



OPPORTUNITIES AND OBSTACLES FOR NORTHERN KOSOVO BUSINESSES

2017

Abbreviations

B2B	Business-to-Business
LED	Local Economic Development
FDI	Foreign Direct Investment
K-Serb	Kosovo Serb
K-Albanian	Kosovo Albanian
ISPs	Internet Service Providers
ASM	Association of Serbian Municipalities
SME	Small and Medium size Enterprise
EU	European Union
KCC	Kosovo Chamber of Commerce
SCC	Serbian Chamber of Commerce
KTA	Kosovo Tax Administration

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1. Executive Summary

This paper was developed as part of the project “Enhancing cooperation between northern Kosovo Businesses and the Kosovo Chamber Of Commerce”, implemented by NGO AKTIV in cooperation with Kosovo Chamber of Commerce and funded by the United States Embassy in Prishtina. The project was composed of activities aiming at familiarizing northern Kosovo businesses with various requirements set by Kosovo legal framework, as well as tackling concrete existing obstacles for northern enterprises to enter Kosovo-wide market.

The conclusions of the activities implemented in the scope of project were analysed to evaluate the obstacles hampering the access of northern Kosovo businesses to Kosovo market in order to set out recommendations for the necessary steps to overcome them.

The paper analysed several different aspects which are directly related to the lack of business exchange between the north and the south of Kosovo and therefore are influencing economic growth of northern Kosovo private sector as such.

Challenges related to the integration of the four municipalities and consequently difficult administrative, institutional and legal circumstances, were hereby seen as key contributors to the low number of northern businesses operating in the southern Kosovo market. Additionally, another obstacle, which is not directly related to the difficult integration process but could be assessed as severely hampering the process of penetrating the market is the general lack of competitiveness on the part of northern Kosovo businesses, consisting of missing strategies in the fields like marketing or sales.

The total of seven meetings were organised with representatives of Kosovo central level institutions and other organisations/agencies recognized by the businesses themselves as relevant stakeholders for their individual growth and development. The following actors were included: Tax Administration of Kosovo, Food and Veterinary Agency, Ministry of agriculture, forestry and rural development, American Chamber of Commerce, Kosovo Standardization Agency, Kosovo Investment and Enterprise Support Agency and Kosovo Chamber of Commerce, as the main contributor.

, Micro and small entrepreneurs who attended these tailored meetings gave their personal and professional insight into the obstacles and needs of northern Kosovo entrepreneurs trying to integrate into the southern Kosovo Market.

Being the ones who are directly affected by numerous challenges and obstacles, the local entrepreneurs were given a chance to voice and address their concerns and needs to the representatives of the central level institutions. Following their conclusion, and through the analysis of the situation on the ground, a number of recommendations and outcomes emerged. These are outlined below with more details enclosed within the paper.

Recommendations and outcomes of the paper

- *Improving the channels of direct communication between businesses and central level institutions*
- *Ensuring locally available institutional support and technical advisory services to northern Kosovo business*
- *Advocating for easier access of local businesses to sources of finances necessary to maintain and expand their activities*



- *Improve legal protection of assets and business operations through strengthening the rule of law system in northern Kosovo*
- *Extend the cooperation between Kosovo Chamber of Commerce and northern Kosovo business.*
- *Support development of effective strategies to increase competitiveness of northern businesses in wider Kosovo market*
- *Foster positive interethnic cooperation between businesses*

The implementation of some or all of these key growth drivers will allow for LED and business exchange in the immediate and long-term period for north Kosovo and the wider Kosovo market.



2. Introduction

This paper was developed as part of the project “Enhancing cooperation between northern Kosovo Businesses and the Kosovo Chamber Of Commerce”, implemented by NGO AKTIV in cooperation with Kosovo Chamber of Commerce and funded by the United States Embassy in Prishtina. The project was composed of activities aiming at familiarizing northern Kosovo businesses with various requirements set by Kosovo legal framework, as well as tackling concrete existing obstacles for northern enterprises to enter Kosovo-wide market.

2.1. Goal and objectives

NGO AKTIV proposed a project called “Enhancing cooperation between northern Kosovo businesses and the Kosovo Chamber of Commerce (KCC)”, with the aim to increase interactions between northern Kosovo Serb business community and the majority Kosovo Albanian population in Kosovo at a time when cooperation is largely limited to negotiations carried out at the highest political level. In previous engagement, NGO AKTIV has found that although a number of businesses in northern Kosovo wish to expand to a larger market, many obstacles remain in place. With the facilitation and support of the KCC, the project aims to begin familiarizing northern Kosovo businesses with various requirements set by the Kosovo framework, as well as to tackle concrete existing obstacles for northern companies to fully engage with the Kosovo business sphere.

By compiling the findings of activities carried out during the life of the project, NGO AKTIV prepared and published a public report assessing the current situation for doing business in northern Kosovo, along with recommendations particularly focusing on how northern Kosovo business environment can be supported for further development and cooperation with the KCC and the under Kosovo legal framework.

2.2. The influence of the current political situation on businesses in North Kosovo

Northern Kosovo itself consists of four municipalities, Mitrovica/ë, Zvečan/Zveçan, Leposavić/q and ZubinPotok, which are predominantly populated by ethnic Serbs. Next to this majority, there is also a certain percentage of ethnic minorities, such as Albanians, Bosniaks and Roma (RAE). The number of people living in this region is estimated to approximately 65.000 (precise statistical data is hereby lacking due to the boycott of the last census in Kosovo by the four northern municipalities).

The four municipalities contain a various and diverse number of natural resources (various types of ore, minerals, metals, water, wood, etc.) that have always been used by the industries and sectors that operate within the municipalities. Once, the region was a thriving business



environment with numerous people being employed in mining and the associated production and processing industries, which attracted qualified professionals from throughout Europe and beyond. Mining and the industries connected to it, have since ceased operations on a large scale, retaining the small scale mining, associated laboratory and processing sectors, which thus still create some employment. The north Kosovo business community has been deprived of large scale private sector investment since the 1999 conflict; however, the international aid agencies, both government and non-government organisations, have looked to fill this void with a mixed level of success. Currently, an over-reliance on Serbian state structures and institutions regarding the employment, lack of political stability and a thriving black market economy are the present state challenges that the private sector has to deal with in north Kosovo.

Statistical indicators required for reliable assessment of dominating economic trends in the north of Kosovo are lacking. Very few available information sources lead undeniably to the conclusion, that the north of Kosovo is an underdeveloped economical region, with unstructured and outdated production capacities, a hectic market and a high rate of unemployment, especially among young people. The economy of north Kosovo collapsed in the mid-eighties, along with the descent of industrial giant Trepca. This was mostly due to the fact, that the production in this industrial complex and its supporting enterprises counted a massive portion of economic activities in this part of Kosovo. In post conflict period, after 1999, political and security tensions between Kosovo Albanian and Kosovo Serb communities caused the creation of conditions, that are non-affirmative for strategic economic development, such as an unstable investment environment and a lack of economic development vision by local governments. In that period of time, local economy and income generation sources mainly leaned on financial subventions from Belgrade. Aiming to dampen the social migration of the Kosovo Serb population (from Kosovo to Serbia), the Government in Belgrade has allowed chaotic employment in public institutions and social owned enterprises, neglecting the economic rationale. The economy in the north thus vastly leans on public employment. Social transfers from the budget of the republic of Serbia constitute is up to 63% of the total cash income of the population in the north (1). With additional 22% of budgetary subsidies from Kosovo Government percentage of total cash income originating from economic sector is just above 10%. Financial subsidies and infrastructural investments of the Serbian government in first decade after the conflict, have not been complemented with sustainable economic-developmental strategies, nor the efficient mechanisms of anti-corruption control. This creates a fertile soil for corruption, financial misuse, the direction of investments into non-priority areas and the illegal profiting of individuals, just to mention some. Such a state of affairs substantially suppressed the economic development, and was therefore not allowing the economy in north of Kosovo to grow to its own potentials.

Additionally, international agencies, working alongside with the government in Pristina, have revealed to have no strategic approach in order to create balanced economic development in the north of Kosovo. There are no records of any efforts to perform a detailed and realistic strategy for economic development in this part of Kosovo. Myriad programs of economic subsidy to individual and registered businesses in the north of Kosovo, had mainly short-term effects, more precisely the effects that fulfilled exclusively the objectives of the very same project

within which intervention took place. There has been no long-term developmental vision, and on top of this, the system of investments/subsidies control was extremely poor, which led to the unbecoming use of funds and unsustainable business structuring. In addition, there have been plenty of other objective obstacles for strategic development of north Kosovo. Most notably herby were the fragile and unstable security situation and the political environment, which both affected the process of creating an affirmative investment climate. Similar political and security dominating trends caused a series of other political-economic developmental obstacles. The lack of credible partnership with the local self-governances is one of such. From the perspective of Pristina and most of the international institutions in Kosovo, the local governments in the four municipalities of north Kosovo, were illegal for a long period of time, which only recently agreed to the integration process. As the transformation of local governments has not yet been completed, the economic development support programs have not taken place consequently in the affirmative environment, in which the economical investments and donations of respective entities are complemented by infrastructural interventions and business affirmative adjustments of legal regulations, made by local governments. Political tensions in the north of Kosovo also generated the informal partition, limiting the growth of the north Kosovo economy, by preventing the access of north Kosovo companies to the much greater market in other parts of Kosovo.

2.3. Economy of northern Kosovo

Despite of the disadvantages mentioned in chapter above, there is yet some noteworthy business activity in the private sector of the north Kosovo economy (see Fig. 1 and Fig. 2). Most of the companies, actively operating in the north Kosovo private sector, are considered to be small or medium sized companies, mostly focusing on one branch only. Measured by their annual turnover, therefore about 72% (2012) of those businesses have an annual turnover below 50.000 Euro, and roughly 30% a turnover which is less than 5000 Euro.

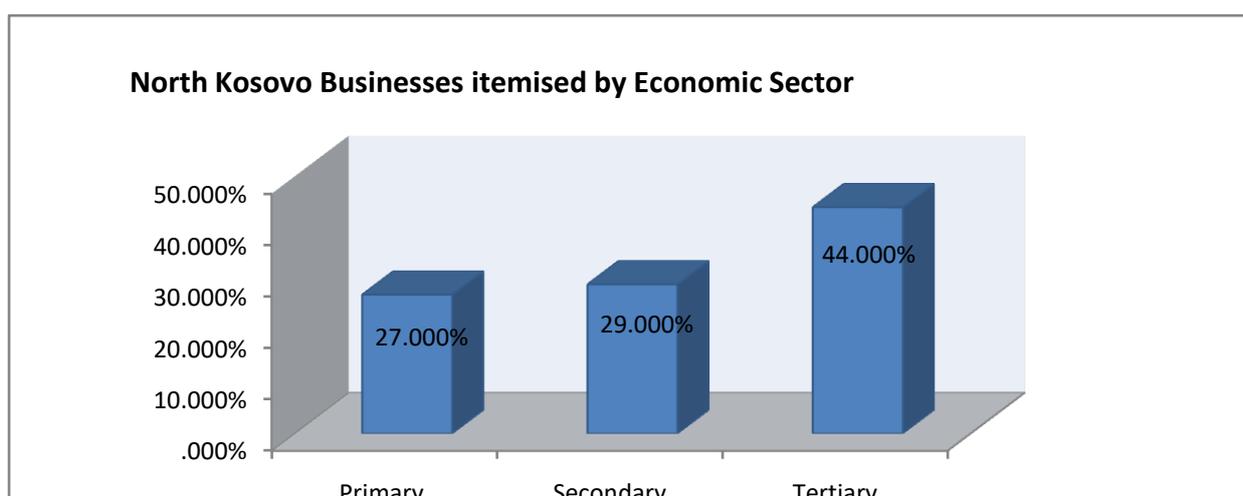


Figure 1: North Kosovo Businesses itemised by Economic Sector¹ (Based on a research encompassing 243 companies operating in North Kosovo)

¹ NGO Aktiv 2013: An inquiry into the economic situation of north Kosovo businesses

By economic sector, the biggest stake of the business activity, evident from figure one, is conducted in the tertiary sector, where the retail branch is the largest group of all observed businesses by percentage (See Fig. 2). Another notable share in the tertiary sector is held by hospitality and tourism, a branch which benefits from the national and international workers travelling to the north due to work related obligations.

The primary sector is dominated by only one branch, the agriculture, which makes a portion of 21% and is therefore the second largest branch in the north Kosovo private business environment as a whole. The Secondary sector, in contrast, consists of enterprises operating in various industrial branches, each branch holding a percentage of around 2 -6%, whilst only the food processing industry holds a share of 10%.

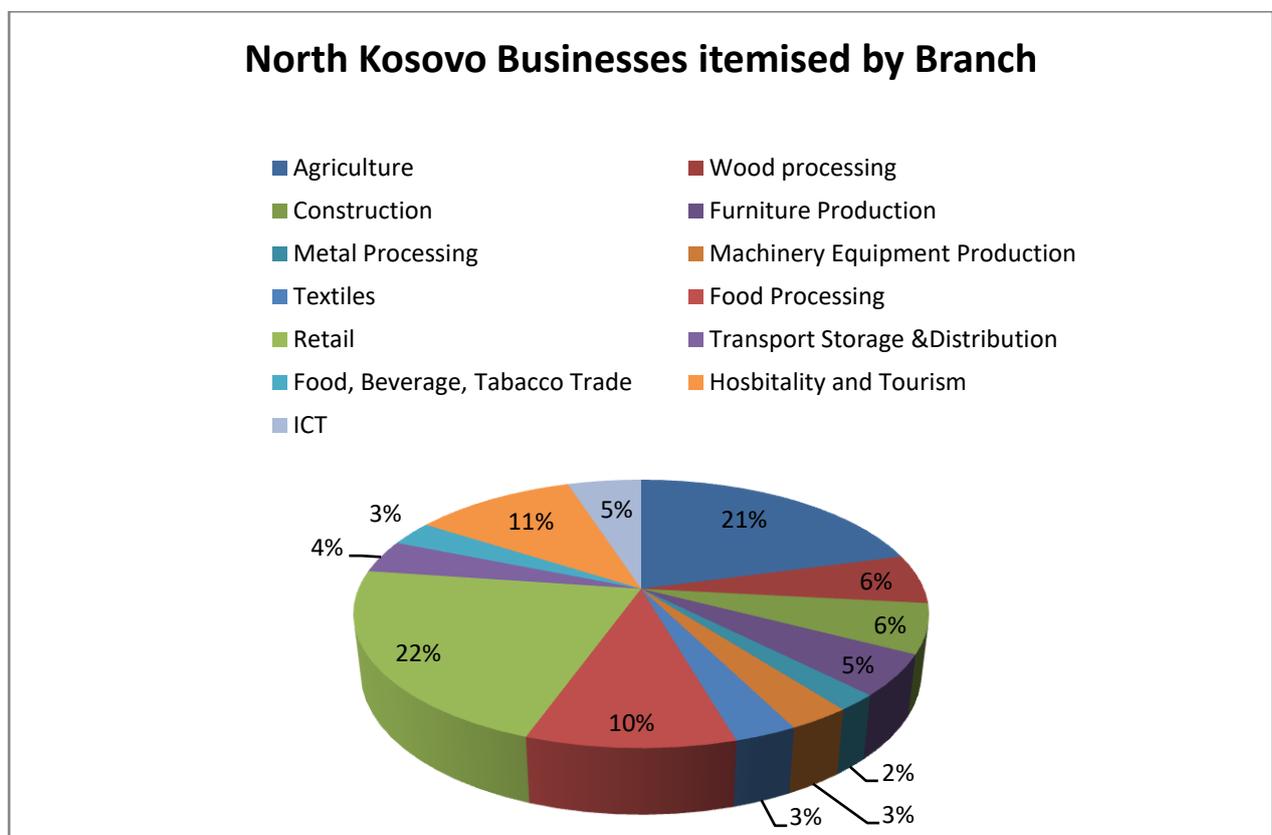


Figure 2: North Kosovo Businesses itemized by Branch² (Based on a research encompassing 243 companies operating in North Kosovo)

Furthermore, it is worth mentioning that about 10% of the companies operating in north Kosovo cover multiple production stages, if not all of the value chain. Therefore, three different production areas appear dominant. The first production area is characterized through the combination of agriculture, food processing and retail alongside the value chain, whilst the second one covers machinery production, retail and services connected to the product. The value chain of the third dominant production area contains equipment and input production, construction and retail.

² NGO Aktiv 2013: An inquiry into the economic situation of north Kosovo businesses



Considering the level of economic growth in the private sector of north Kosovo, it is necessary to mention, that about 60% of the companies operating in the four municipalities have a steady or positive turnover increase over the last five years, while in comparison to that around 26% had to report a decline in the same range of time. A significant percentage of the companies, which reported a high turnover growth, are operating in retail branch and/or production related sectors and have a turnover which is higher than 50.000 Euro (annually)³.

3. Effects of political obstacles

The private business sector in north Kosovo has yet numerous obstacles and barriers to overcome in order to benefit from a proper access to the overall Kosovo market. A considerable amount of those challenges relate to the difficult political circumstances dating from the conflict in 1999 and subsequent events which maintained political instability in the northern region. These region-specific and politics-related obstacles, which significantly hamper the growth of business connections in the private sector between the north and the south of Kosovo, can be grouped into three major fields related to the integration, community and Kosovo Chamber of Commerce challenges, which will be further discussed below.

3.1. Integration-challenges and obstacles

The integration of the four municipalities into the public system of Kosovo, settled in the Brussels Agreement in 2013, should build a stable political, administrative and judicial framework in order to overcome the constant barriers and obstacles that business and trade had to deal with in post-conflict and post-independency Kosovo.

However, the implementation of the Brussels Agreement and subsequent agreements has been slow. Though successes could be achieved in some fields, by the improvement of free goods and services movement as well as by progress in the integration of police, civil protection and the judiciary system, the process as a whole is still hampered and is therefore slowing down the economic growth in private sector. Stable political environment encouraging investments, strong municipal institutions creating favourable business development regulations and infrastructural support, resilient rule of law system assuring the legal protection of assets and property are all prerequisite for sustainable economic development. Only a brief view at the World Bank's "Doing Business Indicators"⁴ reveals tangible disadvantages faced by businesses in northern Kosovo. Fragmentary efforts in establishing the judicial system in northern Kosovo are solemn problems with indicators "**Dealing with construction permits**", "**Registering**

³NGO Aktiv 2013: An inquiry into the economic situation of north Kosovo businesses

⁴W.Bank Doing business official web link



Property”, enforcing contracts” and “Resolving insolvency”. Destitute of rule of law, is causing additional impediments in doing business in northern Kosovo, such as difficulties in **getting loans** from the banks. Discouraged by the limited legal options when it comes to - enforcing the loan insurance mechanisms, banks and various funds supporting business development, refrain from offering a full set of services which is available in other parts of Kosovo. A Substantial part of starting capital and such capital, necessary to expand the business, originates from non-refundable grants, offered by international organizations. With poor monitoring and insurance mechanisms, this practice produces only little results, since it enables the misuse of funds and introduces the phenomenon of “cheap money”, more precisely financial support easily obtainable and flexibly usable. Additionally the unstable political environment strongly and in very obvious way affects another set of “doing business indicators” like **trading across borders** and **protecting investors**, even those of infrastructural nature (**getting electricity**).

So, despite of the achievements reached in the last years, there is yet a long process to overcome before the four municipalities are fully integrated into the Kosovo System and are therefore able to benefit from a common market and a stable business environment⁵.

3.2. Obstacles to community participation

Despite of the recent progress, achieved under the EU facilitated Brussels dialogue; ethnic tensions are still present in Kosovo and especially in its northern part. Therefore the integration process of the four municipalities as a whole often faces hiccups and thereby makes the business exchange in the private sector more challenging.

Hence one of the main challenges to doing business in south Kosovo, as considered by entrepreneurs from north Kosovo, is the uncontrollable risk in terms of remaining conflict potential in Kosovo. The situation is creating insecurity amongst the north Kosovo companies and is for this reason a barrier to the majority of those enterprises in doing business in south Kosovo.

In the overall view, socio-political environment, in which northern Kosovo entrepreneurs are developing their businesses, is rather unreceptive. Faced with residues of deeply embedded community pressure not to cooperate with Kosovo Albanians, northern Kosovo business are introvert in establishing the contacts with counterparts and potential partners in other communities in Kosovo. Even when the pressure is overcome and initiatives are made to expand the level of operations, northern Kosovo businesses are facing a whole new set of obstacles standing in their way. Language issues are amongst the most obvious deficiencies of Kosovo government in complying the bilingual standards, set in positive law in Kosovo, and are vast. Poorly translated documents, the lack of translation of administrative instructions, the lack

⁵European Commission 2016: Kosovo Progress Report. Retrieved from https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key_documents/2016/20161109_report_kosovo.pdf



of human capacity to maintain bilingualism are amongst similar issues, all well documented shortages causing objective problems for establishment of inter-community business cooperation.

Additionally, the freedoms of movement issues are posing a tangible problem for northern Kosovo businesses attempting to reach the overall Kosovo market. Both, perception of limited freedom of movement (ethnic violence) and administrative incompliance (Kosovo documents, and especially vehicle number plates) are substantial inhibitors in expanding the business operations south of the river Ibar.

As cumulative effects of and many other problems, listed above, exchange on any level between the south of Kosovo and the four municipalities in the north was hindered. One of the major manifestations of the troubled ethnic relations in Kosovo, is in regard of the northern Kosovo business sector, the intricacy to identify the business partners in south Kosovo private sector, as well as an insufficient knowledge of the market in the south as such. In combination with a quite unstable security situation, which is still hampering the business exchange with the south of Kosovo, it is therefore one of the main obstacles, slowing down the economic growth⁶.

3.3. The role of Kosovo Chamber of Commerce

Kosovo Chamber of Commerce was seen as one of the key contributors when expansion of northern Kosovo businesses is in question. Next to providing networking opportunities and contacts, KCC also had the role in facilitating meetings between interested northern Kosovo entrepreneurs and the following central level institutions: Ministry of agriculture, forestry and rural development, Kosovo Standardization Agency, Kosovo Investment and Enterprise Support Agency.

In addition to this, KCC had an advocacy role in the whole project. After a series of direct meetings with the representatives of northern Kosovo businesses the representatives of KCC have shown a high interest in resolving the issues northern Kosovo businesses are faced with as a result of the lack of institutional support and services in northern Kosovo. The advocacy role of the KCC, in that sense, presented a vehicle for establishing a higher communication level between northern Kosovo business representatives and central level institutions.

Participants, who have attended these meetings, in majority evaluated the role of the CSO as positive in regard of making an appropriate effort in order to increase the linkage between both sides, regarding business activity. In addition, those participants emphasized that the establishment of confidence amongst the entrepreneurs from both sides was a top priority.

The Kosovo Chamber of Commerce can play an important role in the development of business in the north through various existing support programs and is most obviously able to assist the businesses in the northern part to accumulate the connections and networks. The

⁶ NGO Aktiv 2013: An inquiry into the economic situation of north Kosovo businesses



membership issue is still presented with burdening political consequences, while its nucleus is to improve communication and dialogue opportunities without which, the northern Kosovo businesses can't even see the benefits of such a membership. In essence, the participants of the Focus Group have revealed to have a very loose opposition to this idea, but only under the condition, that initiatives focus purely on business benefits and are deprived of accompanying political marketing.

4. Overview of legal, administrative and institutional conditions

A significant amount of obstacles hampering the entry of south Kosovo market by north Kosovo businesses is connected to the difficulties and inconveniences present in the fields of administration, institutional support, municipal services or legal issues. Those obstacles as such are a result of the challenging political environment; the private sector has to face in the still significantly divided Kosovo. The process of the integration of the four Municipalities, initiated through the Brussels Agreement in 2013, is at present ongoing and yet far from being complete. Due to that fact, the private sector currently has to operate between very young and little experienced institutions on one side and "parallel" structures which legitimacy is the matter of a dispute on the other.

4.1. Services of the municipality

One of the main obstacles hampering the growth of business exchange between the southern and northern Kosovo is related to legal and administrative circumstances as well as the lack of support provided by the municipal services towards the local business owners. Prior to the organization of the meetings, NGO Aktiv has organized a series of consultations with representatives of northern Kosovo businesses in order to identify the most appropriate Kosovo central level institutions able to provide concrete solutions to shortcomings the businesses are experiencing on daily level.

The majority of these the participants were thus agreeing that one of the main problems concerning the municipal administrative services was their non-visibility and non-affordability to many citizens. Furthermore, there was an evaluation of the direct causes for the ineffectiveness of the Municipal Services in regard of supporting business exchange. The main reasons thereby repose to the circumstance that those services are in majority recently established. Due to that fact, they still lack the capacities to answer all the questions and to provide the citizens with support on certain issues. Also, the new municipal structures have only a low level of linkage and cooperation with the southern Kosovo municipalities which is additionally complicating the



entry to the south Kosovo Market. The support provided by the municipalities, like subventions for agriculture or financial help for start-up businesses through the help of international donors, was generally evaluated as incomplete as it does not address the problems businesses in the north Kosovo private sector have to face in order to get a better access to the south Kosovo market.

4.2. Institutional support services

The prevailing conditions in regard of institutional support are currently similar to the ones present in regard of Municipal Services, from the points of view of north Mitrovica business owners. A significant obstacle, as evaluated by the participants of the consultations mentioned in chapter 4.1, is hereby the lack of cooperation and linkage between the related institutions from north and south Mitrovica. Additionally, a lack of regional economic cooperation, with the neighbouring markets of Kosovo, such as Serbia, Macedonia or Montenegro, was therefore evaluated as impeding the growth in private sector as such.

Apart from that, especially the institutional support regarding the financing of business growth was evaluated as little supportive towards the local business owners. Therefore especially the locally operating banks were criticized for complicating the process of funding small and medium sized businesses in private sector. In that sense, a majority of the respondents agreed that the banks should ensure a higher grace period, which should at least endure three years, in order to allow sustainable growth amongst start-up businesses. Apart from that, the help of institutions in regard to specific problems addressed by local business owners was seen as little effective.

For instance, once approached with the problem of a product delivery delay due to an occasional administrative blockage at the "Jarinjje crossing" the relevant institutions did not appropriately responded in order to provide necessary assistance, as stated by one of the respondents.

Several correspondents indicated a lack of information and justification received upon the confiscation of imported goods at the north Kosovo border crossing points. This indicates the lack of information and knowledge of northern Kosovo entrepreneurs about custom and import regulations. Having operated for a long time out of the Kosovo administrative and legal system, businesses in northern Kosovo often face the problem of not having access to information, i.e. a lack of knowledge on institutional proceeding, required for uninterrupted business operations. Services and information are often available on a central level in Pristina, i.e. at the level of governance with no established contacts and cooperation channels. Unfamiliarity with administrative proceedings (f.ex the taxing system) is another obstacle attribute to dysfunctional ties with central level institutions. Although Kosovo Tax Office has its regional branch in Mitrovica (south), business often emphasis the problem of having to little access to information (lack of knowledge). This deficiency can be easily addressed with targeted training programs, organized either at municipal level and cooperation with local administrations or though civil society initiatives.



Following-up on the issues raised by the beneficiary businesses, NGO Aktiv has organised meetings with the representatives of Tax Administration of Kosovo and Food and Veterinary Agency. This created an opportunity for representatives of northern Kosovo businesses to further elaborate on the daily difficulties they are exposed to. The institution representatives provided detailed explanations of the procedures required for addressing their actual problems. Availability of information reveals further deficiencies. It is established that Agency for Food and Veterinary and Tax Administration Office lack of fully translated administrative instructions into Serbian language. In most of the cases the front page is the only one presented with proper Serbian language. Sub-menus consisting the technical information of taxing, importing or exporting procedures, food regulation, are in significant lack of translated documents and instructions.

The meeting with the Ministry of agriculture, forestry and rural development has indicated that the central level institutions are oblivious to the administrative difficulties northern businesses are facing. Business representatives pointed out that inability to have property rights recognized by Kosovo law makes them ineligible for grant schemes and subsidies this Ministry offers. The Deputy Minister has ensured all participants that this issue will be tackled in the following period.

4.2.1. Local availability of services

When faced with (above elaborated) problems, the local businesses are addressing them to the local municipality expecting assistance, only to face additional problem. Hereby it gets clear, that there is a lack of municipal capacities to assist the administrative business proceedings. The only instance, where such services (mostly advisory) are offered, is the Mitrovica North Administration Office. In other municipalities, owing this to the unfinished integration process, i.e. establishment of municipal structures according to Kosovo law, services supporting business are non-existent.

The only tax office responsible for the north of Kosovo is located in Mitrovica (south) and genuinely lacking the sufficient human resources to deal with the raising demands from businesses in northern Kosovo. The Office also faces specific challenges and demands, since it has to deal with issues of arrears from long-lasting period of political and de-facto partition of Kosovo.

One of the most apparent obstacles for northern Kosovo businesses to expand, in order to be able to reach the whole Kosovo market, is the system, which is in place for import certification of food industry goods and raw materials. Due to the non-harmonized certification process between Kosovo and Serbia, the import of such goods is not subjected to Kosovo certification procedures as a sort of compromised solution, reached with intention to prevent negative effects to this dominant production industry in northern Kosovo. However, these products are not allowed to be distributed anywhere else apart from northern Kosovo. This



practice poses the tangible obstacles for northern Kosovo food producers to deliver their products to retail services Kosovo wide.

With the purpose of addressing it, NGO Aktiv has organised a meeting with the representatives of Kosovo Standardization Agency, which functions as part of the Ministry of Trade and Industry of Kosovo. The meeting was the first one of its kind and the representatives of northern businesses had the opportunity to learn about the procedures and requirements for applying for and obtaining “standards”, certificates guaranteeing the compliance with the accepted norms. Kosovo Standardization Agency has made its first effort towards approaching northern Kosovo businesses by enabling access to their services via online portal also available in Serbian language (supported by USAID). The process of receiving a certificate of standardization is currently pretty simplified and business representatives have marked the information received during this meeting as very valuable and applicable.

4.2.2. Movement of goods and services

Apart from that, there are several more issues complicating the business activity of north Kosovo enterprises in the south Kosovo market, one being difficulties in the freedom of movement. A good example therefore is the vehicle registration. In north Kosovo the registration of vehicles is currently still undertaken by Serbian authorities and not recognized in the south of Kosovo. This fact causes a lot of inconveniences, businesses from Kosovo have to face, when it comes to transporting their products south of the Ibar River. In addition to that, the driving licences given by north Kosovo authorities are not recognized by the Kosovo institutions. In order to overcome those unfortunate circumstances, many businesses have to face additional costs in the field of transport and logistics when trading their goods within the south Kosovo market. Furthermore the local entrepreneurs have to face even more additional costs due to the system duality, resulting from payment of import tax on goods entering north Kosovo from Serbia. So after all, the system incoherencies, especially in the fields of administration, public institutions and taxation creates significant obstacles hampering the entry of Kosovo market for local business owners, by creating insecurity, lowering the expected profit and eventually decreasing their competitiveness significantly⁷.

⁷D&G Solutions NGO 2015: Analysis of the Current Entrepreneurship and Business Development Challenges in North Kosovo



5. Competitiveness

The north Kosovo private sector faces currently several issues regarding its competitiveness as such. Problems related to the division or the difficult political and administrative circumstances, as mentioned in the previous chapters, decline their ability to compete with the resident enterprises in the southern market. But apart from those issues of an institutional, legal or administrative nature which are as such already declining the competitiveness of north Kosovo businesses in comparison to their competitors, there still are several problems to overcome, settled in the field of business strategy itself. Operating for long period of time at limited market (northern Kosovo) businesses have not faced genuine competition that exists for example in overall market of Kosovo. Consequently, less attention was given to boosting the competitiveness, marketing strategies, products marketing etc.

5.1. Networking obstacles

One of the main obstacles north Kosovo businesses have to overcome in order to successfully compete within their southern counterparts is the lack of business connections they have in the -south Kosovo private sector. This issue dates back to the conflict in 1999 and subsequent events, which lead to the longer lasting de facto partition of Kosovo.

According to the majority of the participants of the earlier mentioned (chapter 4), there were several connections established between the south and north Kosovo private sector before the conflict. This linkage between the businesses also continued until after the conflict, but with more mistrust from both sides. In this environment only little new connections could grow, while it was challenging for both sides to maintain the existing ones. Currently the lack of business connections therefore still contests the efforts of north Kosovo entrepreneurs to enter the southern market since the situation is only to normalize on many levels in are lent less process which end is not yet in sight.

Partition and mistrust define the relations between two major communities in Kosovo and prevent the northern Kosovo businesses from optimizing the supply chains, obtaining local expertise as well as increasing product availability and business connections.

5.2. Product competition and Marketing Strategies

The competitiveness of products is generally essential in regard of successfully entering a new market. Therefore on one hand, the quality of the product takes an important role in this process. However, the product quality as such, was not evaluated as being a major obstacle when it comes to entering the south Kosovo Market. Instead, the most interfering obstacles in the field of product competition were seen in other circumstances, like the difficulties connected to the lack of freedom of movement (mentioned above) and the high expenses for transport and logistics on behalf of the north Kosovo businesses in order to be able to distribute their goods in



the south Kosovo market. These high efforts, north Kosovo entrepreneurs have to take in order to be able to get their products to the points of sale (POS) in the south, finally make their products less competitive. The unnecessarily high costs and efforts, caused through those difficulties in the distribution process, lower the profit of the businesses and therefore discourage the local businesses to continue their entry.

Additionally the competitiveness is decreased by the fact that most of the businesses operating in north Kosovo private sector are small or medium sized enterprises. Those businesses in most cases do not have the capacities to build up a more effective logistic chain or to increase their production in order to overcome certain obstacles related to product competition. This however, results out of the little amount of investment which is reaching those businesses by banks, donors or other stakeholders.

Apart from that, there is also a lack of competitiveness regarding the marketing strategies of the north Kosovo entrepreneurs. Those small sized companies mostly do not have efficient strategies but mainly operate through word-of-mouth marketing which may work to a certain extent in the north of Kosovo, having in mind that this is a small area. On a larger scale however, there is no doubt that those marketing activities need to be replaced necessarily by more effective marketing concepts.

In order to motivate the strategic approach towards development of conducive business environment NGO Aktiv has organised meetings with the representatives of Kosovo Investment and Enterprise Support Agency and American Chamber of Commerce in Kosovo. The representative of Kosovo Investment and Enterprise Support Agency explained the mechanisms for enhancing the interest of foreign investments, as well as the possibilities for support through granting currently available for Kosovo businesses. Representatives of American Chamber of Commerce in Kosovo explained the policy and advocacy means this organisation applies in order to make Kosovo market appealing to investors, particularly to those in US.

6. The access of northern Kosovo businesses to Kosovo market –Recommendations

Following observations and analysis within the scope of project activities and external developments within the duration of the project conclusions and recommendations have been drawn across a number of levels.



6.1. Economic Development at local level – Recommendations

➤ **Improving the channels of direct communication between businesses and central level institutions**

One of the main recommendations, addressed by the vast majority of business representatives order to overcome the low level of access north Kosovo companies have to the south Kosovo market, was to significantly improve the linkage and cooperation between the municipalities in the north and central level institutions of Kosovo. Especially, considering that the Municipal Services in the north are newly established and therefore not able yet to provide the entrepreneurs with all the services and information they need, a better linkage to the ones in the south seems to be a necessity.

➤ **Ensuring local institutional support in creating favorable atmosphere for business development**

Since the locally available institutional support is essential for all entrepreneurs in order for them to be able to operate successfully, the establishment of an atmosphere favorable to business development is necessary to guarantee economic growth in private sector. That means the institutions should not only provide proper and timely information for local business owners, but also make procedures and instructions fully available on Serbian language, in order to improve the communication with the stakeholders.

➤ **Advocating for easier access of local businesses to sources of finances necessary to maintain and expand their activities**

A proper access to affordable capital is essential in order to ensure business exchange and economic growth. Therefore the financial institutions, especially banks, as well as donors, private or public investors, should ensure that the private sector is able to finance itself through loans with affordable conditions. In regard of bank loans, this means credits with high grace period (at least three years) and relatively low interests. Through loans with such or similar conditions, small and medium sized businesses will be able to grow and become sustainable. Such instruments of financial support (favorable) should prevail over the granting scheme and “free money”, since it produces more sustainable and systematic results, forcing the businesses to invest more efforts in increasing the structural foundations of business (marketing, product quality, business connections etc.)

➤ **Improve the technical advisory services available to northern Kosovo business**

Knowledge and familiarity of northern Kosovo businesses with Kosovo legal regulations relevant for business operations (taxing, customs, certifications etc.) need to be boosted in a proactive approach that includes Kosovo institutions, but also civil business supporting



initiatives. Training programs, seminars, ongoing consultations are all instruments suitable to tackle this deficiency

➤ **Improving the freedom of movement**

The Improving of the freedom of movement would simplify the current situation of local entrepreneurs regarding transport and logistics when trying to sell their products in the south Kosovo market. Problems related to that fact still prevent businesses to sell their products in the south Kosovo market and cause those who are already operating, disproportionally high costs. This issue requires political agreements on high level of governance and thus might not be attainable in near future.

➤ **Increase linkage between the KCC and northern Kosovo businesses • Extend the cooperation between Kosovo Chamber of Commerce and northern Kosovo business.**

Cooperation between the KCC and the SCC is necessary in order to advance and establish business connections between the north and the south of Kosovo. Furthermore a better communication of both institutions with the local business owners would notably improve the current situation.

➤ **Support development of effective strategies to increase competitiveness of northern businesses in wider Kosovo market**

The small and medium sized businesses of north Kosovo private sector need help from Donors, CSOs and the municipality to develop effective marketing strategies in order to be able to sell enough of their products in the south Kosovo market and to make profit. Additional consultancy in this field would be necessary to increase the participation of those companies on business fairs and similar events, in order to help them built up a proper distribution network.

6.2. Politics and Local Economic Development –Recommendations

➤ **Improve legal protection of assets and business operations through strengthening the rule of law system in northern Kosovo**

In order to ensure economic growth in the four municipalities it is important to create a stable legal environment in which business and trade can grow. Therefore the improvement of the integration and functionality of police, judiciary and other sectors lead to more stability, protections of assets, and consequently more growth and more investment. In that sense, it is also important to mention, that the establishment of a functioning legal system, as being part of a stable political situation, is needed in order to fight effectively corruption and black market activities, which on their part create insecurity and slow down economic growth as such.

➤ **Foster positive interethnic cooperation between businesses**



In order to widely and sustainably ensure a healthy business exchange between the north of Kosovo, predominantly populated by ethnic Serbs and the south of Kosovo, with an Albanian population majority, it is necessary to improve the relations between the two major ethnic groups of Kosovo, which suffered due to the conflict in 1999 and its subsequent events. Prejudices and hostilities present in both communities therefore need to be overcome in order to really guarantee a shared Kosovo market. In that sense, it is useful, specifically regarding the business exchange, to initiate common trade fairs, business summits and similar events, in order to enable a better cooperation in business sector.



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