 6% appointed as other area. The majority (88%) of agricultural land is privately owned, while the other 12% is owned by the public and socially owned enterprises. Agriculture accounts for 25–27% of the GDP (gross domestic product – monthly macroeconomics, 2003). Based on statistical data, the Kosovars use around 55% of the family budget for food provision, while the EU average is around 22%. Based on the climatic conditions within Kosovo, the territory is divided into two agro-ecological areas:

- The Dukagjini Plain, which covers around 43% of the total area, with continental climate conditions under the impact of the Mediterranean, with an annual precipitation at 770 mm and 196–225 days without frost (the South-Western part with 234 132 ha of agricultural land out of the total of 430 885 ha).
- The Kosovar Plain, the North-Eastern side, which covers 57% of the total territory, a more continental climate, with an annual precipitation at 600 mm and 170–200 days without frost (with around 295 000 ha agricultural land out of the total of 658 757 ha).

The territory is currently under the United Nation's Interim Administration Mission since June 1999. The European Union takes the leading role in development initiatives by supporting the economy through multilateral and bilateral donor agencies and direct investments. The economy of Kosovo is massively depending on the foreign aid and transfer payments of diaspora. The consequences of 50 years of socialism and the war at the end of the 1990s led to an economy with deep structural problems. The lack of the access to international financing and investments due to its uncertain status is the main issue for the economy. Kosovo's GDP per capita at just over 1100 Euro is the lowest in the South-East Europe and its growth is weak. Unemployment is estimated at around 50%, but considering the fact that Kosovo has the youngest society in Europe, the figure of 60% youth unemployment highlights the economic disaster even more. However, most alarming is the trade balance; there is very little production in Kosovo, meaning that exports cover only 6% of imports. Most businesses are relatively small-scale trade and tiny family businesses. Although Kosovo could be self-sufficient in terms of food, its agricultural resources are quite under-utilised. In short, Kosovo's economy currently depends on the foreign aid, but its underdevelopment allows room for new approaches and should be very attractive for new investments. Another important factor is the privatisation process, which started years ago. The Kosovo Trust Agency (KTA), established in June 2002, is responsible for the privatisation of SOEs, and started in July 2003 with the sale of finalised privatisation tenders. Up until November 2005, nearly 500 SOEs have been identified, these operating in a variety of sectors such as the metal processing, the agro-industry, agriculture, forestry, wineries and vineyards, brewing, building materials, construction, textiles, mining, hotels, plastics, paper, tobacco, and retail and wholesale trade. Kosovo's economy is, like most economies in the Balkans, an economy in transition in which the agricultural sector plays an important role. One of the promising industries in the agricultural sector is the wine industry. Kosovo has a long history in cultivating grapes and producing wines. Nevertheless, the current production is still based on the former state-owned enterprises and old equipment, although new, small start-ups have begun activity with the new technology.

## MATERIALS AND METHODS

In order to analyse the current situation, the future potential and the key factors for the adoption of suc-

successful practices, the methodology of comparison was chosen. A case study of a Californian wine cluster was therefore used. The analysis was based on the Porter's innovation theory and the diamond model. With the help of this example of best practice, a case study of a Kosovar wine cluster was examined, considering its potential strengths and possible weaknesses. The interviews for the research study were done with all of the important stakeholders, from whom primary data were obtained for the analysis and discussion. Due to the study limitations, a lack of the qualified staff and financial resources, the cooperation with the commerce chamber was not possible, this being a cooperation institution benefiting the Kosovo's winery development.

## RESULTS AND DISCUSSION

Kosovo's Business Associations do not provide any help to clusters and their members at present, except for organising several domestic fairs. The general education (deductive) has provided enough staff, but not an especially qualified staff (inductive) with labs and other oenological experts.

### Structural change in the wine sector

In the past, Kosovo's wine industry was export-orientated, and the former state-owned enterprises were concentrated on meeting the given quantities which they had to produce. The wine makers in Kosovo therefore used as many grapes as possible to meet the quotas, and the production was not quality-driven. As a result, the market demand was not considered and market studies about domestic tastes are still missing. There are around 32 different varieties of grapes grown in Kosovo. Many of these are naturally occurring in Kosovo, meaning that it is easy to grow them in mass quantities. However, most comparable wine regions tend to use only a few grapes and through specialisation, to attain a high quality production and to position their wines in the local and world markets. Estimates suggest that in the past years, 1400 full-time jobs and approximately 2000 hectares of vineyards have been lost. Most of the jobs were in the community-owned sector, which is a common procedure during the privatisation processes in the economies of transition. The sector simply had too many employees and over-capacities which had to be reduced gradually.

At present, the wine sector employs about 1300 people. Wine production is still dominated by the former

state-owned enterprises but a considerable number of small-scale producers are active, and the amount of production in the private sector is rising constantly. Hence, in 2004, only 37% of the plantations belonged to the community-owned wineries whereas the proportion in 1990 was nearly 60%. Today, the privatisation process is on-going and there are three main wine producers in Kosovo: "Ereniku" from Gjakova, "Kosovo Vera" from Prizren and "Suhareka" (ex-SOE-s which are undergoing a wave of privatisation). The ex-SOE and now a New-Cos "Rahoveci", which was privatised by a special Spin-off in 2006, is a specialised company and possesses the Kosovo's biggest winery involved in the production of grapes, wine and spirits (Rakia and Cognac).

A UN initiative is trying to support the development of small producers through an UNDP project with financial support from the Lazio Region. By creating an enabling environment for private vineyards, they want to strengthen their marketing activities, and to encourage an increased cooperation and economies of scale. Only if these small private vineyards use the modern knowledge and are open for business opportunities can the sector create jobs and make profits. The existing private vineyards are actually in a better state than the larger ones. They have newer equipment and facilities, and much more interest in having adequate capacities and in directing the output to the needs of the markets. However, the lack of access to new technologies remains an obstacle for all. Even with a better functioning private sector, the Kosovo's wine sector lags far behind the international best practice. It must also be mentioned that all wines sold in Kosovo are single varietal wines like the Merlot. Blends of different varietals to achieve a specific taste are not yet used, but there could in future be a good use of the wide variety of grapes which are grown in Kosovo. The privatisation process of the large vineyards should not only include the structural change. It is a process of developing small and innovative wineries and using the capacities of the former state-owned wineries for a massive production.

The cooperation between the ministry and the commercial wine producers is underway, and apart from the law adopted in 2005 and the mutual talks approaching the final privatisation, no significant support in term of "Stimulations", "Fractions" and "Primes" have come about. The Ministry of Agriculture and Rural Development licenses the wine producers. Some projects exist, through the ministry, for the association of wine producers, as they are engaged in the production, marketing and trading individually – which is very difficult at this stage. This liberalisation, in a country and an economy in transition,



represents an extra difficulty for the producers. The ongoing cooperation with the Agricultural Institute in Peja, which functions as a branch of the ministry, also exists for the purposes of wine analyses and control.

The German "GIZ" Organisation, which operates in Kosovo, currently, has three projects (3 + 3 more years) for research and development (R&D) and trainings for wine taster experts. The GIZ has also organised visits to European wine fairs and pledged to bring an oenologist to assist in the production of quality wine. The European Agency has undertaken an initiative to bring an oenologist to the two private companies "Dea" (Gjakova) and "Eko" (Rahovec), while the Swiss organisation "Swiss Contact" brought two oenologists to Kosovo two years ago to taste wine.

The machinery and equipment are all imported. The private producers are using new technology, while the public-owned companies have to revive their old technology. The wine bottling, caps, corks and labels have the same cost as the wine itself, and all together constitute 50% of the selling price; 30% of the price is for the VAT, sales and other taxes, and the remaining 20% goes towards payments to workers, electricity, water and other expenses. With the final status of the country and with more competitive and convenient credits with lower interests, the currently difficult situation could be changed in terms of crediting. The lack of petty cash in the market means that interest rates are very high ( $1.1\% \text{ a month} \times 12 \text{ months} = 13.2\% \text{ a year}$ ) and there are very short deadlines for returning the credits. The lack of proper marketing due to the lack of money is therefore harming the Kosovar wine. Without a properly organised and specialised marketing, the 100% organic wine without other additives will prolong the status quo situation without satisfying sales and its future in the wine market.

In terms of Kosovo's exports before 1999, wine was in second place, just behind minerals. Wine production was considered to be a symbol of the Western civilisation, wine being a sophisticated drink with other important health and nutrition values (prevention and treatment of diseases), as well as offering economic benefits for the regions involved in production (Dodd and Morse 1994; Corder et al. 2006; de Lange 2007; Lindberg et al. 2008). At first, there should be a continuation in the upgrading regionalisation, as well as the vineyard property register and databases. The Kosovo's wine region, Dukagjini, has two sub-regions, Northern and Southern, which are divided into seven viticulture districts with good natural conditions, capital and human capacities.

Therefore, in this region the prioritisation of the following issues has been proposed:

- Support in the decentralisation of university education and the dislocation to this region, the Gjakova town specifically.
- Further education of the staff through the methods of organisations, labs and technology in order to create a cluster, to fill up and "triple-helix" the vineyards and wineries close to each other, regionalisation.

The other aim is:

- Creation of the Viticulture and Wine Associations with different participants, as there is a large number of individual producers (120–130 of house producers and 10–12 commercial producers).

Orientation on quality and sparkling wines:

- The revival of the mythological Illyrian productions like the Menada (red) and Silena (white), as well the Rakia, cognac, cider and the grape processed juice.
- The cultivation of the Prokupac black grape and the Smederevo white grape, as the quality grapes for both wine and table.

Concerning the wine quality and district where the grape is cultivated, the most appropriate districts are the non-Ecuadorian and non-polar. Therefore, the best districts are those in between the above-mentioned districts, which are about 300–400 m above the sea level. The increase of vineyards surfaces from 5000 ha to 10 000 ha. The use of modern technology is practised; ferments and specific enzymes for the production of different wine types are used, as well as the use of filters, aggregators and equipment for stabilisation of production. The product declaration – label should be clear to avoid bringing the client in delusion. There should be organised special trainings for wine producers and the restaurant staff for wine distinguishes. The wine has no specific type or kind. The wine has the following categories (*Vitis vinivera*):

- Based on colour (white, light or dark red).
- Based on quality (table wine, quality wine and high-quality exclusive wine).
- Based on the amount of unfermented sugar (dry, semi-sweet and sweet).
- Based on the amount of alcohol (strong, semi-strong etc.).

Therefore, the product declaration should have a label – the unified Kosovo protection sign, the producer's label and three kinds of information:

- Decorations and awards are placed on the nose of the bottle.
- Producer information, fillers, volume, and the geographic origin (or without geographic origin if

the wine bears the name of the region or viticulture district) are placed on the front of the bottle.

- Alternative information about, for example, the grape, district, region etc. are placed on the rear of the bottle.

A comparison with the Californian wine should be carried out. An average price of €2.5–3 would enable the Kosovar wine to penetrate the domestic and foreign markets. Kosovo, as the potential export country, would have been enough to satisfy the demand for the wine market.

There are opportunities for founding more sub-clusters in one wider domestic or regional cluster and/or any combination between them. In the case of Kosovo, this could be represented by an agricultural cluster in which the wine sector plays a predominant role as a sub-cluster. Referring to the 'basic elements in a wine cluster', it is perhaps more preferable to name the key functions and elements which currently play an essential role in Kosovo in terms of the possible future wine clusters, enabling a comparison with the Californian case.

The proposed core of the Kosovar "wine cluster" is the same as the Californian one, consisting of the vineyards (grape growers) and wineries (wine processing facilities). Approximately 4100 grape growers produced 33 043 tons of wine grapes in seven vineyard zones in Kosovo (year 2004) compared to California, where 4000 growers produced 2.9 million tons in 45 counties (1997). While in Kosovo, there are 12 formal wineries (of which 4 are the SOEs with the largest capacities) and some 120 informal (family) producers which produced 84 756 hl (hectolitres = 100 l) in 2004, in California there were 740 wineries (the 10 largest of which constitute 80% of the total production volume) in 1997, where the E&J Gallo alone (the largest winery in the world) shipped some 60 million cases (equal to 5 400 000 hl). In Kosovo: Two ministries have to be directly involved in the proposed Wine Cluster, namely the Ministry of Agriculture, Forest and Rural Development and the Ministry of Trade and Industry. The former is responsible for developing the internal conditions for the general agricultural cultivation. On a high level, the production and plant regulations are the basis for any production in this sector. Furthermore, with the "Wine and Vineyards Law", approved in 2005, this ministry can support the development of further wine clusters in the future through projects and agencies. Special working groups or task forces should be financed and introduced by them. In fact, the Ministry of Agriculture, Forest and Rural Development has installed the Department for Production and Plant Protection (DPPP).

Furthermore, several agencies are dedicated to supporting agricultural development, namely the Food and Veterinary Agency (in collaboration with the Public Health Institute), The Kosovo Agricultural Institute in Peja, and the Wine and Vineyard Institute, which is at present established through cooperation between the Ministry of Agriculture, Forest and Rural Development (MAFRD), the GIZ and the Rahoveci municipality. The formation of these agencies only represents the beginning. The question is whether they are able to provide a quality work. It is important that they use the common international approaches and equipment. The institutes should be linked to their European counterparts in order to enable a regular exchange about the trends and best practice. Staff education is a main factor here; if they are state-driven or ministry-driven staff, education is a very important point. On the one hand, working for the state-owned agencies means an easy access to the international further education, but on the other hand, Kosovar state institutes are not able to pay their staff adequately. The EU or the UN-driven institutes and agencies could solve this problem as they usually have more financial funds for this. Additionally, this would greatly facilitate the knowledge transfer.

The Ministry of Trade and Industry, as the second ministry involved, has the role of delivering an assisting trade environment. For Kosovo, this especially means erasing trade obstacles, allowing the trade to the other Balkan states bi-directionally with the same conditions. Exports are currently very low, as we have seen from the trade balance above: the potential goods designated for the export sector need subsidies. Custom rates for the technical production equipment (non-consumer goods), for example, should be avoided, and investments need to be promoted. An investor-friendly environment will definitely support the cluster development.

In actual fact, the Ministry of Trade and Industry has programs for the Private Sector, Industry, Trade, and Tourism Development. However, this program still needs to take on a more active form and to manifest clear results. According to Porter et al. (2006), maybe from here there can be initiated and developed the future 'tourism cluster' as it is in the California case, where eight million visitors came to the California wine country each year, spending roughly 300 million USD in restaurants, hotels and trading.

Furthermore, the Agencies Investment Promotion, Standardisation and Business Registration are currently under construction in Kosovo. The Business Registration leads to the legalisation of production and tracking data of the producers. Ultimately, this

will make the business environment more up-to-date and professional. All in all, the government has started to provide the necessary institutions, but these institutions need the right people in order to function as they should. Corruption and familiarisation are still somewhat characteristic of the Balkans.

These factors will not dominate the institutions, however, and a high working standard can be achieved soon to support the wine sector in Kosovo. R&D and Education in general are also very important for the development of possible clusters in Kosovo. Although the University of Pristina has an Agricultural Faculty with a Food Technology Department, this is one of the weakest points at the moment. Educated staff with new methods and technologies is missing due primarily to a lack of finances. However, young and motivated professionals are emerging from the Faculty and the younger generation is more open-minded and interested in modern approaches than the older experts. An existing scientific research department called the "Institute of Fruit culture, Viticulture and Wine" at the Faculty of Agriculture at the University of Pristina could be engaged in R&D. Again, looking at the California case, the Wine Institute founded in 1934 was a trade association of 48 California wineries, helping to re-invigorate the state's wine industry.

Furthermore, there are many other international organisations which are very active in supporting the growth of the wine industry in Kosovo, including the UNDP, the EAR, USAID-KCBS, the GIZ, the SOROS, and the SWISS Corporation. This is the main advantage for a cluster, the international knowledge and resources from these organisations becoming available locally, especially if well-prepared projects are defined. Some state-of-the-art investigations are already being conducted by the UNDP as well as an analysis being carried out by the USAID.

The USAID also helped to establish the Alliance of Kosovo's Agribusiness (AKA) and their on-going project Kosovar Cluster Business Support by supporting three clusters: fruit and vegetable, livestock and milk production, and construction materials. The German organisation GIZ had plans that involved the quality, marketing and registration of the copy and property rights, and the Swiss-Corporation already did a lot for the Kosovar agriculture by teaching the local farmers new methods and by providing technical equipment. For example, new technical equipment in this vineyard sector is desperately needed. The fertilisers, pesticides, herbicides and harvesting equipment that are currently in use are not very up-to-date, if used at all. This affects the quality of the wine and the environment. Additionally, the internal Kosovar associations, such as the alliance association AKA and

the Agricultural Business Unit (ABU) are supporting the sector with their activity focused on promoting the development of private agri-businesses and protecting their interests in order to develop the local economy, to increase incomes, to increase employment and to satisfy consumer demand. Furthermore, the Kosovar Exporters' Association (KEA) has exported goods several times across the border. Returning again to California, parallels could be drawn with the Wine Market Council, representing a California-based trade association.

Even if an irrigation system is widespread in this region, repairs are often necessary and a newer irrigation technology and other modern equipment have to be purchased. Which technology is used is perhaps the most important issue at the moment for the producers and members of the potential clusters. Another element of a cluster is the related processing industry. The processing industry and suppliers must build up a network with the aim of putting the final output of a bottled wine of high quality on the market.

There are very few producers who can afford to do the whole process, so even in Kosovo, suppliers are needed in order to build a good supply chain. Unfortunately, for the moment, whilst some small-capacity plastic and wooden barrels are produced in Kosovo, the production of large-capacity barrels and wine bottles is missing. Ideally, varying capacities should be available from bottle producers as requested. There is a large traditional beer producer located in the Dukagjini Region; their bottles supplier could potentially produce wine bottles and perhaps even barrels, which would support the idea of a cluster.

So far, all facilities such as the named bottles, caps and corks are imported. In the future, in a functioning cluster, other cluster participants could deliver this. Labelling is mostly done in Kosovo, but the quality could be improved. Sufficient printing facilities and design knowledge exist, but they have not been requested so far. In California, oak barrels are brought from Kentucky and Missouri, and Portugal controlled the world market for natural corks at around 80%, these being distributed by several California-based dealers, with suppliers delivering the other final steps in wine production (such as bottling and packaging, capsules, screw tops and labelling).

Finally, the financing of the technologies and knowledge is very important in order to start the whole process. Without reliable and competitive financial resources, all this will remain just a hypothetical scenario. According to the Economic Initiative for Kosovo (2011), Kosovo's financial sector was reconfigured over the last five years on completely new foundations. The Banking and Payments Authority

of Kosovo (BPK), established in November 1999, is an independent body which successfully regulates the banking and insurance sectors (ECIKS 2011). There are eight registered banks, ten Savings and Credit Associations, twelve micro-finance institutions, four other non-banking financial institutions, two pension schemes and eleven insurance companies (ECIKS 2011). This sector is quite well developed. Together with the possible foreign investments, large enterprises could proceed with production on a new level of quantity and quality, while small producers could gain good and competitive conditions from the micro-finance institutions. Coming back to California, a good financial sector supported the local firms with long-term credits with low interests, which proved very favourable for the firms as they needed the money for larger investments.

The discussion about creating a Kosovar Wine Cluster must refer to the Porter's renowned diamond and its four determinants.

### **Formation of a wine cluster**

The demand conditions for a Wine cluster have to be distinguished in terms of the local and foreign demand. The local demand is quite low in comparison to other European markets; the new leader in consumption is Luxembourg, with 55 l/capita, France previously having led with 75 l/capita until 1999. Compared with this, Kosovo has a very modest per capita wine consumption rate, estimated at 6.5 l per year. Wine exports are higher than imports because of the big buyer Racke GmbH in Germany, which buys the wine in bulk (over 150 000 hl or 47% of the Kosovo's total produced quantity up to 1992) and sells it in Germany as the "Amselfelder" for a price of about €3. This wine is labelled as a low- to medium-quality wine. The wine from the small producers is also sold as a cheap wine, but in the local market. Considering the average wages in Kosovo, cheap wines are what the market demands. Quite often, these low-quality wines are used with the Coca-Cola as a mixed drink. However, wine is likely to develop as a fashion drink for the newly developing middle and upper class societies. Therefore, the local premium wines could have potential buyers in the future. This would be quite a small market at the beginning but a market with a relatively little knowledge about wines, which would allow experimentation. For this reason, the opening of specialised restaurants could be proposed, primarily serving decent meats and cheeses, as an addition to the wine, tax-free, in order to gather awareness and information about the wine-drinking population and/

or in order to educate the population about how to drink wine. Some of the small producers, especially, could serve premium markets in Kosovo, and after some tests and first successes in the local markets, exports to other Balkan regions might be possible. These producers should try to establish contact with premium restaurants, especially in Pristina, which also serve many international guests.

However, the demand for premium Kosovar wines could also be raised by publishing reports in magazines, TV shows or new specialised publications. The development of tourism as an activity in this region, which is very rich culturally and in terms of natural beauties, could contribute especially to the development of wine clusters in general. Nevertheless, the main demand that has to be served in the next years will remain the demand for the low quality or cheap wine. As a first step, exports could be widened to other European countries. Getting in touch with other large European sellers at fairs or exhibitions can be supported by international organisations as well as by the Ministry of Agriculture. Supporting local producers to participate in important international agriculture and wine fairs will enable them access to other markets.

Especially other Balkan markets, such as Macedonia and Albania, perhaps would be interesting for the Kosovar producers. Their ability to export will determine whether this sector will expand or contract. This demand could be served by the large former SOEs, which are now undergoing the privatisation process. By utilising the huge capacities which they have, higher profits could be gained, which might in turn allow the financing of projects to produce sparkling and higher quality wine, the reproduction of the mythological Illyrians wines of Menada (red wine) and Silena (white wine), as well as the production of the grape juice and hard alcoholic drinks such as the Rakia and Cognac, or experimenting by mixing the grapes and developing completely new flavours. With export and participation in fairs, the knowledge transfer also becomes easier. In conclusion, the large producers should first concentrate on the quantity of cheap wine they produce, possibly experimenting with the production of high quality wines in the future. Small producers should contact restaurants and produce higher quality wines for the local Kosovar markets. Although most of them will have to maintain the production of cheaper wines designated for the local market, they can raise the quality even of these cheap wines permanently through the introduction of new technologies and the use of modern agricultural facilities. The public policy role is to create an environment in which firms have to be

innovative and dynamic, where the government's role must shift from the decision maker to the facilitator or broker among companies and between companies and universities.

In addition, the government must stimulate the strengths of the regional industry, the growth and social processes, and act as an appointer in the local/regional system of firms and the agglomeration of SMEs. Intervention must decrease substantially, and orientated influences have to be in creating advanced factors and upgrading demand conditions. Based on the decentralisation of education as stated in the "Spatial Plan of Kosovo 2005–2015+" and the request of the Gjakova Commune and some of the academics from the agriculture sector, parts of the departments for wine, vineyards, fruit and vegetables should be transferred from the agriculture faculty to the Dukagjini region. The realisation of this proposal will fulfil the "Triple Helix" and could help to develop a Kosovar Wine Cluster. An example for the role of the broker could be the intercession of fair participation opportunities in other countries as mentioned.

Furthermore, the government – either itself or through its agencies – could provide a subsidised organisation which would help the participants in a cluster, for example a handful of small producers, to purchase or to borrow the modern equipment. Not all the small producers just have the financial resources to purchase the modern equipment and wine producing facilities or even to gain the necessary knowledge to update their practice. A centrally organised point for the purchase or hire of the equipment and knowledge would enable these producers to have access to the opportunities that are normally too expensive. These agencies could also be institutes or R&D centres at the same time. Furthermore, although the Agriculture faculty of the University of Pristina has constructed a department, the "Institute of Fruit Culture, Viticulture and Wine", but the tools for the laboratory are still pending at the custom station because the financial resources are missing for the payment of the custom fee! The international organisations from the European institutes of food technology or agriculture could act as providers of knowledge and even equipment, but this department needs first to be trained and supplied with technology in order for the knowledge-transfer to function; the department will thus be able to offer its services to the producers and to train them. Government initiatives are crucial to start these projects, as they are the linkage to foreign agencies and contacts. Without foreign help, the knowledge transfer, that is so vital in order to be competitive in the future, is not possible. The department would

support many producers who would also be rivals and would be assured the access to the same resources. This rivalry, in terms of which producers are dealing best with their resources and the help of the department, would determine who does best in the market. The department could also help in creating more competition as more potential producers would have the access to resources.

Even though it is tough in a free market, such conditions could even control fair competition and the settlement of the producers in one area, which would support the idea of clustering in the future. At the same time, secondary school education is also relevant for the agriculture sector and its branches, for the staff training about the new forms of organisation and for training the labour forces to use new technologies. Other supporting industries would automatically settle next to these producers and near to the R&D institute/department. As mentioned, the most important beer producer in Kosovo is also located in the Dukagjini region. The beer producer needs similar facilities such as bottles, labels etc. A design corporation or a printing house could offer their services to more than one bottle industry. Another very important producer of liquid goods is the Devolli Company, also located in this area and actually one of the largest Kosovar companies. All of these producers could benefit from same supporting industries. Bins, batches and other containers are also needed and a specialised producer would have many customers in this region. They would all need a similar infrastructure, this being quite good; the civil and Cargo Airport of Pristina is situated less than 70 km away from each centre of this region. In addition, the Gjakova Airport in this region is expected to be used for the civil and cargo transports in the future. A rail connection to the vineyards regions (lacking only the locomotives and a few small repairs) also exists, as well as the road transport and the additional future train connections or better routes for freight vehicles, which would support the whole agricultural industry, not only the wine sector. These are only the main points of those actions which are needed, but starting the projects will automatically lead to new, more detailed necessities.

## CONCLUSIONS

The state of the wine industry in Kosovo is in disorder. Long isolated from the international best practices and plagued by the aged equipment and a lingering socialist mentality, the industry exhibits difficulties all the way along the value chain, from growing practices

and vineyard management to winery operations and marketing of the final products.

Coupled with the glut of wine in the international wine market and the inevitable cutting back of production that many long-established countries are undertaking, Kosovo will face a tough road to regaining its former status as an exporter to the Western Europe (mainly Germany) or even in meeting its domestic demand.

Despite these difficulties, there is certain cause for optimism regarding the future. Kosovo's climate remains an advantage for the production of wine grapes, and the region's long history of wine production may mean that it is ready to adapt to the new international trends. The privatisation process has at last begun to move the large state-owned wineries out of the door, with the Rahovec NBI facility nearing the completion of a successful sale. Moreover, the owners of smaller private wineries exhibit the entrepreneurial spirit necessary to succeed in the international marketplace, and for the most part, they have newer and better equipment than their newly privatised rivals. As the private wine industry takes over from the SOE model, market signals will move back down the value chain and signal to the vineyard operators and winegrowers which varieties will need to be planted, according to demand. All growers and producers in Kosovo are hampered, however, by a lack of the access to finance and the years of capital neglect, and their success will depend on overcoming this obstacle.

While many areas exist in which the agencies such as the USAID could offer assistance to the wine industry, the scale of the degradation of the physical assets and the current state of flux means that it is not the right time for the USAID to get involved on the production side. However, there is a scope for the Kosovar Cluster participation in business training, which could be offered to winery owners and grape producers in order to affect the greatest impact for a relatively small investment.

The limited resources of the Kosovar Cluster militate against any large-scale assistance to the industry, but a targeted help in the wine industry-specific business skills and broader skills such as marketing could be utilised to help the Kosovo producers through this uncertain time.

This paper aimed at showing the sense of a possible Kosovar wine cluster in Kosovo. Considering the fact that Kosovo is an economy in transition, including the political side and the change in the government, and structural changes in education, planning and all other sectors, much work has to be done and new approaches and worldwide best

practices need to be tried in Kosovo. Of course, an adaptation to the local circumstances and conditions needs to be included in the planning of the initiatives for a wine cluster or cluster in general. To achieve results, many other factors are important which are not directly related to agriculture. A strong physical and information infrastructure is an important requirement to establish and sustain a functioning regional economy. Political stability is another point. The development of a region or economy goes hand in hand with the political stability and adequate infrastructure. Given this fact, Kosovo's decision makers should concentrate on coordinating plans and attracting foreign investments and knowledge to achieve a business environment. The government is the first supporter in this because it has the most powerful influence in politics.

Creating clusters means teamwork, coordination and a permanent exchange of ideas and knowledge. Poor coordination among the local jurisdictions would be damaging to the efforts of improving the business environment. Strategically thinking organisations and consultants should accompany such projects by convincing the people of the positives of free markets and competition, by persuading the authorities to support the private sector, encouraging the producers to use new methods, increasing the motivation and introducing the change management. As local producers stated in interviews, there is a need for the qualified staff and the access to financial resources. Educating people in this business and micro-financing should start immediately but the support from external and possibly international organisations is necessary. The government could offer the financial support for education abroad. However, some projects such as the GIZ research and the development project are already in progress, which represents a beginning. This German organisation is also arranging European fair visits, and other foreign organisations are also involved, such as the Swiss one that brings oenologists to the region.

With respect to the Kosovo wine cluster, there is a need for consultancy to coordinate and supervise the process of cluster development, to discover which additional needs exist and to stimulate the interaction between local producers and the international support (Daci et al. 2002). Finally, the role of the consultancy should revolve around data collection, creating a data basis about the cluster, supporting the potential investors with data, representing the industry in fairs, playing the role of a representative that is informed about all participants externally and forming an internal knowledge transfer institution. In other words, this role involves networking and trust

building among the participating firms and a further attraction of firms, a common framework, the focus on promotion of innovation and new technologies and finally a balanced input of resources from the government and industry.

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