

# Study



*An inquiry into the economic situation of  
north Kosovo businesses*

## Imprint

<b>Title</b>	An inquiry into the economic situation of north Kosovo businesses
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<b>Date</b>	November 2013

# Content

<b>0 Executive Summary.....</b>	<b>8</b>
<b>1 Preface .....</b>	<b>11</b>
<b>2 Background and context of the study .....</b>	<b>12</b>
2.1 Purpose and objective .....	12
2.2 Approach and methodology.....	12
2.3 Economic background of the four municipalities and structure of the study .....	15
<b>3 Economic landscape in north Kosovo .....</b>	<b>17</b>
3.1 Sectors, turnover, employment – some basic company data.....	17
3.2 Differences in the municipal economic structure .....	21
3.3 Registration, start of operation and ownership .....	22
<b>4 Target markets of north Kosovo companies .....</b>	<b>28</b>
4.1 Business activities and products.....	28
4.2 Relevance of markets .....	29
4.3 Business linkages to sourcing markets .....	32
<b>5 Framework conditions to regional trade .....</b>	<b>34</b>
5.1 Obstacles to business development.....	34
5.2 Business development assistance .....	36
5.3 Doing business with south Kosovo .....	41
<b>6 Capacities, investments and needs of companies.....</b>	<b>47</b>
6.1 Capacity utilisation .....	47
6.2 Investment and financing.....	48
6.3 Companies' needs to develop and expand .....	50
<b>7 Options for future approaches .....</b>	<b>56</b>
7.1 Options on a policy level.....	56
7.2 Options on a institutional level .....	56
7.3 Options on a company level .....	56
<b>8 Appendix.....</b>	<b>58</b>
8.1 Results of the focus groups meetings .....	58
8.2 Case studies .....	62
8.3 List of products and quantities from north Kosovo .....	65
8.4 Company Questionnaire .....	74
8.5 List of references .....	82

## Figures

Figure 1: Research design, survey instruments and research dimensions .....	12
Figure 2: Approximation of the number of people employed in the private sector in north Kosovo.....	14
Figure 3: Focus group discussions – Methodology.....	15
Figure 4: In what sector does your company operate? .....	17
Figure 5: What was your annual turnover in 2012? .....	18
Figure 6: Company turnover in relation to number of employees .....	19
Figure 7: Company turnover in relation to industry sectors.....	19
Figure 8: How did your turnover change in the last 5 years? .....	20
Figure 9: What is the number of your employees (male, female, university degree holder)?.....	21
Figure 10: Physical size, settlements and population in north Kosovo.....	21
Figure 11: Sample data on the municipalities .....	22
Figure 12: What is the legal status of your company (in terms of registration with authorities)? .....	23
Figure 13: Institutions where are companies registered .....	24
Figure 13: Turnover and registration: KBRA registered (left) and unregistered business (right) .....	24
Figure 15: When did your company begin operations? .....	25
Figure 16: What type of ownership is the business operating under? .....	26
Figure 16: Markets for the purpose of the study.....	28
Figure 18: How would you describe your business activities? .....	28
Figure 19: In which markets are you active, under preparation, interested in or is not relevant? .....	29
Figure 20: What share of turnover is achieved in the markets in which you operate?.....	30
Figure 21: What is the average growth rate of your business outside the local market? .....	30
Figure 22: How will the relevance of the markets change over the next five years? .....	31
Figure 23: How did you come to this perception/ expectation (in terms of market relevance change)? .....	31
Figure 24: In which market are your suppliers located? .....	32
Figure 25: Are the following variables a challenge in doing business in your local market? .....	34
Figure 26: Are the following variables a challenge in doing business in the Serbian Enclaves market? .....	35
Figure 27: Are the following variables a challenge in doing business in the Serbian market?.....	35
Figure 28: Are the following variables a challenge in doing business in the south Kosovo market? .....	36
Figure 29: What obstacles have you experienced or believe you may experience in becoming more competitive in the market.....	37
Figure 30: Have you received business development assistance? .....	38
Figure 31: From which organisation or institution did you receive business development assistance?.....	39
Figure 32: Which type of business development assistance did you receive? .....	40
Figure 33: Organisations companies were asked would they accept support from .....	40
Figure 34: Would you accept assistance from the following organisations? .....	41
Figure 35: Do businesses dealing with south Kosovo experience disadvantage in their local community?.....	42
Figure 36: Perceptions and facts of doing business with south Kosovo .....	42
Figure 37: From your perspective; doing business with south Kosovo would lead to....? .....	43
Figure 38: Do you agree that the following are barriers in doing business in south Kosovo? .....	44
Figure 39: Do you agree that the following are barriers in doing business in south Kosovo? .....	45
Figure 40: At what capacity are you currently producing? .....	47
Figure 41: In the last five years (left) have you modernized your business equipment and will you modernize in the next five years (right)? .....	48
Figure 42: In what way did you modernised your business equipment in the last 5 years (left) and in what way do you plan to modernise in the next 5 years (right)? .....	48
Figure 43: How was the purchased equipment financed in the last 5 years (left) and how will the equipment be purchased in the next 5 years (right)? .....	49
Figure 44: From which market does your labour force come? .....	50
Figure 45: What is your demand for utilities and what is the average outage of used utilities? .....	51

Figure 46: What kind of support does your company need to expand operations? .....	52
Figure 47: In order for growth and/or business development potential to happen what support (from donors) do you need?.....	53
Figure 48: What are the growth and/or business development potential consequences from the needed support? .....	54

## Abbreviations

FCO	Foreign Commonwealth Office
FDI	Foreign Direct Investment
GIZ	German International Development Cooperation
KBRA	Kosovo Business Registration Agency
NGO	Non Governmental Organisation
OSCE	Organisation for Security and Cooperation in Europe
MSME	Micro, Small and Medium Enterprise
SME	Small and Medium Enterprise
SMK	Single Market Kosovo
UNDP	United Nations Development Program
USAID	United States Development Cooperation

## Abstract

The study gives a number of insights into the economic situation of north Kosovo companies as well as into the economic structure of the four municipalities. First, the study finds that the north Kosovo economy is not particularly depressed and/or lacks substance in terms of ability to add value. Many businesses develop and report sound growth. However, the specific situation with regard to conflict potential holds back economic development especially in terms of outward orientation and business environment. Second, the study finds the business sector in terms of donations not especially under-aided; however, companies' perceptions show that a systemic approach to support would be more adequate.

### Appreciation

The authors want to express their thanks for the great support and contribution of many actors and stakeholders during the generation of the study. This extends especially to companies and company owners for taking their precious time for the interviews, the group of consultants and students that implemented the survey and officials from municipalities and stakeholders that supported the focus group discussions.

The thanks especially extend to the British Embassy in Pristina and the German International Development Cooperation, GIZ for supporting the achievement of this milestone for economic development of the north Kosovo region.

## 0 Executive Summary

Improved access of north Kosovo companies to the wider Kosovo and Western Balkan markets is a key factor for social and economic integration of the four northern municipalities. In that respect the identification of business activities and potentials of north Kosovo companies is paramount to develop relevant programs addressing economic development and integration.

Against this background the British Embassy in Pristina and the GIZ jointly assigned the NGO AKTIV<sup>1</sup>, based in north Mitrovica/ë, to develop a corresponding study. Three core research questions have subsequently been developed and addressed by the research team:

- *What is the business structure and potential of north Kosovo businesses of doing trade with the wider Kosovo and other Western Balkan markets?*
- *What are formal and informal obstacles for doing trade?*
- *What are needs of north Kosovo businesses to actually engage in trade and economic exchange?*

In order to provide answers to these questions AKTIV implemented a company survey that included a sample of in total 331 companies with almost 3.000 private sector jobs spread over the four municipalities.

### Economic Landscape in north Kosovo

The economic structure of the north consists to a 100% of MSMEs. Still, there are considerable differences in firm size, sectors and turnover. The research finds a differentiated sector structure with a concentration on agriculture, retail and food production. However, and opposed to earlier findings (USAID 2006) the four municipalities cannot be characterized as "kiosk-economy" and also not to solely relying on its natural resource base. It is evident from the survey that food- and wood-processing, production of equipment, material and machinery as well as services build significant parts of the economic base of the north.

The study can confirm that in the last decade the private sector in the north developed despite a "non-business environment", referring to the post conflict situation. 59% of companies report positive growth rates in turnover over five years. At the same time a vast majority of companies is older than five years and can be

considered as long term and stable market players. Still, the north currently lacks key growth drivers:

- **FDI:** The research could not identify any FDI and / or themes of technology transfer and inbound orientation.
- **Outward orientation:** Only 20% of companies trade outside the local market. Growth is thus mainly based on the local market which has its limits.
- **Business environment:** 75% of companies lack a legal status that would simplify doing business in the wider Kosovo market. Only 19% of companies are registered with the Kosovo business registry.

With regard to municipalities, different economic structures emerged from the survey. While Zubin Potok is "the agriculture" municipality, Leposavić/q's economy is agriculture and production based. Zvečan/Zveçan has a significant focus on production and technical services while Mitrovica/ë is dominated by services and retail. Leposavić/q is a comparable good place for doing business: a large share of companies (44%) that report dynamic growth rates in turnover over at least five years are located in that municipality.

### Markets and framework conditions to trade

The main target markets outside the local market are almost equally Serbia, Serbian enclaves in the south and south Kosovo. Only 18% of companies in the survey trade with these markets. Companies identified outward orientation as potential: A further 30% prepares market entry or is interested to trade in these markets.

A majority of companies doing trade with the south and Serbia as well as the enclaves are located in Zubin Potok and Leposavić/q. In contrast relatively few companies from Zevcan and north Mitrovica/ë do trade with the south. There are a few companies that do successful business with other Western Balkan countries and also EU countries. Companies that operate outward oriented tend to experience higher growth than those dealing with the local market only.

Companies obviously do know about the relevance of their target markets but have difficulties to effectively entering these markets. These difficulties are additionally burdened with regard to perceived risk from the specific conflict situation in the region: In terms of obstacles in markets companies say that uncontrollable risks through the remaining conflict potential is rated one of the top obstacle to do business. This applies to all markets, however

<sup>1</sup> Supported by Como Consult, Germany

is particularly strong (over 70%) for south Kosovo. In addition, the two main obstacles are a lack of market information and partners to do business with.

### Trading with south Kosovo

Over 50% of companies say that they see the south Kosovo market as the relevant market in the future and 80% of companies reported that they would not see a problem (in terms of e.g. loss of reputation and personal security risk in the north) in trading with the south. The remaining 20%, however clearly stated that they are afraid to trade with the south against the background of risk to their status in the north. Interestingly, 72% of these 20% are located in Zvecsan and Mitrovica/ë. Furthermore only 7% of the in total 55 companies that do actual trade with the south confirmed it a problem. However, Zvecsan and Mitrovica/ë suffered most with regard to the conflict which could explain the differences in risk perception.

By looking at the south Kosovo market only (in terms of risks to trade) the picture is clearer: 79% of companies see instable framework conditions in south Kosovo in terms of hurdles in administrative processes, taxes and black market as well as corrupted structures as main difficulties. Furthermore, most cited barriers on business level of doing trade with the south are: competition (60%), payment delays (49%) and access to finance (46%).

### Capacities, investment and needs

The business outlook of companies appears to be very positive matching the perception that the regional markets are becoming more relevant. 47% of companies report to have invested (equipment, machinery, etc.) in the last five years, while 92% of companies state that they will do so over the next five years. However, in terms of capacity utilisation most companies have (bigger) slack capacities which hint at upcoming growth limits of the local market. Only 23% have capacity utilization above 70%. However, a main growth restriction appears to be access to finance: Only 16% of companies received loans while over 60% of companies acquired investment by own means (in cash).

Within the vacuum of absent government and institutional strategies to develop the economy on a sector level, 25% companies however received direct support (mostly grants and production equipments) from different donor organisations. However, training and technical consultancy as well as support in getting credit would not be a focus of applied instruments. With regard to the fact, that a share of almost

25% of companies (of a representative sample) received assistance north Kosovo does not seem to be particularly under-aided in direct support. Rather, a systemic government and institutional approach to sustainably support and build framework conditions seems to be a major gap – as confirmed by over 70% of the companies. A lack of government support in sector strategies (especially in standards and certification) and a lack of programmatic business development from private sector associations and institutions etc. are most cited issues.

Overall, the research confirms that companies are well aware of their needs and what they want to achieve. 78% reported that they would need support to introduce new technologies or upgrade methodologies in production and administration. 62% of companies said that they would need support to introduce standards and certifications, develop innovative products and political backing to do business with south Kosovo.

### Options for future approaches

The study gives a number of insights into the economic situation of north Kosovo companies as well as into the different economic structure of the four municipalities.

- First, the study finds that the north Kosovo economy is not particularly depressed and/or lacks substance in terms of ability to add value. Many businesses develop and report growth. However, the specific situation with regard to conflict potential holds back economic development in different ways.
- Second, the study finds the business sector in terms of donations not especially under-aided; however, companies' perceptions show that a systemic approach to support would be more adequate to economic development.

Hence, an improvement of the outward orientation of the north can be confirmed as a valid objective with regard to growth and development. This holds also for the development of an environment for inward orientation in terms of FDI attraction and access to finance.

Some future options (not depleteive) are thus:

#### Policy level

- Formation of sector strategies in terms of branding, marketing and quality infrastructure as well as standards and certification.
- Political backing for further integration into companies main markets, i.e. south Kosovo as well as Serbia.

- Establishing structures for providing access to finance for investments.
- Invest in infrastructure to avoid bigger outages in water and electricity especially in Zvečan/Zveçan and Leposavić/q.

#### **Institutional level**

- Capacity building in government services concerning registration, trade and investment promotion as well as data provision and market information.
- Introduction of incentives for business development services and establishing a sound network in terms of chamber services would be essential to provide companies with services to expand production and trade as well as establish business linkages.
- Support to private sector self organisation for advocacy and overriding market development also from a value chain perspective.

#### **Company level**

- A striking finding is a discrepancy between support supply (donations) and demand (technical advice). Thus, within a framework of an economic development strategy on a political and institutional level, a focus should be put on such advice as well as on access to credit as this will provide support in a way that markets are not distorted.

## 1 Preface

The improvement of the living conditions of all citizens in the territory of Kosovo is the overarching objective of Germany and the United Kingdom. Economic growth and employment, efficient and sustainable use of existing economic potentials and a business environment conducive to private sector development and public sector reform are the prerequisites for stability and a successful integration in regional and international markets.

The north of Kosovo is an area rich in natural resources, with a traditional industrial and agricultural structure. In order to strengthen the competitiveness of Kosovo's economy, all areas and entrepreneurs with a potential for economic development need to be involved. Within the north, the development of existing potential, including the Trepca complex, will contribute to the well-being of the local population and help to position these municipalities as attractive locations for businesses and investors.

This study on the economic situation of north Kosovo businesses is embedded into a larger project implemented by the NGO AKTIV with joint support of the British Embassy in Pristina and GIZ, on behalf of the German Federal Ministry for Economic Cooperation and Development. The programme, "Single Market Kosovo" expresses the vision for an integrated market economy, based on common interest and business relations between SMEs in the whole area of Kosovo and the Western Balkans.

The study reveals so far unpublished and eye-opening information on the economic situation in the north of Kosovo. Its findings are based on a survey involving 331 SMEs in the four municipalities north of the river Ibar. Survey results show that even though the development of SMEs has been impaired by the fragile political situation, many businesses turned out to have a solid economic basis and sound growth over recent years. The establishment of business relations within Kosovo and the Western Balkans has for many businesses already become reality, for many more it is a realistic and desirable perspective.

It is our aim, that this document helps policy makers, donors, international organizations, the business community and civil society organizations to understand the development potentials and needs of the private sector in the north of Kosovo. The recommendations in this publication are intended to contribute to the development and implementation of needs-based support measures for the benefit of all citizens regardless of their ethnic origin, religion or gender. Without doubt, this intention will require intensive and long-term joint efforts of national and local institutions, the international and business community and civil society.



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## 2 Background and context of the study

### 2.1 Purpose and objective

Against the background of an envisioned regional integration AKTIV proposed a project *called “Single Market Kosovo*, (SMK) to the British Embassy in Pristina and the German International Development Cooperation (GIZ). The project's purpose is to improve access of north Kosovo companies to the wider Kosovo market in order to activate the presumable growth potential of the northern Kosovo economy. The project's eventual objective is to improve economic well being in north Kosovo. The concrete targets of the project are

- the identification of business potential in the north of Kosovo,
- an increased cooperation between businesses from the north and the south, and
- an increase in number of registered SMEs in four municipalities in the north under Kosovo legal framework.

Thus, the identification of actual business activities and the business potential of north Kosovo in order to develop recommendations for interventions and measures under the forthcoming SMK project are main purposes of this study.

### 2.2 Approach and methodology

The objectives and targets of the SMK-project builds the reference to design the research framework of the study: Three core research questions have subsequently been developed:

- What is the business structure and potential of north Kosovo businesses of doing trade with the wider Kosovo and other Western Balkan markets?
- What are formal and informal obstacles for doing trade?
- What are needs of north Kosovo businesses to actually engage in trade and economic exchange?

Weak capacities of institutions and economic organizations in the north of Kosovo led, however, to deficits in regular data collection. Although there are some basic data available, like e.g. company registrations it is not possible to verify this information as valid for building an intervention framework to support the private sector in north Kosovo.

Therefore the research team designed a number of research instruments to overcome the data limitation. At the core of this research lays a standardized company survey that gathers data on five research dimensions. Further research instruments were applied to verify and support the received data information in a more qualitative way (see Fig. 1 below).

Research Instruments	Research dimensions				
	Company and sector structure	Target markets	Business environment	Competitiveness company level	Needs assessment company level
<b>Company survey</b>	XX	XX	XX	XX	XX
<b>Focus group discussions</b>	XX	XX	XX	X	X
<b>Case studies / semi structured interviews with companies</b>	XX	./.	X	XX	XX
<b>Semi structured interviews with stakeholders</b> <sup>2</sup>	XX	X	XX	./.	X

Legend: XX=high relevance for the assessment; X = medium relevance, ./.= no relevance

Figure 1: Research design, survey instruments and research dimensions

Fig. 1 illustrates the research design. The five research dimensions are being assessed by different instruments (1 to 4). All dimensions would be analyzed from at least three different perspectives which, from a methodological perspective provides for balanced results in the different issues.

<sup>2</sup> North Kosovo Chamber of Commerce, United Nations Development Program (UNDP), Business Advisory Center Mitrovica/ë, Business Start-up Center Zveçan/Zveçan, Kosovo Business Registration Agency

### Focus: company survey and focus groups

The company survey and the focus group discussions were the central research instruments. Objective of the company survey was to collect data on companies as well as on their perspectives on the research dimensions listed in Fig 1. The analysis of the results should shed light on northern Kosovo companies' strategies, markets, perceived obstacles and needs to trade and set up business linkages in the wider Kosovo market and the region. Objective of the focus group discussions was to verify and consolidate the information received under the survey.

The company survey was implemented by four teams of in total 12 interviewers that were assigned to the four municipalities Zubin Potok, Mitrovica/ë, Zveçan/Zveçan, Leposavić/q in the north of Kosovo. Each team was led by a consultant with longstanding experiences in the respective municipality. The survey was implemented in the period from August 19 to September 3.

#### ■ Set of data

The sample size comprises 331 companies in the four municipalities. The (primary) sources from that the sample was established were

- Kosovo Business Registration Agency (KBRA)
- Business Advisory Centre Mitrovica/ë
- Business databases of the respective consulting companies that implemented the survey
- United Nations Development Program (UNDP) research database
- Participating companies in the survey
- Local consultants

Each individual data set (i.e. company name, business purpose, address, and contact person) was consolidated, verified and validated by the research team together with local consultants. The original database comprised more than 800 companies. Many of these could not be verified as still active. In addition, a larger number of businesses were excluded from the survey because they are micro companies with a rather "kiosk" status. The consolidation exercise boiled the number of companies eventually down to 442 relevant companies. This database is the most comprehensive of (active) north Kosovo businesses existing. The number of 331 interviewed companies results from either some companies did not want to participate in the survey while others were added to the database in the course of the survey and could from time restrictions not be interviewed anymore. This however does not impair the survey to be representative (see below).

#### ■ Design of company questionnaire

The company questionnaire (see annex) was designed in June 2013 as a standard questionnaire by the research team. In total the questionnaire comprises 31 questions that are allocated to the five research dimensions pictured in fig.1. Most questions are multiple choice that can quantitatively assessed and analysed with a computer based assessment framework

#### ■ Survey implementation

In order to implement the survey an one-day training on leading the interviews was developed and implemented by the research team on August 13 2013. The training included test interviews with entrepreneurs for a reality check of the questionnaire. The experiences from these interviews were analysed and the questionnaire was adjusted according to the feedback of the interviewers. After the adjustment a kick-off meeting and final briefing with consultants was held. On every day of the survey implementation one team member delivered the filled questionnaire to the office of AKTIV. AKTIV implemented a random control sample (5% of companies) in each of the municipality in order to verify that interviews have taken place as scheduled.

#### ■ Survey coverage

With regard to a perspective utilisation of the survey results for designing support programs with a considerable financial volume a substantial question is if this survey can be taken as representative for the economy of north Kosovo.

In order to solve this question, the research team took two approaches:

- First: while implementing the research instruments one focus was laid upon data confirmation from the perspectives of local experts, local business leaders and participants of the focus groups in Mitrovica/ë/Zveçan/Zveçan, Leposavić/q and Zubin Potok. The unanimous opinion from the discussions was: Sectors and companies covered in the study are representative for the economy of north Kosovo (and even largely cover the whole economy of north Kosovo).
- Second: the research team drew on secondary data to approximate in a more quantitative way the coverage. As the company survey identifies in total 2960 private sector jobs, the starting point to assess the coverage was the potential workforce in north Kosovo. From this starting point in total 4346 private sector jobs in north Kosovo were derived (fig. 2 below). That results in a survey coverage rate of private sector jobs of approximately 68%. Given a normal distribution of jobs and company sizes then the survey covers also approximately 68% of the companies in north Kosovo.<sup>3</sup>



Figure 2: Approximation of the number of people employed in the private sector in north Kosovo<sup>4</sup>

#### ▪ Focus groups

Three focus groups were held in the municipalities Mitrovica/ë, incorporating the business community in Zveçan/Zveçan, Leposavić/q and Zubin Potok. In total there were 27 participants at the 3 focus group discussions which have taken place

- in Mitrovica/ë, on Thursday 19th September 2013,
- in Leposavić/q, on Friday 20th September 2013 and
- Zubin Potok, on Tuesday 24th September 2013.

The participants were drawn from all sectors that took part in the research, giving the focus groups a broad range of discussion topics and input from stakeholders with various business interests. In addition to private sector SMEs, local community leaders and the UNDP were also represented at the focus groups.

The main objective of the focus groups was to verify, validate and qualify the received information from the company survey. The eight questions that have been discussed were:

<sup>3</sup> Sources: Kosovo Statistical Office, Labour Survey Worldbank, May 2012

<sup>4</sup> Calculation according to "Labour force survey 2012", Worldbank, May 1 2013 and USAID (on population) and RIIInvest on public sector employment

#	Question	Purpose
1	✓ <i>What do you believe are the most important companies (type of companies) for economic development in your municipality/ north Kosovo?</i>	This question was asked in order to verify the sample of companies we interviewed are representative of the companies that are operational in north Kosovo. It was found that the research sample is representative of the company landscape in north Kosovo.
2	✓ <i>Can you confirm from your perspective the results of the survey on competitiveness and business environment?</i>	Early research results had indicated that questions asked regarding company competitiveness and the business environment in north Kosovo were returning positive outcomes. This question was used to validate and confirm this data.
3	✓ <i>What does the focus group feel about the outcome that a lot of business, or are interested in doing business with south Kosovo?</i>	Initial indications had shown that almost 20% of businesses in north Kosovo do business with companies in south Kosovo. This question was used to introduce the topic of trade with south Kosovo in order to discover people's perspective on this issue.
4	✓ <i>What are the structures [institutional] and offers of assistance from municipalities and business support centres in your municipality?</i>	People believe there is little or no assistance available from the municipalities or available support centres in north Kosovo. This question was used to validate this, and additionally to find out further information about the role of institutions in the business community in north Kosovo.
5	✓ <i>From whom should assistance come? What are the accepted institutions for receiving support?</i>	Support for the business community has been provided by various organisation, local and international for a number of years. The local view on the organisations providing this assistance can change depending on the political and security issues and this question was used to research more information these problems.
6	✓ <i>How should assistance and interventions be organised in the future?</i>	Through discussions with the local business community and the general feeling amongst SMEs, it had been felt that some businesses 'always' received assistance, and others did not. This question was aimed at researching a fair and transparent system of distributing assistance amongst the business community in north Kosovo.
7	✓ <i>Are there sector associations and what is their role?</i>	There was evidence to suggest that sector associations existed in certain municipalities. The aim of this question was to gather data regarding their specific role and at what level they are operational.
8	✓ <i>Where do you see the most promising development potential in your municipality - sector wise?</i>	This question was asked in order to gain insight into the developmental potential of individual municipalities in north Kosovo.

Figure 3: Focus group discussions – Methodology

## 2.3 Economic background of the four municipalities and structure of the study

North Kosovo is divided into four local municipalities, Mitrovica/ë, Zvečan/Zveçan, Leposavić/q and Zubin Potok, that although predominantly consisting of ethnic Serb population, there is a small presence of ethnic Albanians, Bosniaks and Roma communities. The municipalities contain both varied and diverse natural resources (different ores, water, wood, etc.) that have always been synonymous with the various industries and sectors that operate within in the municipalities. Once a thriving business environment with thousands employed in mining and the associated production and processing industries, attracting highly qualified employees from throughout Europe and beyond. The mining and associated industry have since ceased operations on a large scale, with small scale mining, associated laboratory and processing sectors still creating some employment. The north Kosovo business community has

been deprived of large scale private sector investment since the 1999 conflict, however international aid agencies, both government and non-government organisations have looked to fill this void with a mixed levels of success. Currently an over-reliance on Serbian state structures and institutions for employment, lack of political stability and a thriving black market economy are the present state that the private sector has to deal with in north Kosovo.

### **Structure of the study**

Through assessing the company landscape and structural data of businesses operating in north Kosovo the study intends to get a better understanding of important industry sectors in the region and their dynamics. This is vital information moving forward in developing an economic action plan for the northern municipalities, increasing employment opportunities and developing a sustainable economy built on the most successful and prevalent industries in the region.

Accordingly, **chapter 3** elaborates on structural data of companies and sectors. Basic questions addressed are: *What kind of companies do operate in the region? What are the main characteristics of these companies and what are the differences in the sector structures in the four municipalities?*

**Chapter 4** analyses the companies target markets. Questions addressed are: *Where do companies trade and source? Which markets are targeted beyond the local market? Do patterns emerge on successfully trading companies? What are companies' perceptions on the future relevance of markets outside the local market?*

**Chapter 5** looks into the perception of the business environment companies are faced with. The basic question addressed in this chapter is: *What obstacles to trade do companies face and what role plays the conflict background between the north and the south on trade activities?*

**Chapter 7** analyses the competitiveness of companies in terms of productivity and input costs. At the same time business cycle information like capacity utilization and perceived needs are collected. Core questions are: *What kind of support is available and what kind of support is in demand for further business expansion?*

**Chapter 8** develops fields of activities and recommendations for donors to organize a possible support to economic development in the north.

### 3 Economic landscape in north Kosovo

#### 3.1 Sectors, turnover, employment – some basic company data

The 331 companies that took part in the research are dispersed across the four municipalities. The sectors identified show the diverse nature of the business community in north Kosovo.

##### Sectors

Fig. 4 shows the sector shares identified in the research, in total 243 companies have answered this question.

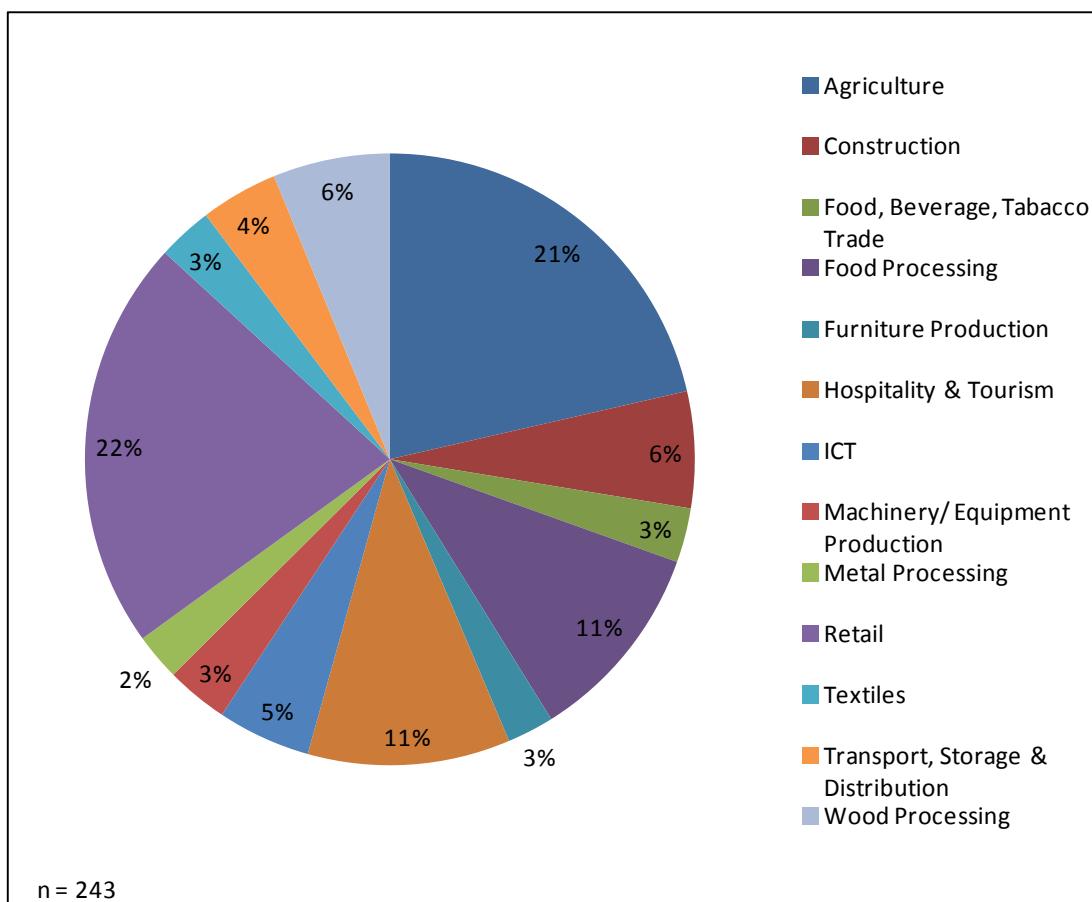


Figure 4: In what sector does your company operate?

Retail (22%), closely followed by Agriculture (21%) are the biggest sectors. The food processing sector (11%) has the potential to become a large and important sector in the economic landscape of north Kosovo due to its close links with the Agriculture sector. There are a nine industry sectors ranging between 2 - 6%, these include; Construction (6%), Wood Processing (6%), Transport, Storage & Distribution (4%) , ICT (5%), Metal Processing (3%), Machine/ Equipment Production (3%), Textiles (3%), and Furniture Production. The remaining sector is Tourism & Hospitality (11%) which exhibits opportunities of real potential through the natural beauty and rich cultural heritage of not only north Kosovo, but Kosovo as a whole.

In terms of shares of turnover and growth potential, however, the bigger economic contributors are retail-production-, construction- and services (ICT) oriented companies (see below).

As in total 331 companies have been interviewed 88 companies have answered that they operate either in another sector (not specified) or in three or more sectors. In more detail:

- 68 companies (20% of 331 companies) stated that they belong to another sector.
- However, a crosscheck with their products showed that these companies are mainly focused on the services sector like crafts and trades (florists, plumber, etc.)

### Focus: Companies covering multiple production stages

20 companies have been identified in the survey as operating in 3 or more sectors. A closer look at these companies shows a pattern: Most of these 20 companies cover most, if not all of the value chain along their production stages.

Three different production areas appear dominant and have been identified as follows:

- Agriculture -> Food processing -> Retail
- Machinery Production -> Retail -> Services and
- Equipment and input production -> Construction -> Retail

More than 60% of these companies (operating across 3 or more sectors) have a turnover greater than Euro 50.000 belonging to the group of bigger companies in the north. Of these companies 45% were founded between the years 2000 and 2005 while 25% were founded prior to the 1999 conflict in Kosovo. In total 70% of these businesses appear to be firmly established and long time active in the market.

### Turnover

The turnover of companies in north Kosovo shows a wide range, spreading between Euro 5.000 euro and Euro 1.000.000, with the majority of companies trading at low level, with 72% of companies turning over below Euro 50.000. In total four companies have a turnover of above Euro 1.000.000 (fig 5).

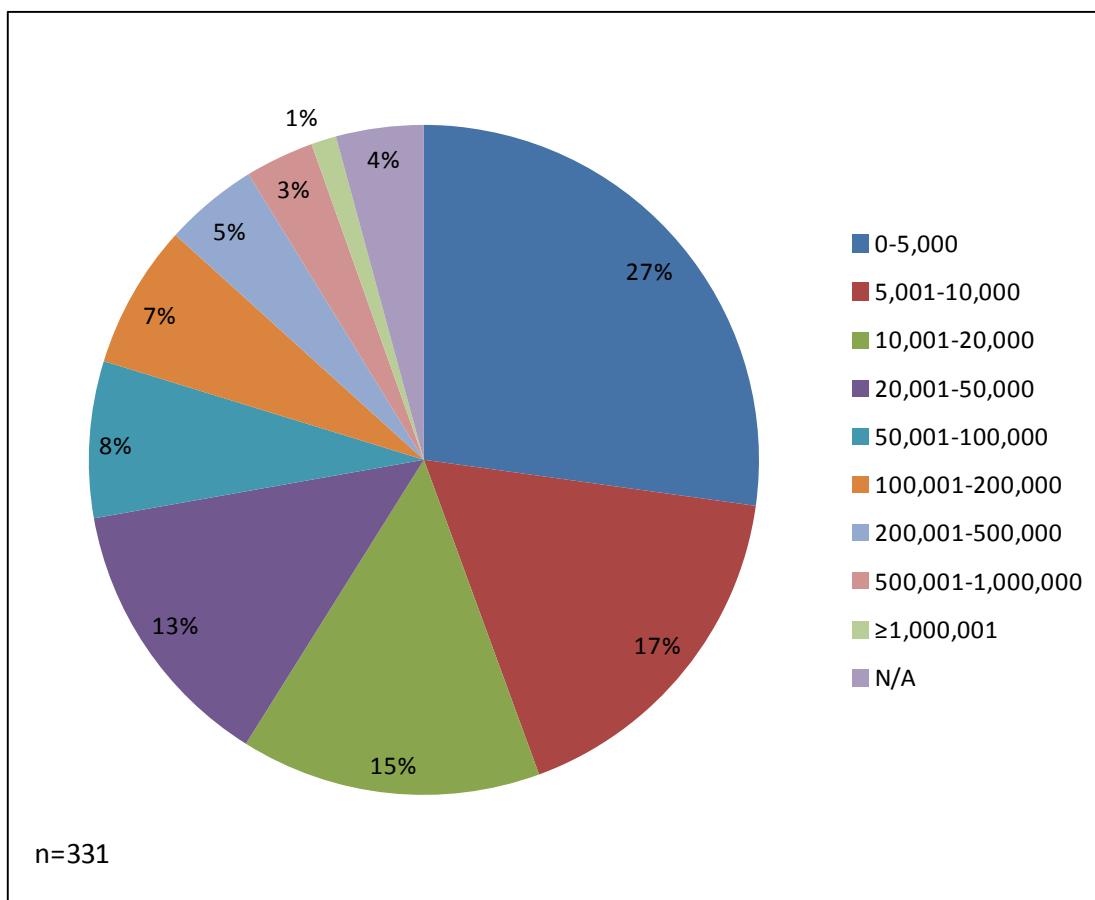


Figure 5: What was your annual turnover in 2012?

By using the EU definition of an MSME, 72% of companies fall into the category of micro companies, with the remaining 28% been identified as SMEs. We could not identify any companies that did not belong to the MSMEs category, i.e. more than 249 employees and a turnover bigger than Euro 50 million.

Fig.6 (below) illustrates in more detail the distribution of company size across the north Kosovo businesses.

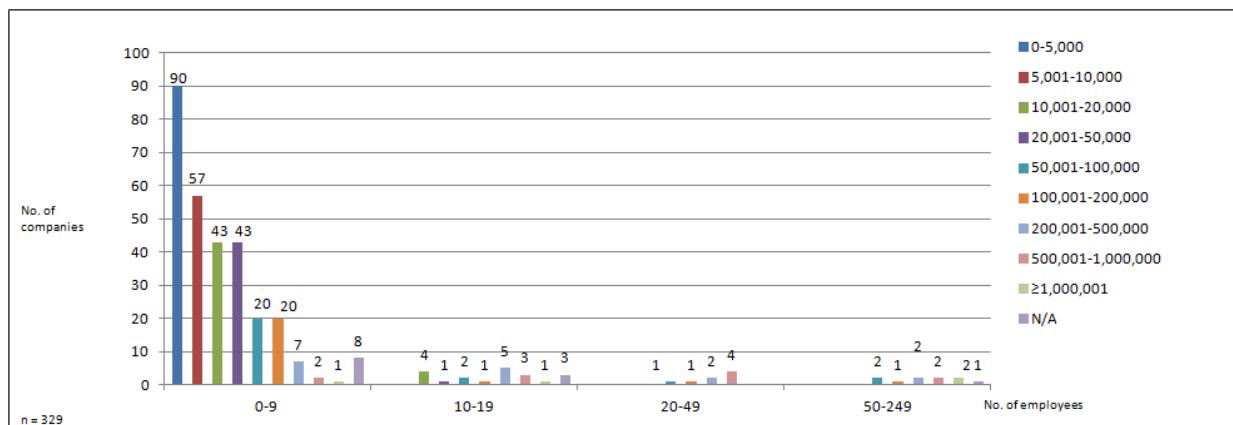


Figure 6: Company turnover in relation to number of employees

As one would expect, companies with small employment tend to have also a smaller sized turnover. And the figure depicts that the north Kosovo economy consists to a large extend of micro companies rather than SMEs.

Fig. 7 gives an indication of turnover related to sectors, the chart is based on companies that turnover more than Euro 50.000 per annum and operate in less than 3 sectors. There are 239 companies from the total that turnover less than Euro 50.000 per annum. In addition, it must be noted that there were 18 additional companies that operate across 3 or more sectors and earn more than Euro 50.00 per year.

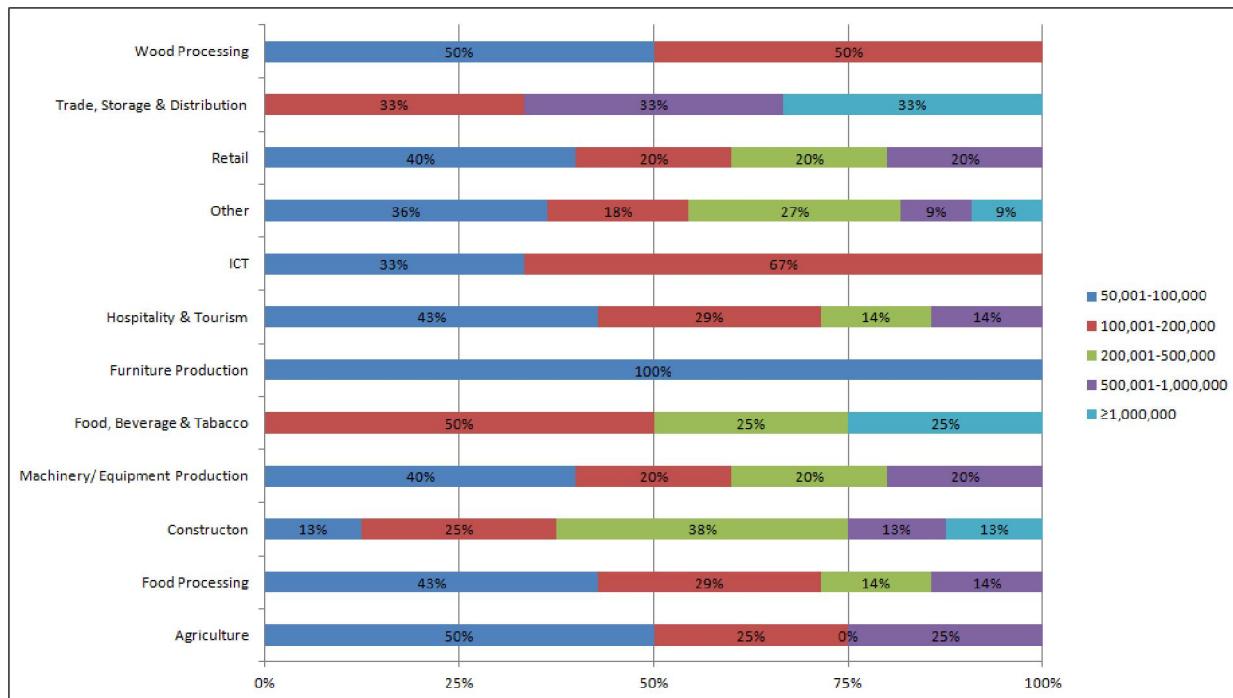


Figure 7: Company turnover in relation to industry sectors

The smallest business units appear to be in wood processing and furniture production where craftsmanship seem to be the dominate business model. Although ICT has only 35% of companies with a smaller turnover, there is no company at the higher end of the turnover scale. Obviously the ICT sector focuses on small scale services, rather than providing more value adding products like larger scale testing or programming. All other sectors, however, do have bigger companies operating and thus are supposed to have structures and knowledge for bigger scale operations in place.

### Growth dynamics related to sectors

With regard to growth dynamics of companies in north Kosovo, at least 59% of companies reported a steady or positive turnover increase, in absolute terms over the last 5 years. At the opposite end of the spectrum, 26% of companies reported a decline in turnover (in absolute terms) over the last 5 years.

At the higher end of the dynamic in either turnover growth ( $\geq 11\%$ ) or decline ( $\leq -6\%$ ), 11% of companies in both cases experienced this change over the last 5 years.

- The majority of companies that report a high growth rate operate in retail and/ or production related sectors with 44% of these companies reporting a turnover greater than Euro 50.000.
- Those companies that reported a strong decline in turnover in the last 5 years did not come from any particular sector with companies operational across all sectors surveyed during the research. There is no pattern that can be attributed or be used as an explanation for the companies' underperformance over this period of time.

One pattern that did emerge occurred amongst the largest category (31%) which experienced between a 0-5% increase in turnover over the last 5 years. It was clear from the data gathered that the majority of these companies operate in the Agriculture sector (fig. 8).

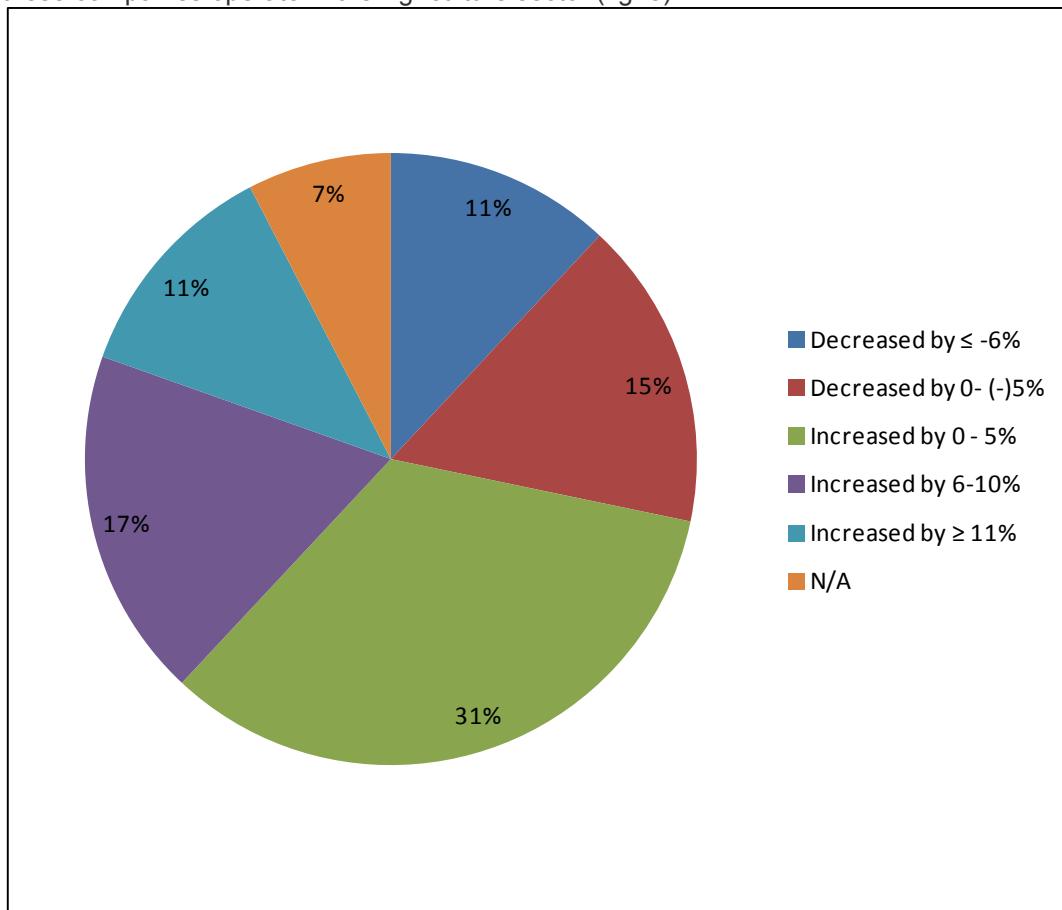


Figure 8: How did your turnover change over the last 5 years?

### Employment

The 331 companies that took part in the research gave us vital information regarding the workforce in private sector MSMEs in north Kosovo (fig. 9).

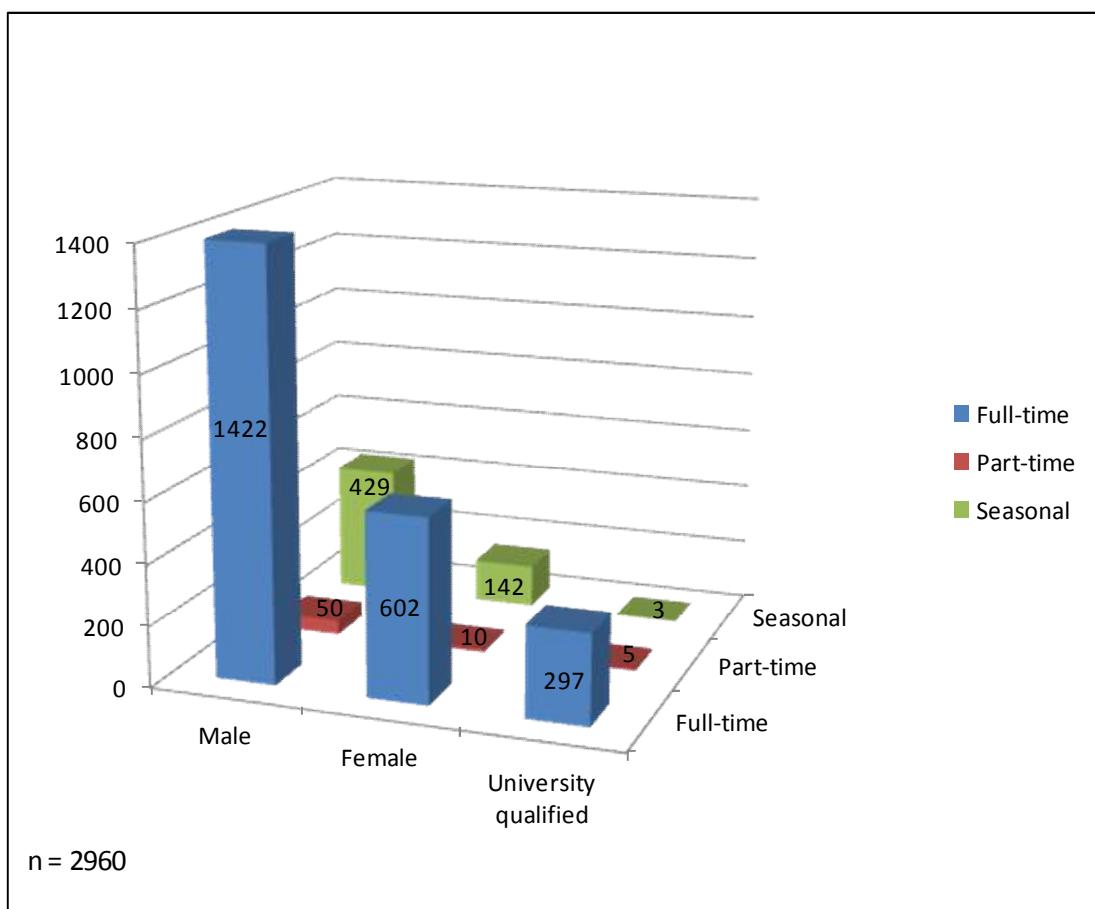


Figure 9: What is the number of your employees (male, female, university degree holder)?

The 331 participating companies employ 2960 people in full-time (2224), part-time (60) and seasonal (571) positions, only 12% of the private sector workforce holds a university degree. The private sector workers consist of 70% males and 30% females (fig. 8).

Full time male employees, only a few with university degree dominate the picture. This confirms the findings on the traditional structure (basic production and agriculture, crafts oriented, lower value added services) of the sectors and displays a weakness in higher value added jobs and thus a missing “high-end” industry.

## 3.2 Differences in the municipal economic structure

North Kosovo consists of four municipalities with an approximate population of 70.000. Fig. 8 depicts more detailed data on the individual municipality:

Municipality	Size – square kilometers	Villages / Settlements	Population (all ethnic groups)
Leposavić/q	750	72	18.500
North Mitrovica/ë	350	50	20.000
Zubin Potok	335	63	14.900
Zvečan/Zveçan	104	45	16.600
Total	1539	231	70.000

Source: Assessment of Economic Conditions and Possible Development Projects in Northern Kosovo, USAID 2006 – from Municipal Profile, OSCE – 2006

Figure 10: Physical size, settlements and population in north Kosovo

These figures are supported by the latest report on North Kosovo from the International Crisis Group in March 2011 as well as the latest RIInvest-Report.<sup>5</sup>

#### Different sector structures

Although heavily dominated by micro enterprises, the economic landscape of north Kosovo shows a number of differences when it is broken down into the 4 municipalities that exist.

		North Mi-trovica/ë	Zubin Potok	Zvečan/Zveçan	Leposavić/q
Number of companies interviewed		48	109	74	100
Employment		Full time: 352	Full time: 598	Full time: 439	Full time: 635
		Part time: 3	Part time: 20	Part time: 19	Part time: 23
		Seasonal: 51	Seasonal: 59	Seasonal: 130	Seasonal: 330
Main identified sectors		Retail / Construction	Agriculture	Production / Retail	Production / Agriculture
Company size per employee numbers	0 - 9	78%	94%	85%	90%
	10 - 19	19%	2%	9%	3%
	20 - 49	none	2%	3%	3%
	50-249	3%	2%	3%	4%

Figure 11: Sample data on the municipalities

There are differences in the predominant sectors that exist in each municipality with some overlap in Agriculture between Zubin Potok and Leposavić/q. Furthermore, a look at the breakdown of company size across the 4 municipalities also shows that variations are present.

#### Distribution of companies in terms of trade and turnover

The differing size of companies operational in the 4 municipalities and the predominant sectors in these municipalities provide us with insight into the economic landscape of north Kosovo.

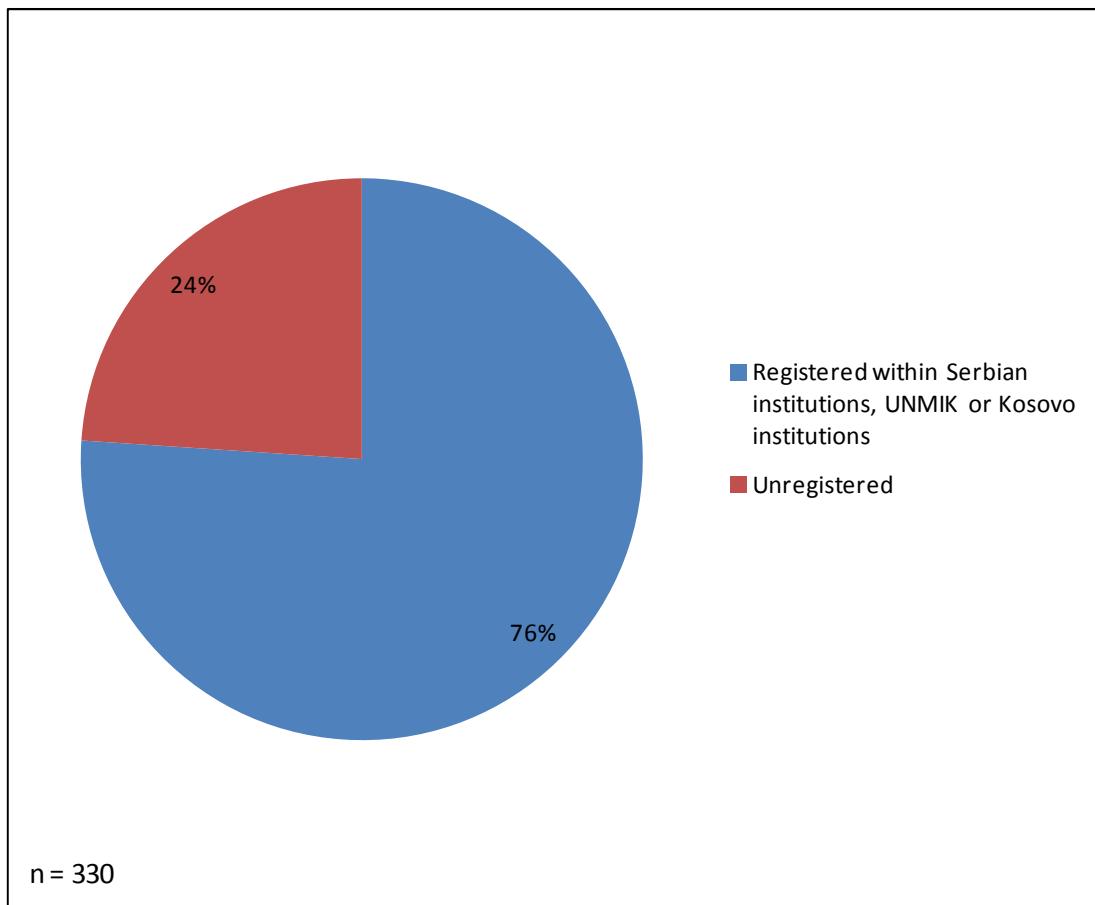
- The predominant sector in Zubin Potok is Agriculture, while the predominant company size is a micro enterprise possibly indicating a large presence of agrarian households.
- In Mitrovica/ë, which is dominated by the Retail and the Construction sectors with almost 20% of companies having between 10 -19 employees indicates a considerable number of well-established businesses.
- In both Zvečan/Zveçan and Leposavić/q production related sectors are the most prevalent, it can be said that the vast majority of companies operate on relatively small scale with just 6-7% employing more than 20 people. With regard to the number of seasonal workers in Leposavić/q compared to Zubin Potok, it is apparent that agricultural production (seasonal workers a dominantly used in this sector) takes place at a larger scale than in Zubin Potok.

In terms of economic growth Leposavić/q is the best municipality to do business. 44% of companies indicated strong or very strong growth. In contrast to this, only 28% of companies in Zvečan/Zveçan, 21% in Mitrovica/ë and 18% in Zubin Potok reported similar growth for the same period.

### 3.3 Registration, start of operation and ownership

A majority of companies in north Kosovo has a clear legal status through registration. However, still 24% of companies state that they are not registered at all (fig. 12).

<sup>5</sup> International Crisis Group,; Improving the Kosovo Serbian business community involvement in economic activities in Kosovo, RIInvest Institute, Pristina, March 2012



**Figure 12: What is the legal status of your company (in terms of registration with authorities)?**

92% of the unregistered businesses report a turnover of €20,000 or less per annum, indicating that businesses that are unregistered are less likely to experience growth and expansion. An indicator of this is in Zubin Potok where the majority of businesses are micro enterprises, at least 30% of these businesses are unregistered. Companies that have been established post-1999 are much more likely to be unregistered, indicating the lack of political stability and rule of law in north Kosovo has a negative effect on the local business environment. According to the research, 82% of unregistered businesses in north Kosovo began operations since the 1999 conflict.

Institutions where companies are registered are shown in fig. 13. Companies have three options to register. However, registration under UNMIK phased out and companies have been transferred to Kosovo Business registration. Still 20 companies say that they are solely registered under UNMIK. Of about a third of the companies (114) in the sample are registered in the Serbian Business registry while much lesser companies (61) are registered in the Kosovo business registry. 40 companies are registered in both: the Serbian and the Kosovo business registry.

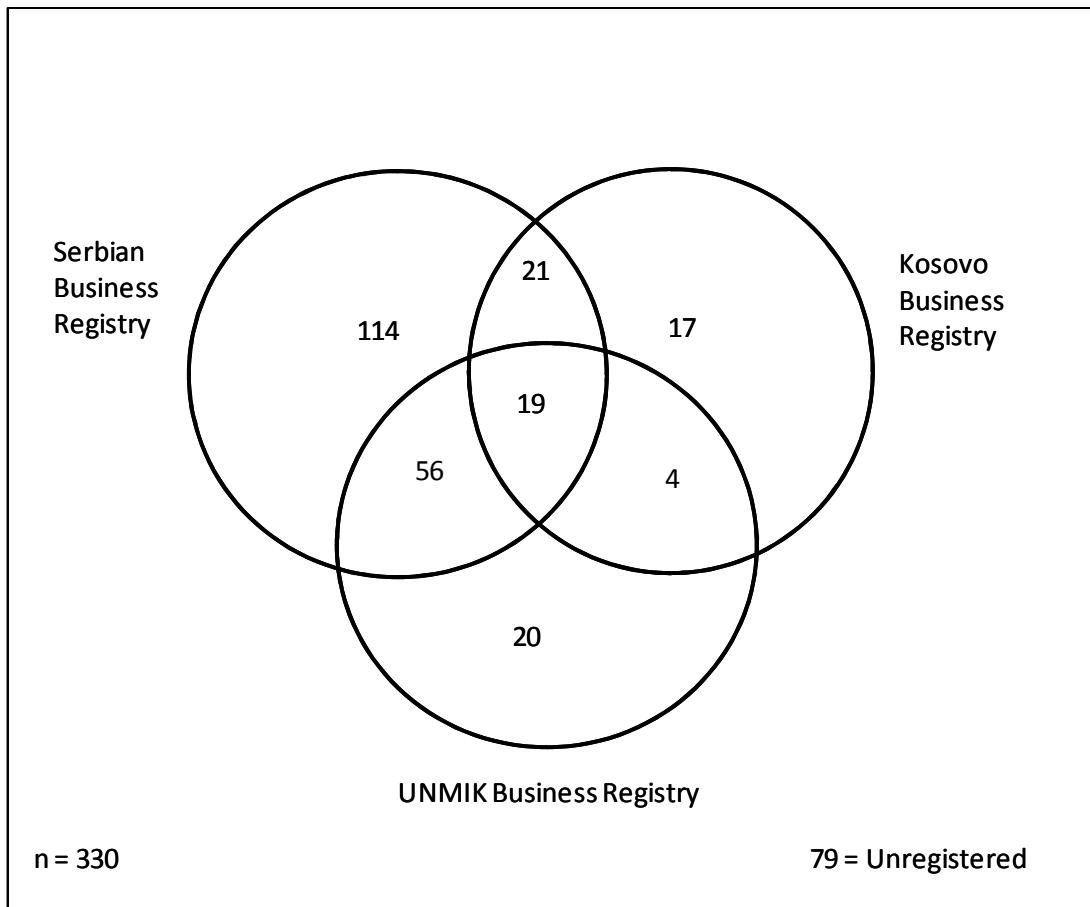


Figure 13: Institutions where are companies registered

Companies registered within the Kosovo business registry automatically gain access to the south Kosovo market without the restrictions placed upon unregistered businesses or businesses registered under other jurisdictions. Thus, the in total 170 companies that are registered in Serbian and UNMIK registry only will face obstacles to trade in one of their main regional markets which puts a break on their growth potential. This is evident when companies registered in the Kosovo business registry are isolated and turnover compared to unregistered businesses. The turnover of registered companies is considerably higher. As previously stated, 92% of unregistered business turnover between 0-€20,000, while for businesses register within the Kosovo system this figure reduces to 40%, with almost 17% of companies turning over more than €100,000 per annum see fig. 13 below).

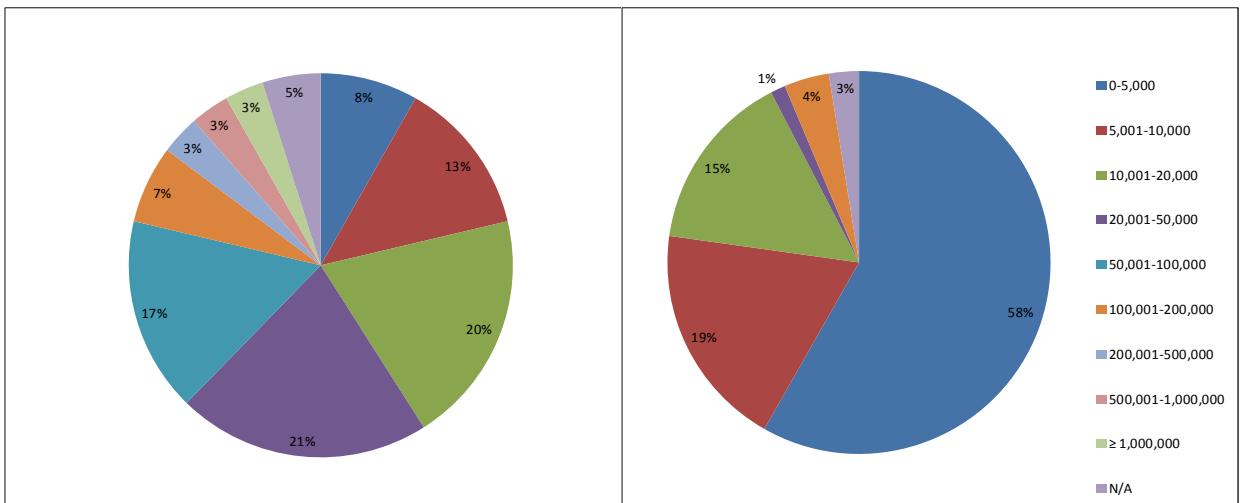


Figure 14: Turnover and registration: KBRA registered (left) and unregistered business (right)

### Start of operation:

A majority of companies (62%) began operations between 2000-2010. Only 26% of businesses (26%) have been operational prior to 1999 conflict (fig. 15).

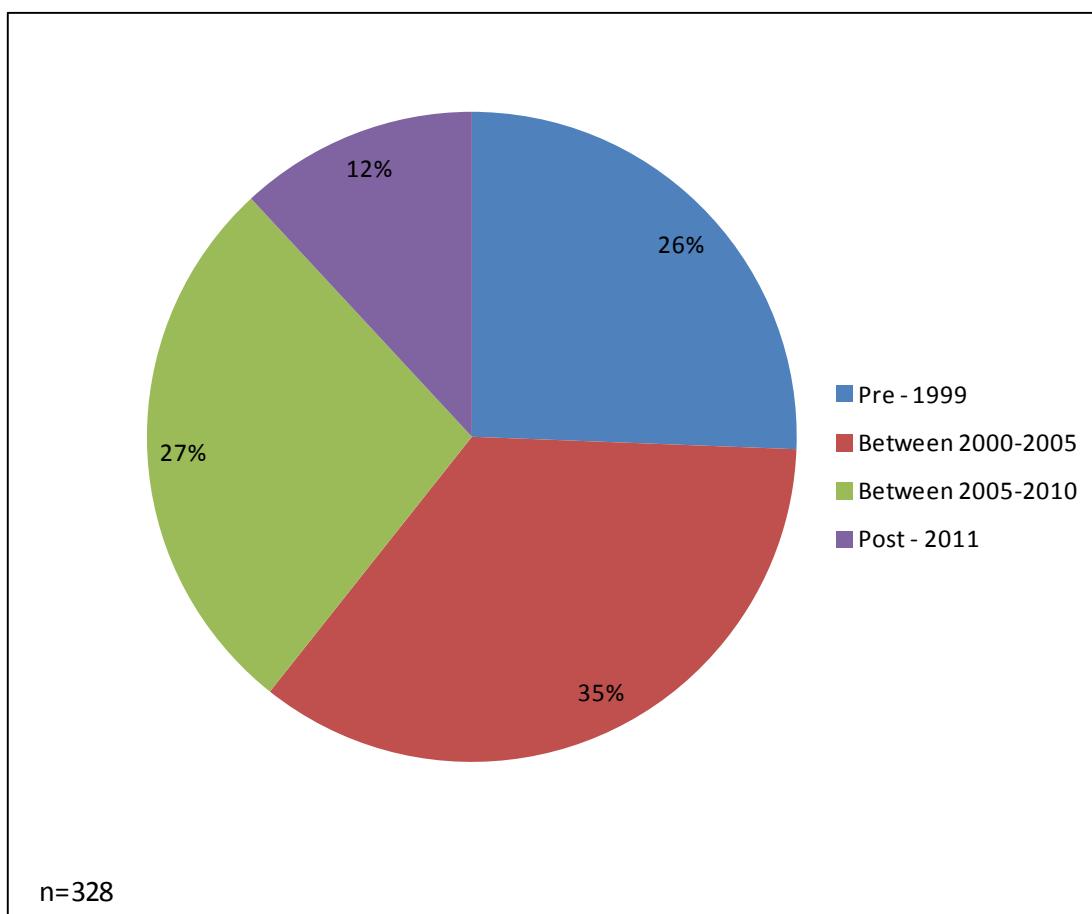


Figure 15: When did your company begin operations?

The majority (82%) of the businesses established prior to 1999 employ between 0-9 people i.e. stay rather small.

In the years since 2011, the establishment of businesses in north Kosovo has not happened at the same rate as the other time period indicated in fig. 10. Only 12% of companies said that they were established since 2011 (a period of almost 3 years). There are a number of possibilities for this situation which may have affected the establishment of new businesses. Since 2011, the banking system in north Kosovo has restricted credit to a maximum of Euro 5.000 limiting the resources available to start-ups. In addition to this there has been a regression in both the political and security stability in north Kosovo and little or no local cooperation with Kosovo government institutions in the intervening period. This regression of stability may have contributed to the lack of FDI into the region.

### Ownership

Company ownership in north Kosovo has remained very traditional with the vast majority (76%) of businesses being owned by Sole Proprietors. Other key indicators in this section of the research concluded that 9% of companies are Limited Liability Companies while 7% indicated "other" as their type of ownership meaning unregistered business, non-formalized business or similar.

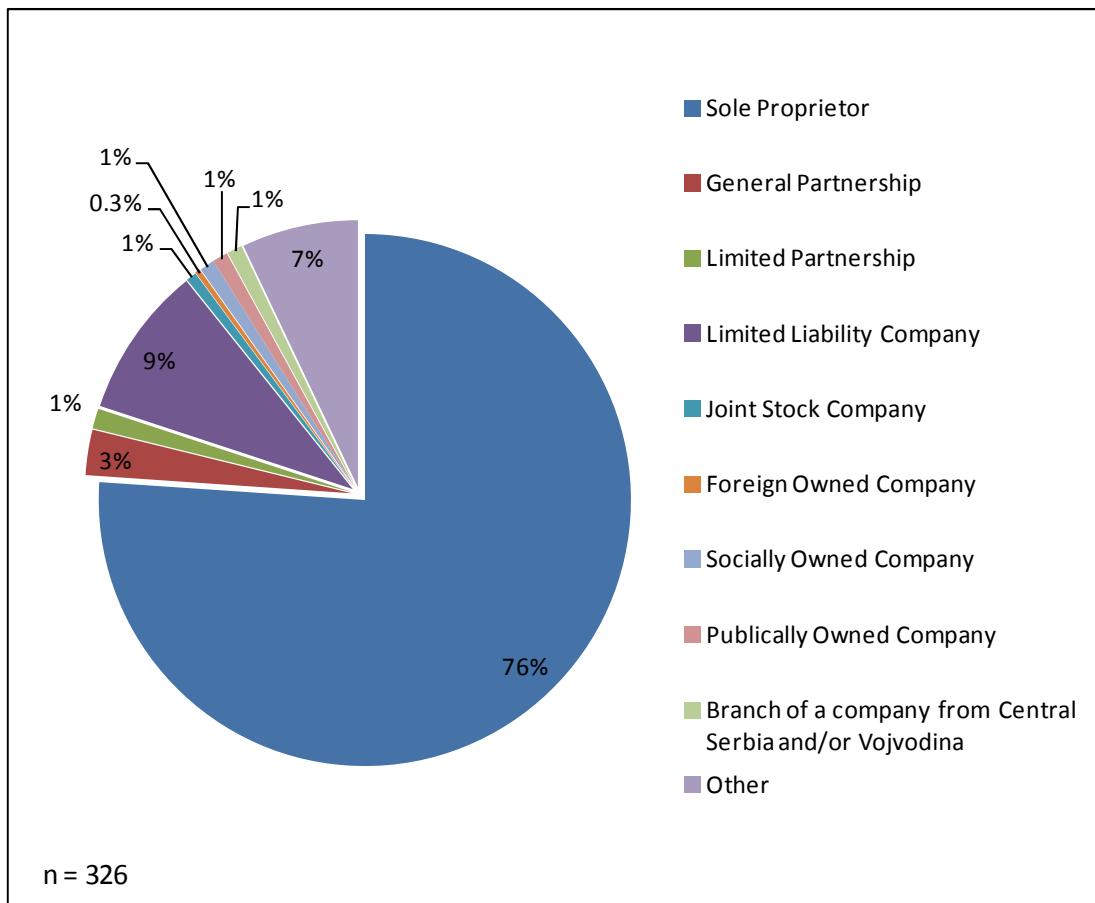


Figure 16: What type of ownership is the business operating under?

Other forms of ownership are evident in Figure 16, however, these are very minimal when compared to Sole Proprietor or Limited Liability Company. An indication of the lack of FDI is most definitely evident; there is just 1 Foreign Owned Company and 3 companies that are Branch's of a Company from Central Serbia and/ or Vojvoidina.

### Conclusion on chapter 3

With regard to the EU-definition, the economic structure of the north consists to a 100% of MSMEs, with a strong majority of micro sized proprietor owned enterprises (72% of all companies). However, within the sample there are considerable differences in firm size, sectors and turnover.

In terms of number of companies, retail and agriculture with both 22% are the strongest sectors. Food production with 11% as well as hospitality and tourism (also 11%) follow as bigger sectors. In terms of shares of turnover and growth potential, however, the bigger economic contributors are retail-, production- and construction-oriented companies. In terms of employment, the survey counts 2960 private sector jobs. 70% of which are occupied by males. Only 12% of private sector employees hold an university degree.

As opposed to earlier findings (USAID 2006) the four municipalities cannot be characterized as "kiosk-economy" and also not to solely relying on its natural resource base. It is evident from the survey that food- and wood-processing, production of equipment, material and machinery as well as services build important parts of the economic base of the north. Agriculture – mainly organized in micro enterprises – is another important economic base.

A share (19%) of companies is registered in Kosovo business registry showing interest also in the south Kosovo market. The majority of companies are registered with Serbian business registry only (56%). In turn, 24% of companies are not registered at all. That makes approximately 75% of companies that are not registered in Kosovo. The survey shows that unregistered companies tend to be founded after the 1999 conflict with a small company size and do not grow over time. Companies registered in the Serbian registry only tend to have a lower turnover and lower growth rates than those registered with the Kosovo registry.

With regard to municipalities, different economic structures emerged from the survey. While Zubin Potok is "the agriculture" municipality, Leposavić/q's economy is agriculture and production based. Zvečan/Zveçan has a significant focus on production and technical services while Mitrovica/ë is dominated by services and retail. Leposavić/q is a comparable good place for doing business: a large share of companies (44%) that report exceptional growth rates in turnover over at least five years are located in that municipality.

Despite the share of slow- or non-growing, micro-sized unregistered business, a remarkable result of the survey is that the north has an economy, with a majority of companies reporting long term growth rates (59%). Although the majority of businesses were founded after 1999, still most of the companies are older than 5 years and thus can be considered long term and stable market players. Thus, in the last decade the private sector in the north developed although within a "non-business environment", referring to the post conflict situation. However, the region totally lacks a key growth driver: foreign direct investment and a decent business climate.

## 4 Target markets of north Kosovo companies

How do companies describe their business activities, to what degree are north Kosovo companies outward oriented – where are there main markets? These are the questions that we are addressing in this section. For this purpose there were 7 markets used to get an insight into the trading markets of companies from north Kosovo (fig. 16)

Market	Explanation
Local	North Kosovo municipalities of Mitrovica/ë, Zvečan/Zveçan, Leposavić/q and Zubin Potok
Serbia	Republic of Serbia
Serbian Enclaves	Enclaves in south Kosovo with a predominant population of Kosovo Serbian
South Kosovo	South Kosovo excluding Serbian enclaves
Other Balkan countries	Balkan countries that are not part of the EU or covered by any other markets
EU countries	Members of the European Union
Rest of the World	Countries that are not covered by any other category

Figure 17: Markets for the purpose of the study

### 4.1 Business activities and products

With regard to business activities the majority of companies, focus on selling products directly to consumers (fig 18). However there is a large overlap of companies that indicated their business activities consist of B2B, B2C and B2I showing that few companies rely of just one market segment for sales.

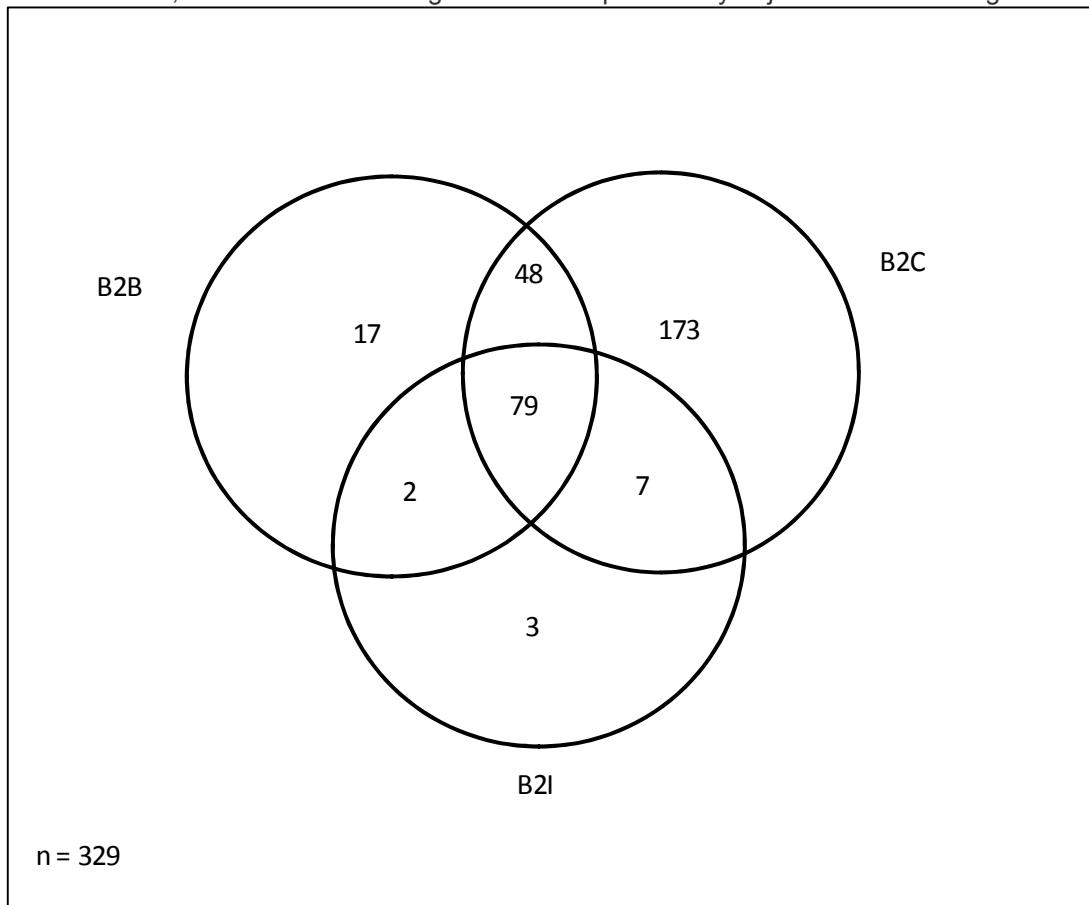


Figure 18: How would you describe your business activities?

In terms of products, there are number of companies that indicated a range of product differentiation, i.e. that are competent to produce more variably. 67 companies are producing four or more lines of products across a range of sectors. These included; wood processing, food processing, agriculture, manufacturing of equipment and construction material, agricultural machinery, and the services sectors. Of these 67 companies more than 46% of them belong to a group with turnover greater than Euro 20.000. These companies' business activities appear to form an important part of the industrial base and are a major contributor to value creation in north Kosovo.

## 4.2 Relevance of markets

The survey covered to almost 100% all markets in which companies' from the north do trade. Apart from the local market the main markets are south Kosovo, Serbia and Serbian enclaves. Almost 18% of all companies are active there. Few companies trade also in other Western Balkan countries and the EU.

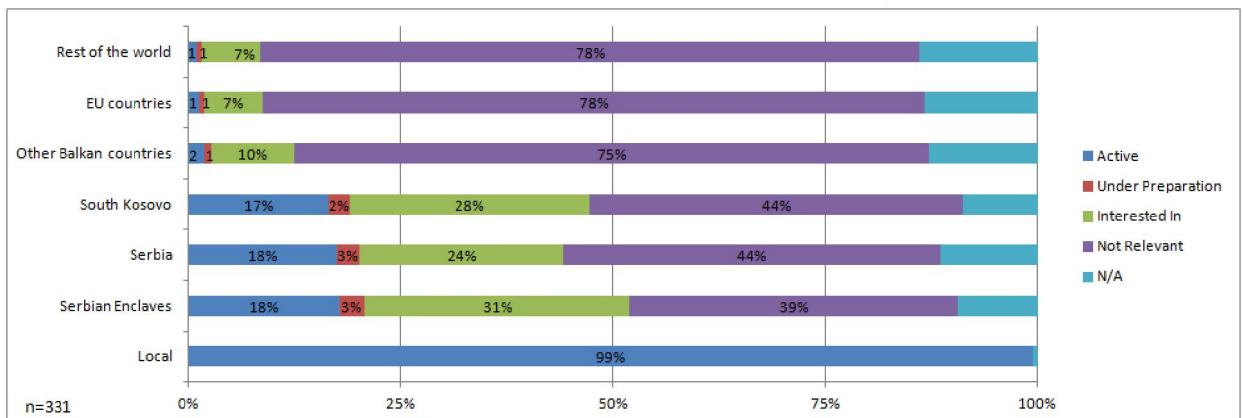


Figure 19: In which markets are you active, under preparation, interested in or are not relevant?

With regard to trade with markets outside the local market, specifically south Kosovo, Serbia and the Serbian enclaves 44% of all companies that trade with these markets were located within the municipality of Leposavić/q. This figure differs considerably from the other municipalities where 30% in Zubin Potok, 25% in Zvečan/Zveçan, and just 3% in Mitrovica/ë trade with these markets.

There is a high interest of companies from north Kosovo to do business with these three nearest markets. A further 2-3% of companies were identified as been under preparation, while between 24 to 31% of companies, depending on the markets are interested in doing business with these markets as can be seen in fig. 19. So, it is obvious that a larger share of companies do think that they are able to profitably venture in these markets.

It is evident that a higher percentage of companies are interested in entering the south Kosovo market as opposed to the Serbian market. However, the highest interest is amongst those wishing to enter the Serbian enclave market with 31% of companies indicating their interest. In total, almost 50% of all companies interviewed stated that they are either active, interested in or under preparation to trade in one of these 3 markets.

29% of the companies that trade with south Kosovo had previously been identified as part of the group that form a significant part of the north Kosovo industrial base. A further 26% of this group is actually interested in trading with south Kosovo while 4% are currently under preparation to engage in trade.

In contrast to these 3 markets, the Other Balkan countries, EU and Rest of the World do not feature heavily in the focus of companies operating in north Kosovo. However, between 9 - 13% of companies are either active, under preparation or interested in trading with these markets.

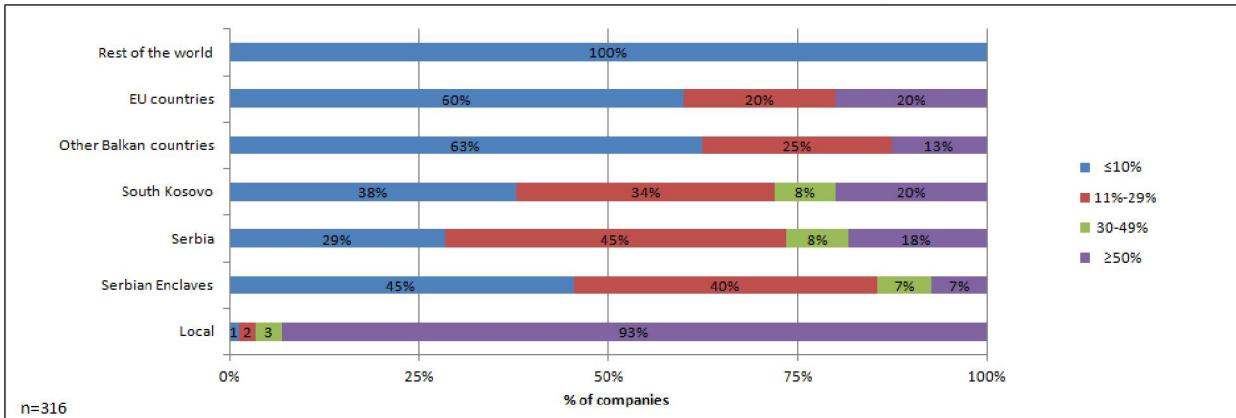


Figure 20: What share of turnover is achieved in the markets in which you operate?

For a large number of companies, more than 50% in all cases, which trade with the markets of Serbia, south Kosovo, and the Serbian enclave more than 11% of their turnover, comes from these markets. There are a significant group of companies, 20% that do business with south Kosovo that realise more than 50% of their turnover share from this market. Interestingly, that although there are only a small number of companies that trade other Balkan countries and the EU, those that do trade have a significant of their turnover from these markets.

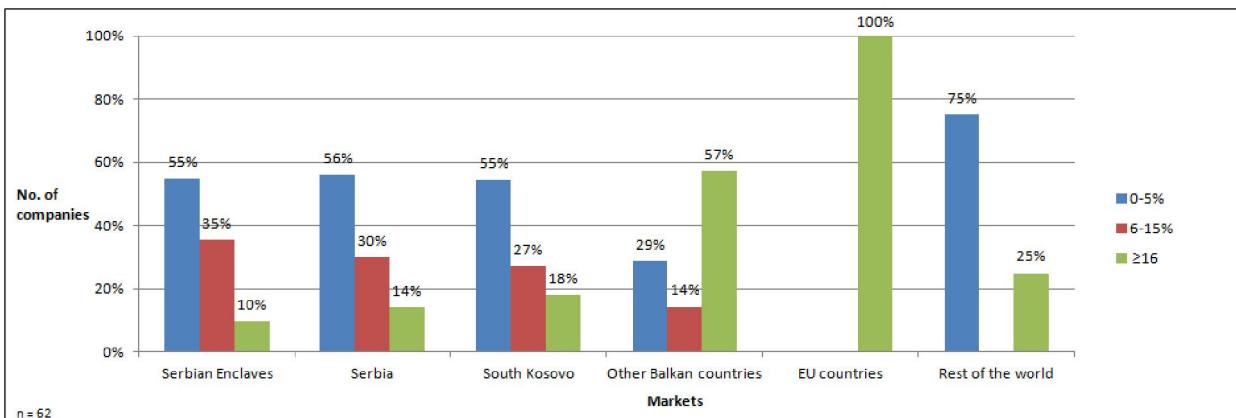


Figure 21: What is the average growth rate of your business outside the local market?

The markets of Serbia, south Kosovo and Serbian enclaves are of high relevance for companies operating in north Kosovo. In more than 50% of the cases, companies dealing with these markets experience a 'normal' (0-5% growth per annum) growth rate. Although most companies experience 'normal' growth rates, these markets do still hold opportunities for companies to experience larger growth rates. Almost 50% companies operating in these markets do experience a very high growth rate of more than 16% per annum, and 18% of these companies trade with south Kosovo as opposed to 10% for the Serbian enclaves and 14% for the Serbian market.

Although there are few companies that trade with other Balkan countries and the EU, those companies that do trade experience exceptional growth rates in these markets indicating that there are opportunities to be successful in these markets if a company can meet the requirements needed.

### Change in relevance – company's perceptions

In order to capture the future direction companies want to engage in and understand how they feel about markets changes, it is important to ask about the perceptions for the future. Fig. 22 shows what companies replied when asked for future market relevance:

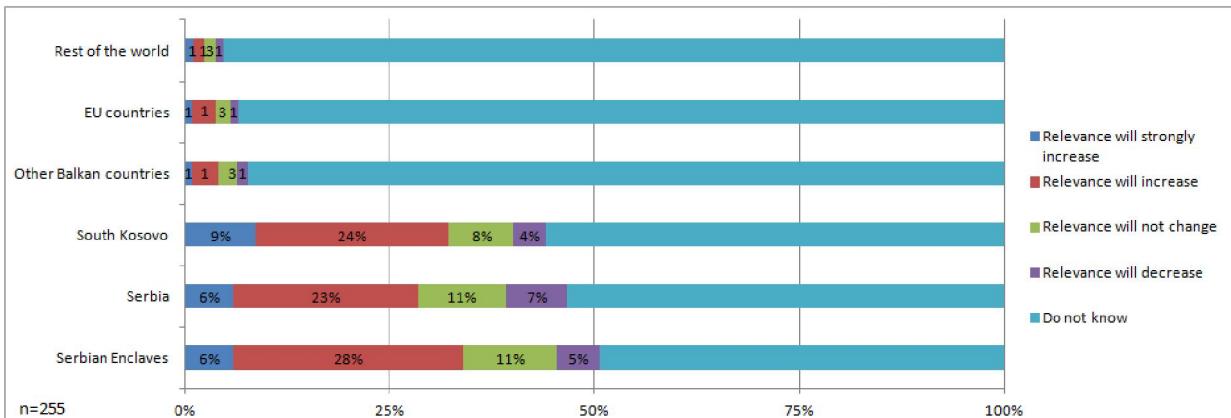


Figure 22: How will the relevance of the markets change over the next five years?

The research indicates that very few companies believe the relevance of markets in question will decrease. The Serbian market revealed the highest percentage (7%) of decreasing relevance. There is a stable group of companies that currently deem the south Kosovo, Serbian and enclaves markets to be relevant, this group of companies believe these markets will become more relevant or stay relevant to the same extent in the future.

There is a group of companies (44%) that say the south Kosovo market is not currently relevant, however, when asked about the future relevance of the same market they 'do not know'. Thus, this group of companies seems unsure whether the market will remain irrelevant or not. The same can be said for the Serbian and enclave markets.

Looking at the reasons companies gave for their perception on changing relevance the following picture emerges (fig. 23)

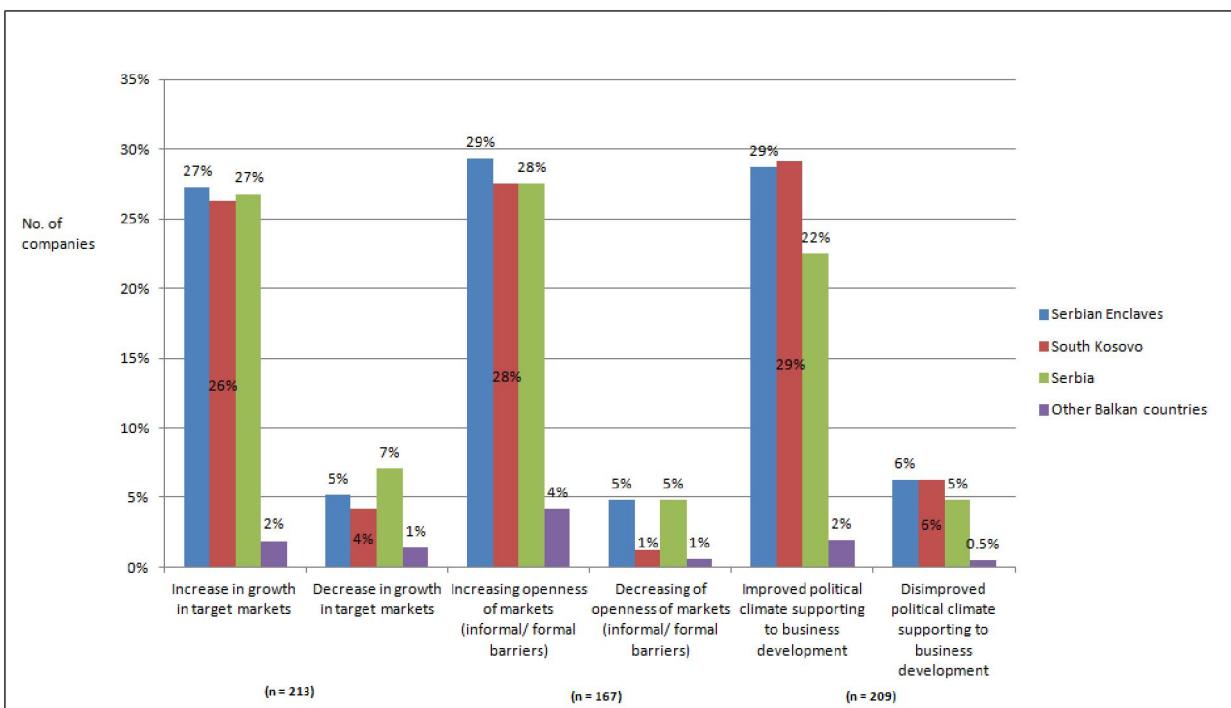


Figure 23: How did you come to this perception/ expectation (in terms of market relevance change)?

The majority of companies expect increasing growth rates in target markets, openness in terms of diminishing formal and informal barriers, along with improved political climate supporting to business development. These were cited as the main reason for increased relevance in the markets outlined in fig. 23.

It is interesting to note that companies expect an especially improved situation for south Kosovo and the enclaves in comparison to Serbia.

### 4.3 Business linkages to sourcing markets

The business linkages of north Kosovo companies from the perspective of input supply shows a strong reliance on Serbian supplies market (fig. 24)

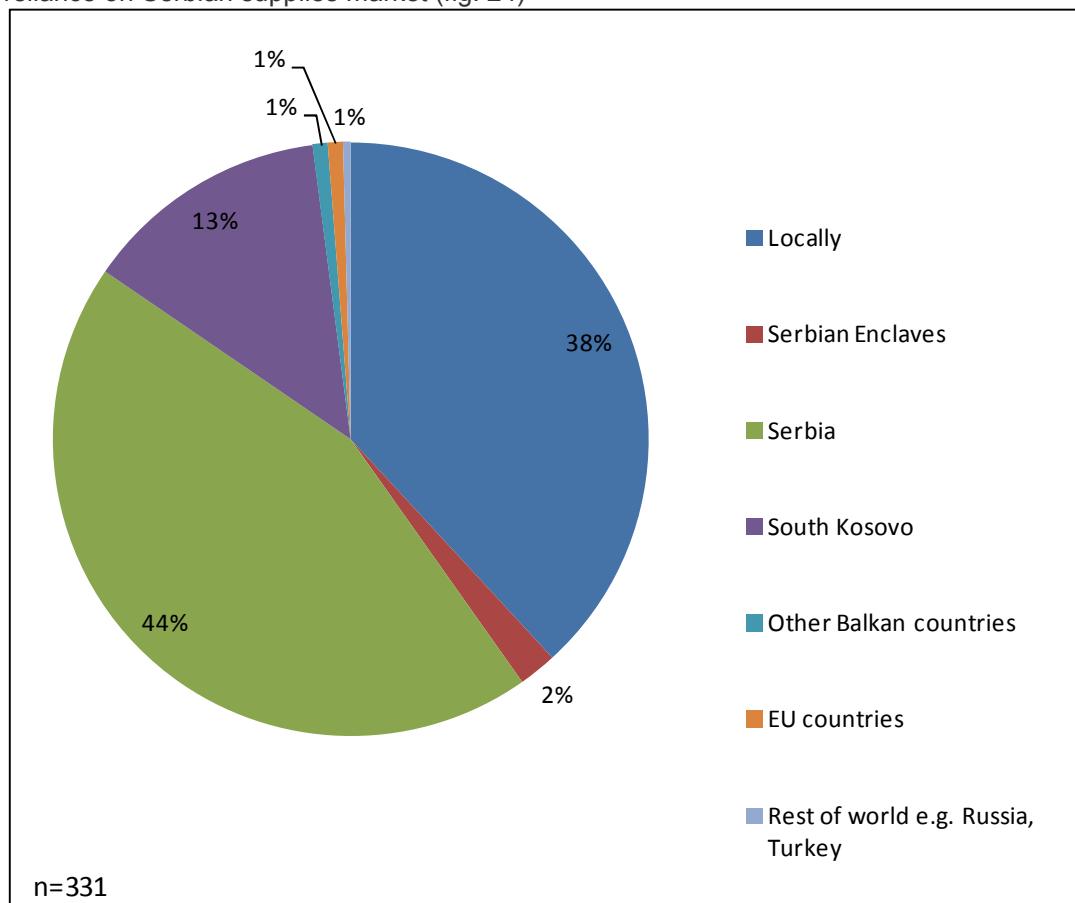


Figure 24: In which market are your suppliers located?

As can be seen from fig. 24, 44% of companies source their input supply from Serbia, the largest percentage from any of markets represented.

20 companies both source from and sell to the south Kosovo market. An average of almost 50% of their input supply comes from the south Kosovo, indicating that the south Kosovo market is highly relevant for this group of companies. There are a further group of 45 companies that do not sell to the south Kosovo market but do source from that market. In total, 100 (30%) companies from north Kosovo do have active business linkages, sale and sourcing to the market in the south.

**Conclusions on chapter 4:**

The main target markets outside the local market are almost equally Serbia, Serbian enclaves in the south and south Kosovo (18% of companies in the survey trade with these markets). In addition, a larger share (approximately 30%) prepares market entry into these markets or is interested to trade with these. There are a few companies that do successful business with other Western Balkan countries and also EU countries. Companies that operate outward oriented tend to experience higher growth than those dealing with the local market only. Most companies say that they see the south Kosovo market as the relevant market. In total 50% of the companies in the survey agree that doing business with south Kosovo will bring benefits in terms of market enlargement, turnover and profits. Thus, when asked about the future relevance many expect relevance to grow.

A majority of companies doing trade with the south and Serbia as well as the enclaves are located in Zubin Potok and Leposavić/q. In contrast relatively few companies from Zevcan and north Mitrovica/ë do trade with the south. Companies with a substantial outward orientation are mainly found in agriculture, production and service of machinery, production of construction material and wood- as well as food processing.

Doing trade with the south Kosovo, Serbia and the enclaves represents a significant business proposition for north Kosovo companies by seemingly diversify and enlarge the market opportunities, also in terms of sourcing. The survey gives hence evidence for the case of a intensified support and integration to improve business relations and explore opportunities in outward markets.

## 5 Framework conditions to regional trade

### 5.1 Obstacles to business development

The research team find that although there is an entrepreneurial spirit in north Kosovo with a large number of businesses established in a difficult economic and political climate. However, it has been established that many of these companies do not develop beyond micro enterprises and this section is used to look at the challenges that inhibit business development.

#### Perceptions on specific markets in terms of challenges and obstacles

Competition and risks in terms of remaining conflict potential appears to be the most hindering factors in doing business in the local market (fig. 25).

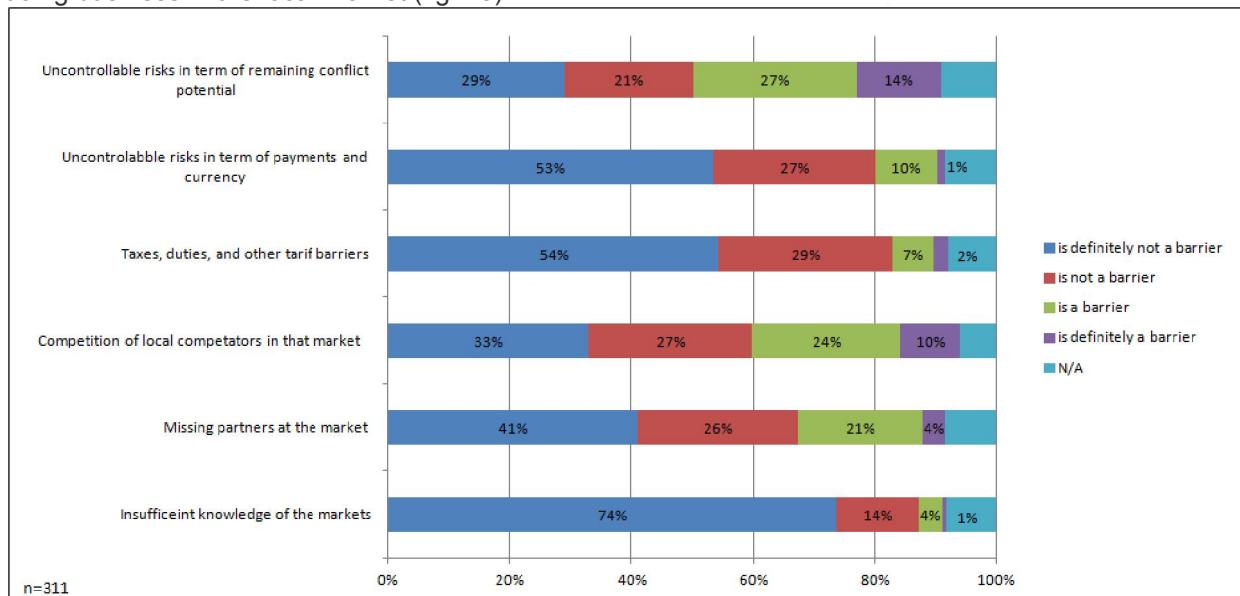


Figure 25: Are the following variables a challenge in doing business in your local market?

Other possible obstacles especially when compared to those in outward markets are rather small according to companies' perceptions. When looking at taxes (duties etc. would of course not apply in the local market) the hypothesis of the positive effect of a "non-business environment" is supported – since this rating seems to be exceptionally low.

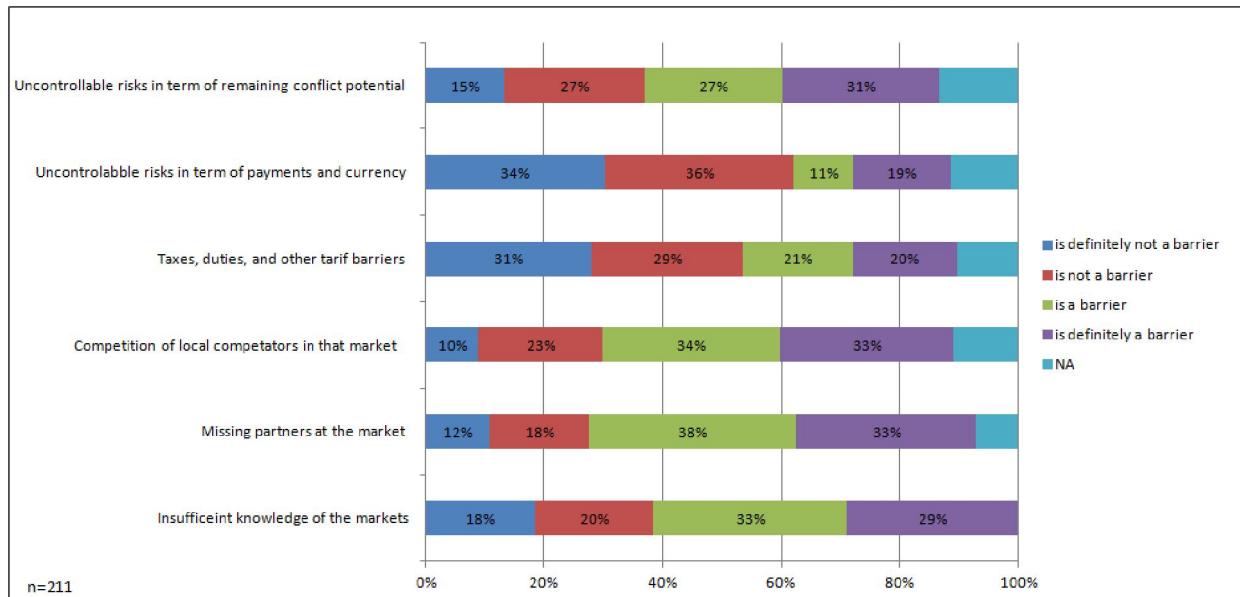


Figure 26: Are the following variables a challenge in doing business in the Serbian Enclaves market?

In fig. 26 it can be seen where companies have identified those variables that are challenges in doing business in the Serbian enclave market. Four challenges were identified as significant barriers or definitely a barrier in doing business with the Serbian enclave market, with the most significant been missing partners in the market (71%). Following that it was established that 64% of companies felt that the competition of the local competitors is a barrier or definitely a barrier, while 62% claim insufficient know of the markets. A non-business related challenge is also felt to be a significant challenge in doing business with the Serbian enclave market with 58% of companies indicating uncontrollable risk in terms of remaining conflict potential as a barrier or definitely a barrier.

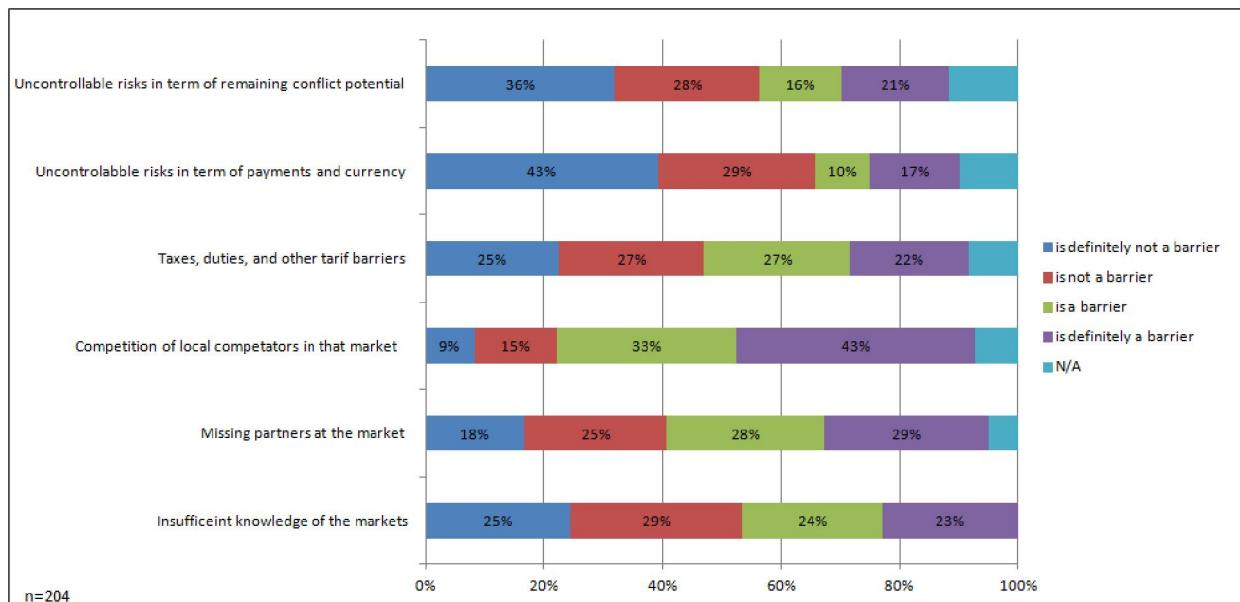


Figure 27: Are the following variables a challenge in doing business in the Serbian market?

The data in fig. 27 relates challenges that may or may not exist for companies doing businesses in the Serbian market. There were two variables that were identified as major challenges in the Serbian market. The biggest challenge is the competition of the local competitors in the market, where 76% of companies from north Kosovo see this as a barrier or definitely a barrier in the doing business. In addition, a further challenge was identified as missing partners in the market which 57% of companies believe to be

a barrier or definitely a barrier. In all other cases the challenges to doing businesses, except remaining conflict potential and risks in terms of payment which were positively not a barrier, the companies indicated the answers were relatively equally dispersed amongst all possible answers.

The evidence relating to the south Kosovo market is not as positive as the other markets above , as can be seen in fig. 28 (below).There are 4 main challenges to doing businesses in south Kosovo that a large majority of companies identify as problems to doing business. There still seems to be large amount of insecurity amongst the business community in north Kosovo regarding uncontrollable risks in terms of remaining conflict potential in south Kosovo. At least 75% of companies interviewed during the research believe this be a barrier or definitely a barrier in doing business in south Kosovo. Furthermore, 75% of companies also believe that missing partners in the market are also a significant challenge in doing business.

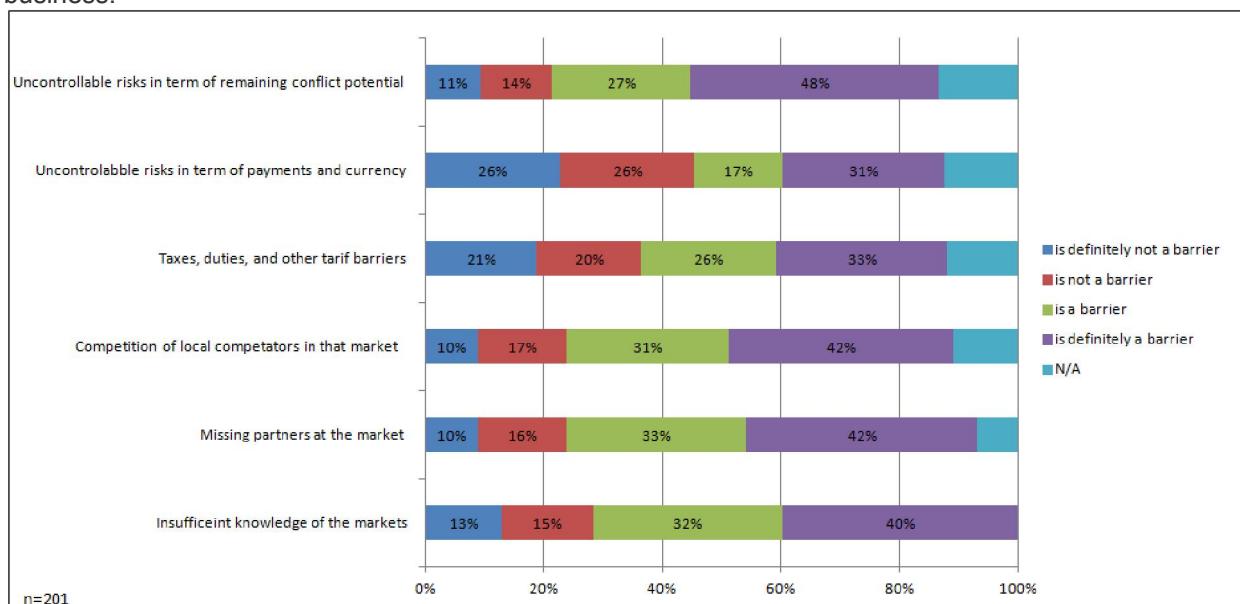


Figure 28: Are the following variables a challenge in doing business in the south Kosovo market?

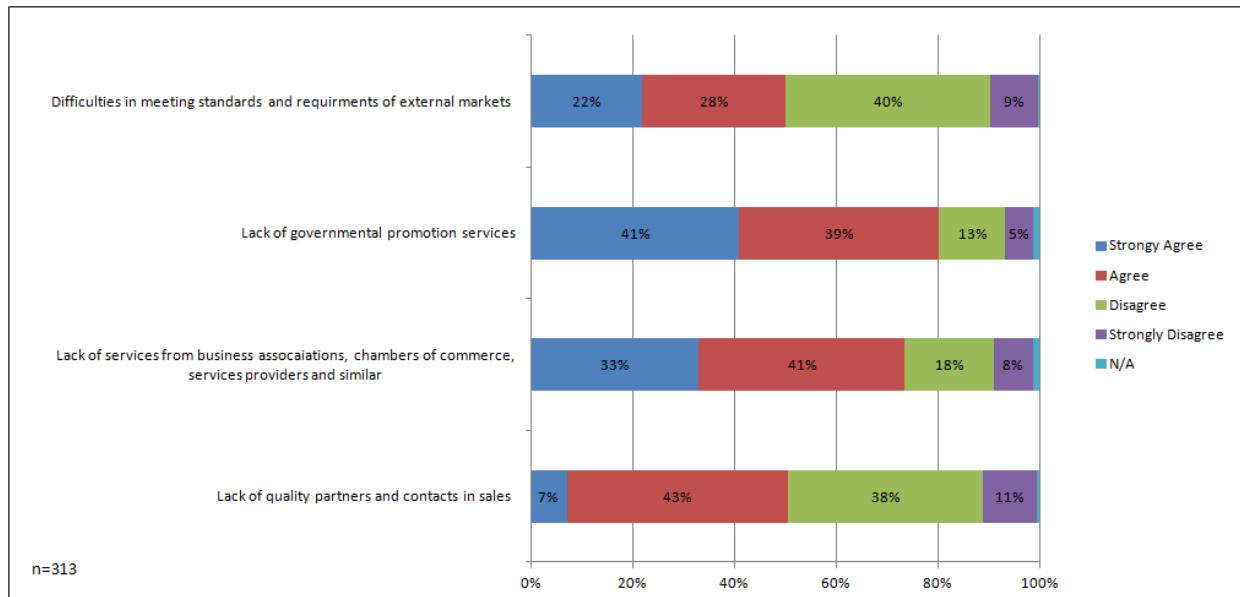
Insufficient knowledge of the market, along with the competitiveness of companies originating from south Kosovo are both significant problems in doing business with 73% of companies claiming this to be an issue.

## 5.2 Business development assistance

In order to get a better understanding of the development that has already taken place, the investment and assistance that has previously it was felt that research was needed on previous business development assistance, the type of assistance and the contributing organisations.

The interviewed companies were asked to give information and rate the obstacles in fig. 29. It was clear from the answers given that the participants felt that there are 4 main obstacles in doing business in their markets. The 'lack of governmental promotion services' is the biggest obstacle in doing business with 80% indicating they agree or strongly agree that this is an obstacle in the market in which they operate. In addition, 73% of companies indicated a 'lack of services from business associations, chambers of commerce, service providers and similar' created obstacles for their companies when trading. Lack of quality partners and contacts in sales (50%) and difficulties in meeting standards and requirements of external markets (50%) were additional obstacles that businesses experienced in doing businesses in existing markets.

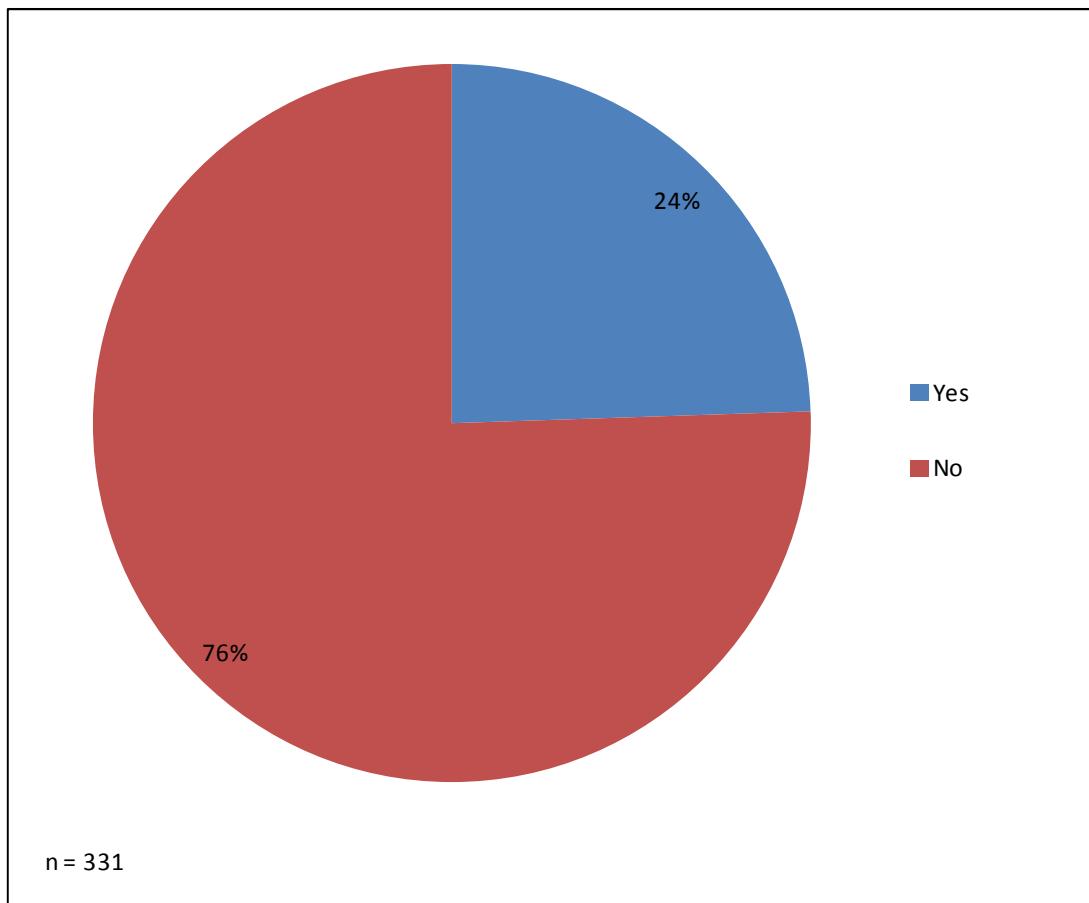
Companies clearly identify difficulties in meeting standards and requirements as an issue in developing their business. In further areas of the research it was identified that 40% of companies wish to improve product quality which can be directly related back to the lack of ability to meet standards and requirements in external markets.



**Figure 29: What obstacles have you experienced or believe you may experience in becoming more competitive in the market**

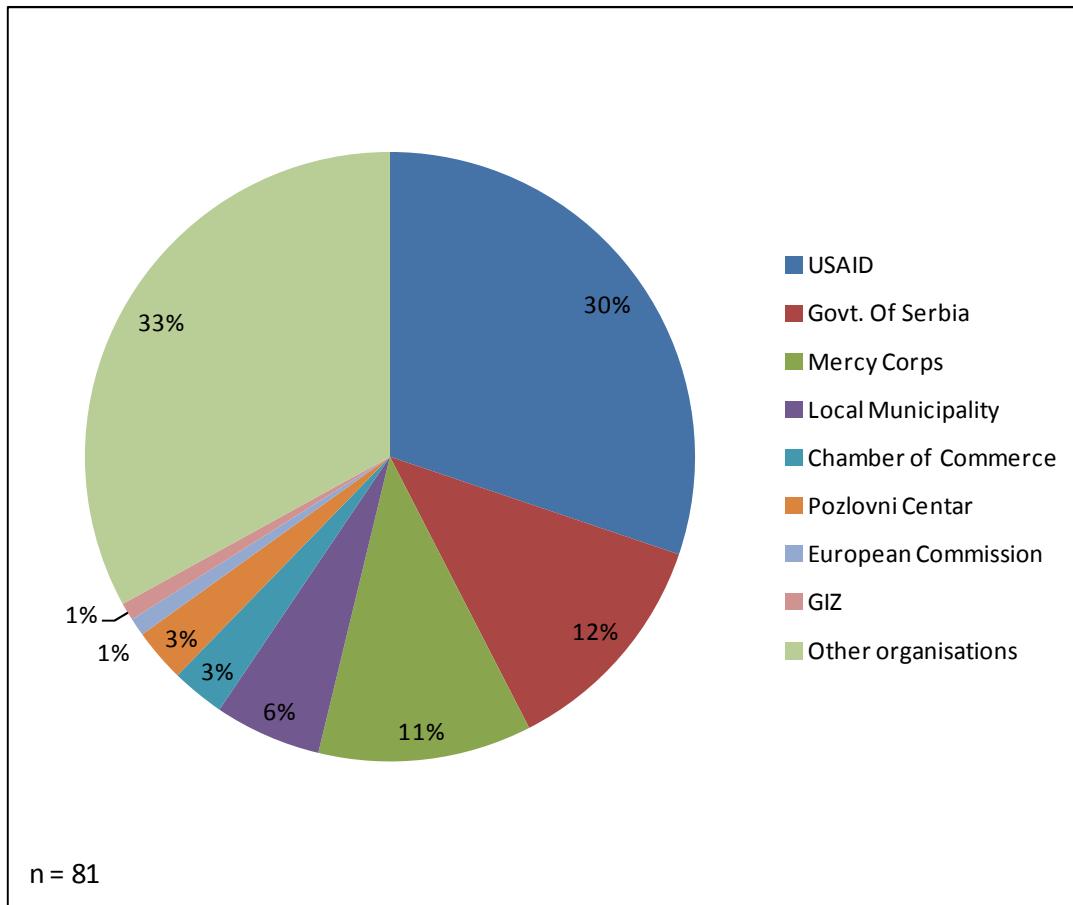
The variables in fig. 29 were identified as possible obstacles in doing business across all markets that companies from north Kosovo are active in. It can be said that generally the companies interviewed did not feel that these were challenges in doing business in their local market as can be seen in fig. 25. These challenges have rather to do with a stable business environment and show – despite the fact that the “non-business environment” can have advantages to a certain degree the growth restrictions of such an environment once companies want to trade outside their local market.

In terms of support measures almost 25% of companies interviewed had previously received support from a number of local and international, governmental and non-governmental organisations (fig. 30). These 81 companies are located in each of the 4 northern municipalities, however there is a grave discrepancy in the distribution of support with 34% located in Zubin Potok, 31% in Zvečan/Zveçan, 30% in Leposavić/q and just 5% of companies located in Mitrovica/ë.



**Figure 30: Have you received business development assistance?**

Fig. 31 shows that the largest contributor of assistance to businesses in north Kosovo is USAID. In addition to USAID, other contributors of considerable assistance are the Government of Serbia and Mercy Corps. A number of other organisations had made contributions on a smaller scale while the category of other organisations accounts for 43%. There are a number of possible reasons for companies not giving the name of the contributing organisation but one may be that the support was implemented by a local organisation rather than the contributor.



**Figure 31: From which organisation or institution did you receive business development assistance?**

There were 5 main areas of business development assistance identified during the research as seen fig. 32. The most prevalent type of support received by companies in north Kosovo was Financial Support (45%), while a further 28% of companies received Equipment or Machinery. Credit support (16%), or assistance in gaining access to credit is an important form of business development assistance for companies in the north considering the restrictions in place within the banking system in issuing loans. In addition to these types of support, companies were given Training/ Workshops in 8% and Technical Consultancy in 1% of cases where support was received.

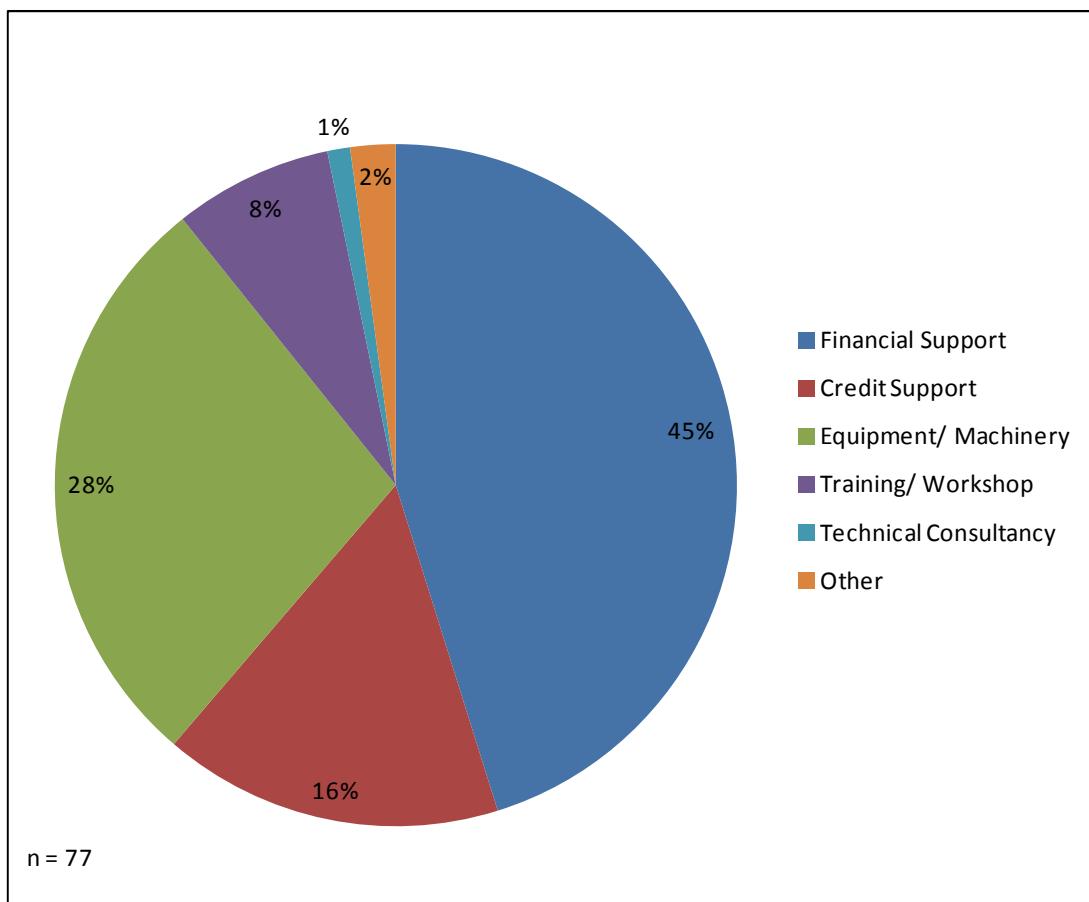


Figure 32: Which type of business development assistance did you receive?

In order to gain a better idea for future development assistance, and the organisations from which assistance would be accepted the participating companies were asked 'Would you accept assistance from the following organisations?' as outlined in fig. 33. The organisations that were proposed to the participants are listed in the table below.

#	Organisation
1	Local Municipality
2	Chamber of Commerce
3	Govt. Of Serbia
4	USAID
5	Swiss Agency for Development & Cooperation
6	European Commission
7	Govt. Of Kosovo
8	G.I.Z.
9	Pozlojni Centre
10	British Embassy
11	Mercy Corps

Figure 33: Organisations companies were asked would they accept support from

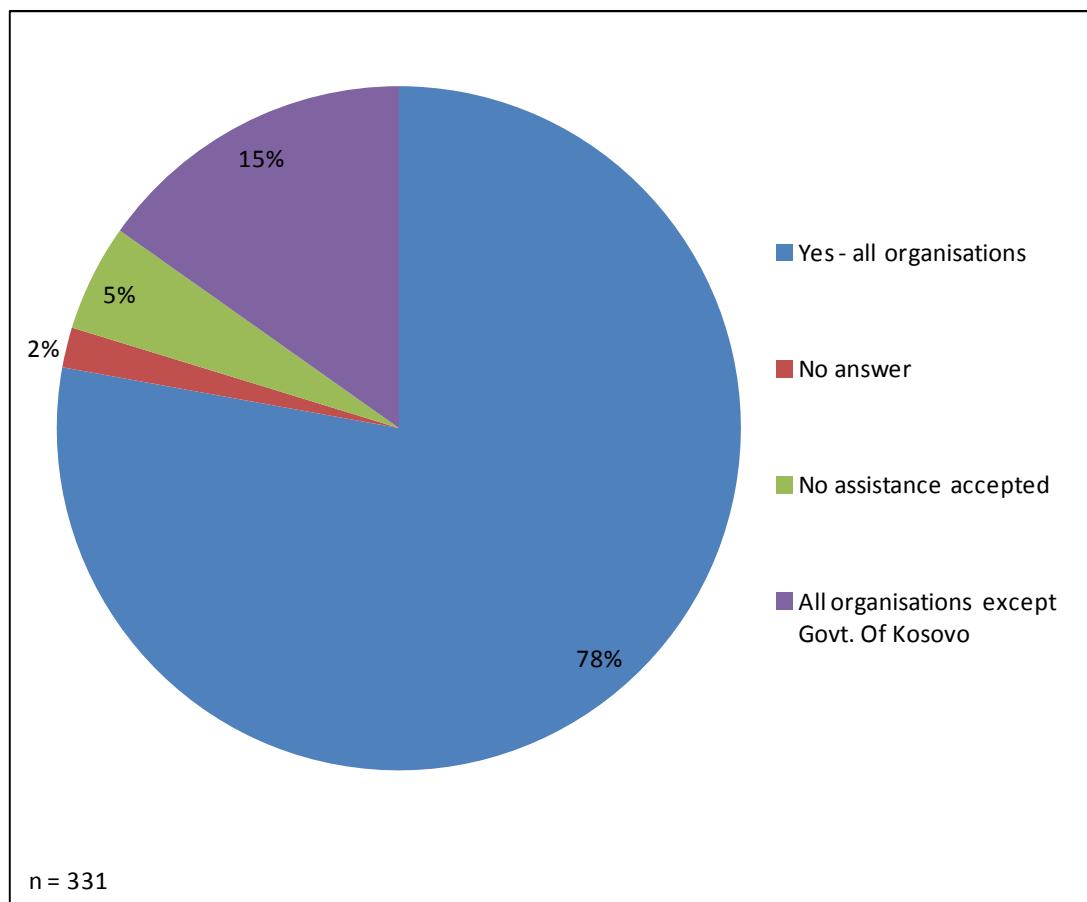


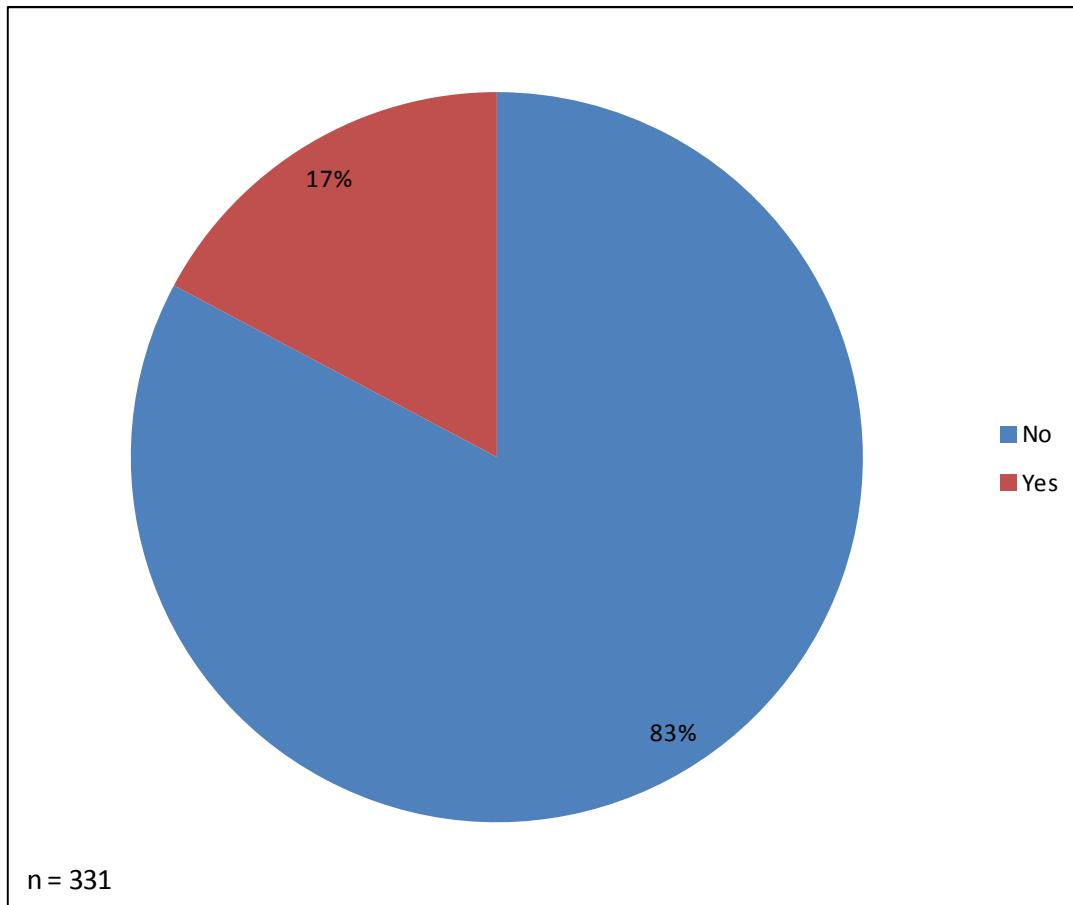
Figure 34: Would you accept assistance from the following organisations?

As can be seen in fig. 34, the majority of companies (78%) would accept assistance from all the organisations proposed. There are a smaller group of companies, which account for 15% of the total interviewed who would accept assistance from all organisations except the Government of Kosovo. Additionally, 5% of companies would not accept assistance from any organisation. There were a number of reasons cited for the lack of interest in accepting assistance such as interference in how business is conducted, and insistence on cooperation with Kosovo institutions on issues such as taxes, laws and regulations.

The economic landscape of north Kosovo has not been over-aided since the 1999 conflict. However, there is no evidence that landscape is under-aided as there are growth indicators evident across all sectors. The business vibrancy that exists indicates that aid is not necessary in all sectors to ensure development. It can be suggested that developmental assistance in the future should be concentrated on the business environment rather than individual businesses.

### 5.3 Doing business with south Kosovo

The majority of businesses are concentrated on trading within the local market; therefore, it was important to gather data on the restrictions and problems in accessing the much larger neighbouring market of south Kosovo.



**Figure 35: Do businesses dealing with south Kosovo experience disadvantage in their local community?**

Over 80% of companies (fig 35) do not believe that they would experience any difficulty in their local community if they traded with south Kosovo. This shows there is only a small amount of negative resentment amongst the local community towards businesses trading with south Kosovo.

72% of companies who believe they would be disadvantaged in their local community were located in either Mitrovica/ë or Zveçan/Zveçan. This indicates that companies from both Zubin Potok and Leposavić/q are more freely able to trade with south Kosovo companies without fear of experiencing disadvantages.

	Mitrovica/ë	Zveçan/Zveçan	Leposavić/q	Zubin Potok
No. of companies interviewed	48	74	100	109
No. of companies trading with south Kosovo	3	14	20	16
No. of companies saying it is a disadvantage to trade with south Kosovo	21	20	11	5
No. of companies saying it is a disadvantage and trading with the south	1	3	2	1

**Figure 36: Perceptions and facts of doing business with south Kosovo**

Those companies who stated that they believe they would experience a disadvantage in their local community if they traded with south Kosovo, very few (12%) companies actually trade with south Kosovo. However, this belief may be based on previous experiences, whether trade related or otherwise. Those companies that do trade with south Kosovo do not seem to experience a disadvantage, and this is additionally supported the 83% of companies who say they do not believe businesses would experience issues dealing with south Kosovo.

By doing business with south Kosovo 70% of companies in the north believe they will benefit in terms of increase revenue and profitability. It also became evident that in also two-thirds (59%) of the interviews, the companies believed they would be accepted as a business partner in south Kosovo. These were amongst the few positive perspectives that were given by north Kosovo companies on doing business in the south. Two of the biggest negative perspectives that were highlighted in the research were 'the risk to your person or personal security of your family' where 78% of interviewees believed this to be an issue. In addition to this, 76% of companies believed they may suffer a loss of reputation amongst their community by trading with south Kosovo

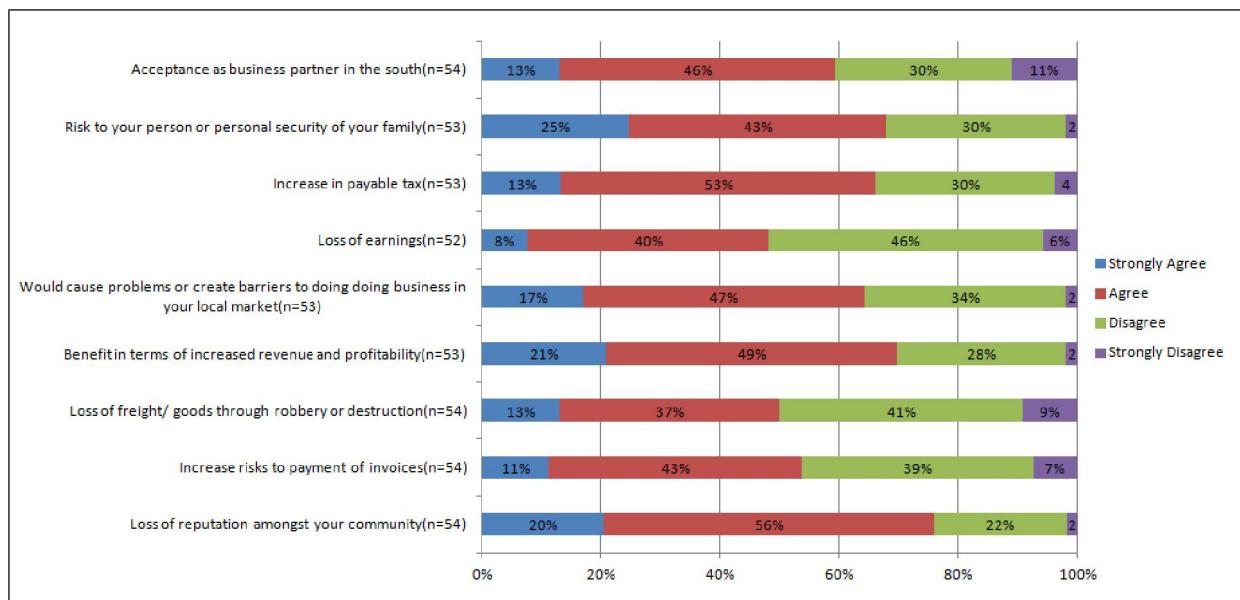


Figure 37: From your perspective; doing business with south Kosovo would lead to....?

To further understand the restrictions in trading with south Kosovo, participating companies were asked about barriers to trading with this market and whether they agreed or disagreed that they were inhibitors of trade. Fig. 38 represents macro barriers and their perceived effect on doing business. There are a number of variables that have been highlighted as major barriers on doing business with south Kosovo.

The most dominant barrier to doing business with south Kosovo is Administrative barriers with 73% of companies citing this as an issue. Administrative barriers is a broad area covering business registration, transport documentation, personal documents, land registry and so on, and therefore, should be expected to amongst the biggest barriers for north Kosovo companies. Additional barriers that rated highly were Tax evasion/ Blackmarket trade (69%) and Corruption (67%) indicating these were barrier in doing business. Additional barriers including Competition (59%), Rule of Law (57%) and Legislation (54%) all rated relatively high in relation to other barriers that not feature to the same degree. In contrast to these barriers there a numbers of variables that are positively not a barrier. Thos that did not feature highly as barriers were Electricity Supply (79%), Roads & Communications (64%) and related Taxes (60%) in trading with south Kosovo.

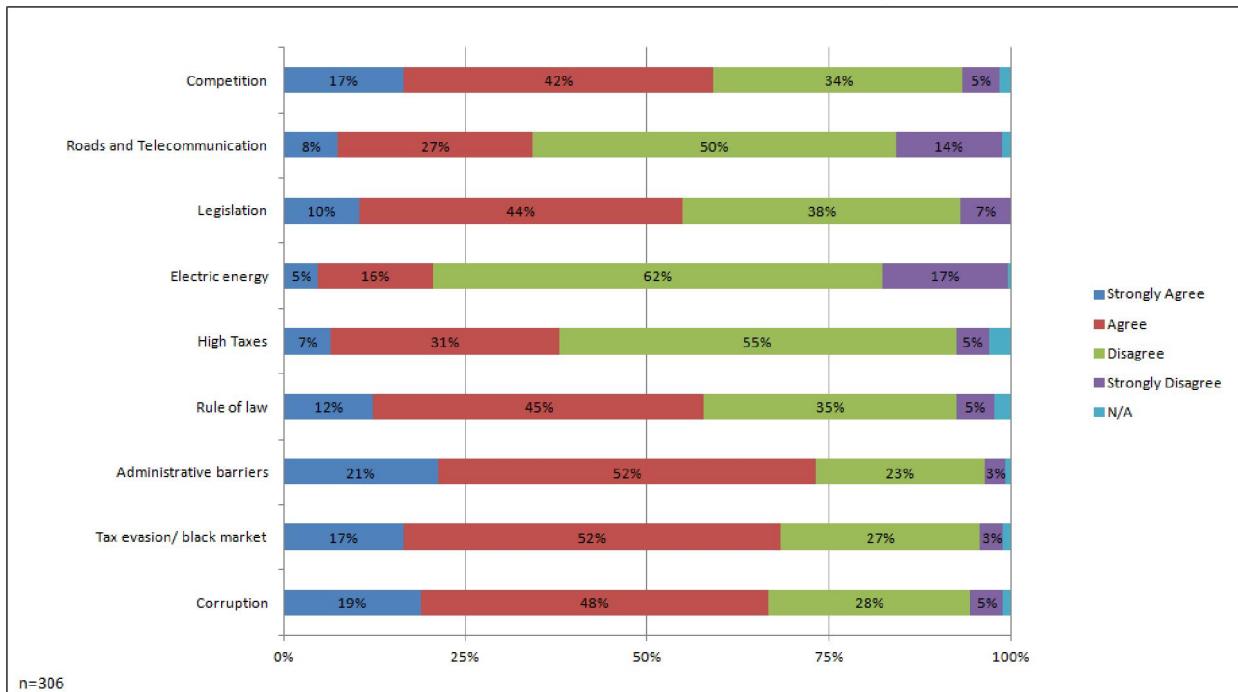


Figure 38: Do you agree that the following are barriers in doing business in south Kosovo?

Companies were also asked to indicate the effect of micro barriers on their business in terms of doing business with south Kosovo. In almost all cases companies did not agree that the barriers outlined in fig. 39 were major issues when doing business in the south Kosovo markets. Of the barriers indicated, 3 were cause for some concern and possible measures could be proposed to allow businesses to overcome these barriers. The competition in the south Kosovo market is seen as a barrier to doing business by 60% of companies interviewed. This is a clear indicator that these businesses must strive to become more competitive in order not to limit their expansion to the local market.

Additional barriers that can be cause for concern is the lack of access to finance and possible payment delay which were indicated to problems in 46% and 49% of the time respectively. The problem of access to finance is an issue that was raised previously in this study and is ongoing barrier to doing business that many companies would benefit from a resolution to. Payment delays between companies in north and south Kosovo a more difficult issue to resolve as this is very much a business-to-business problem. Although there are norms and best practice credit payment procedures in operation in almost all business communities in the region it is very difficult to ensure these are implemented across the board.

In contrast to these issues, there were a number of barriers that seem to have little or no affect on businesses looking to trade with south Kosovo. Barriers such as employee and managerial skills were cited as barriers in less than a quarter of cases. Lack of internet access and provision of raw materials were also not seen as barriers to doing business in south Kosovo, with only a small number of companies having problems with these issues (fig 39 below)

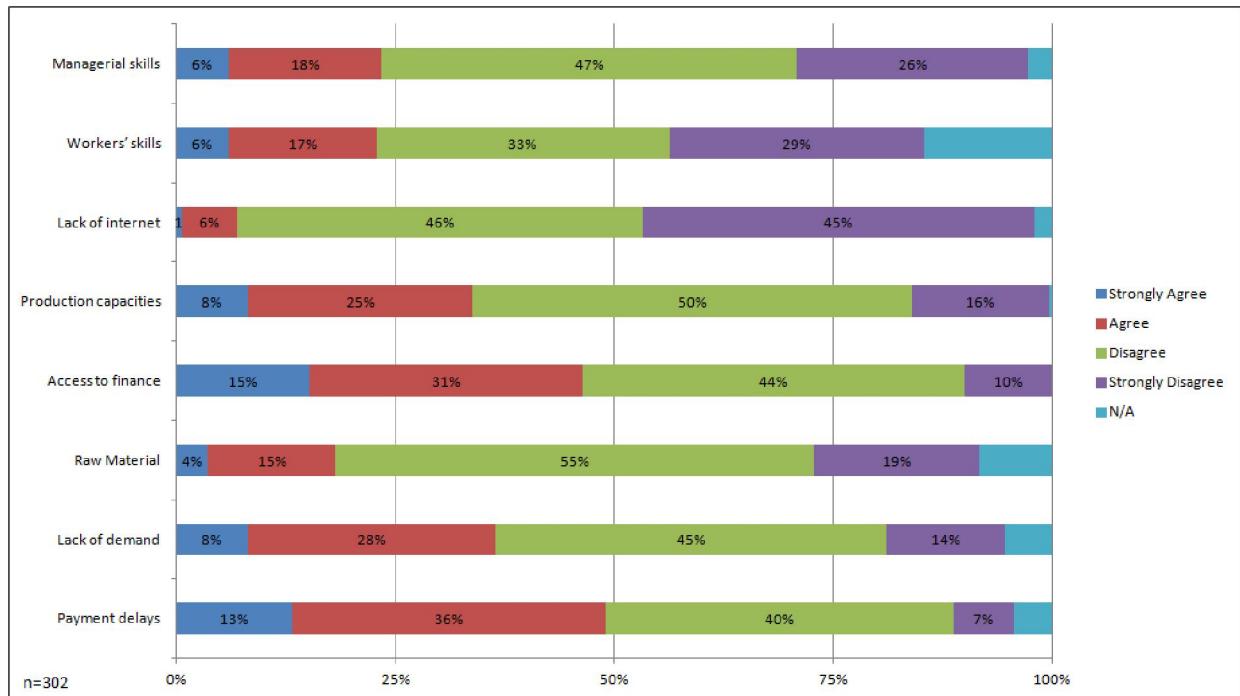


Figure 39: Do you agree that the following are barriers in doing business in south Kosovo?

**Conclusions on chapter 5:**

A majority of companies in the north of Kosovo is very small, not registered or not registered in Kosovo and do not appear to be particular dynamic in growing.

Thus, looking at obstacles in individual markets (i.e. Local, Serbia, Serbian enclaves and south Kosovo) revealed that uncontrollable risks through the remaining conflict potential is rated one of the top obstacle to do business. This applies to all markets, however is particularly strong (over 70%) for south Kosovo. In addition, the two main obstacles are a lack of market information and partners to do business with. These two obstacles apply unsurprisingly not for the local market.

Concluding on chapter 3, companies obviously do know about the relevance of their target markets but have (by concluding on chapter 4) difficulties to effectively entering these markets. These difficulties are additionally burdened with regard to perceived risk from the specific conflict situation in the region.

Within the vacuum of absent government and institutional strategies to develop the economy on a sector level, 25% companies however received direct support (mostly grants and production equipments) from different donor organisations. However, training and technical consultancy as well as support in getting credit would not be a focus of applied instruments. With regard to the fact, that a share of almost 25% of companies received assistance north Kosovo does not seem to be particularly under-aided in direct support. Rather, a systemic government and institutional approach to sustainably support and build framework conditions seems to be a major gap – as confirmed by over 70% of the companies: when asked on the general business environment, almost 80% of companies replied that a lack of government support in sector strategies (especially in standards and certification) and a lack of programmatic business development from private sector associations and institutions etc. are indeed issues to the development of their business.

Taking the perspective of risks for companies from trading with the south coming from their own community (e.g. bad reputation, personal security, etc.) 80% of companies reported that they would not see a problem in that. Rather, they see trade with the south would be of benefit to their company.

Only 20% of companies said it is a problem to trade with the south. Interestingly, 72% of these 20% are located in Zvecsan and Mitrovica-ë that only host very few companies actually trading with the south. But, of those companies that do trade with the south (55 in total) only 7 confirmed it an actual problem. The perception that it is a problem to do business with south Kosovo cannot hence be confirmed by the report and seem to be rather based on either presumptions or other experiences from companies.

When taking the perspective of risks coming from the south Kosovo market, 79% of companies see instable framework conditions in south Kosovo in terms of hurdles in administrative processes, taxes and black market as well as corrupted structures as main difficulties. Furthermore, most cited barriers on business level of doing trade with the south are: competition (60%), payment delays (49%) and access to finance (46%).

## 6 Capacities, investments and needs of companies

A majority of companies plan to invest in their businesses over the coming years. It was felt that data on current company capacities, their investment potential and needs for business development were important factors in determining future interventions, strategic planning for local governance and other interested parties.

### 6.1 Capacity utilisation

Each company was asked to give information regarding their current capacity and potential capacity of production and provision of services. As can be seen from fig. 40, 79 companies provided information that they are currently operational at more than 70% capacity. This rate capacity utilisation is sufficiently high and bodes well for expansion and the potential for business development. However, there is a majority of companies that's capacity utilisation is quite low. This can have different reasons, however, it is obvious that the local market is not sufficient to absorb their full production capacity.

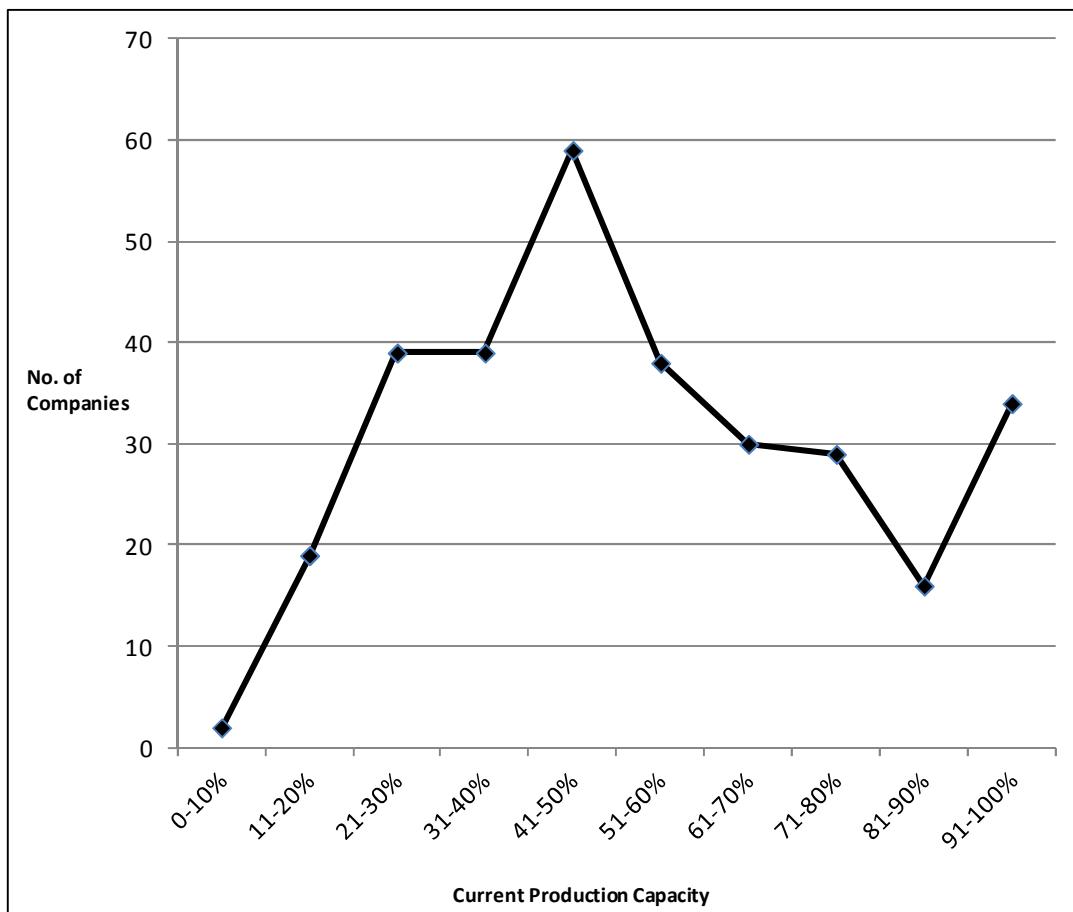


Figure 40: At what capacity are you currently producing?

For companies that operate at this rate capacity utilisation in order for them to achieve a higher rate of utilisation it can be suggested that technical assistance (how to approach new markets etc.) rather than financial assistance (grants for new machinery) may be a more valid form of intervention. In addition to this it would be suggested that those who seek support should be assessed thoroughly prior to commitment by investors or organisations who wish to offer support. We can conclude this from looking at the current production capacities of companies and the enthusiasm to invest over the next 5 year (fig. 41 below). It can be seen from the lack of FDI as identified previously that local or international investors still approach the region cautiously, in order for companies to attract investment they made to ensure they can increase their rate of capacity utilisation following investment.

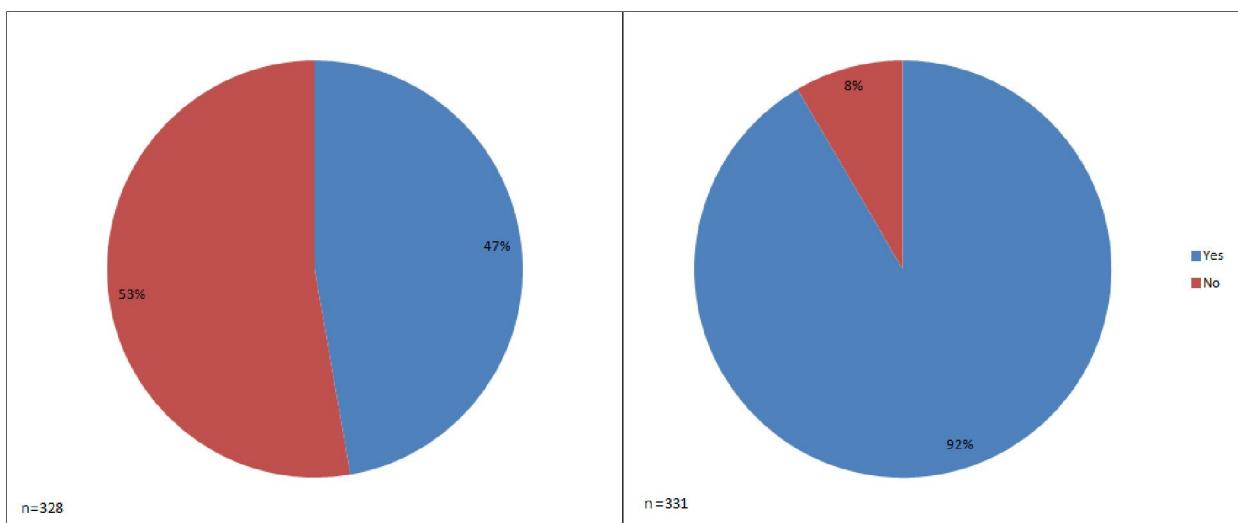


Figure 41: In the last five years (left) have you modernized your business equipment and will you modernize in the next five years (right)?

## 6.2 Investment and financing

The amount of investment that has taken place since 2008 is relatively low when compared to the expected investment in the next 5 years. Just 47% of companies said that they have modernised their business equipment in this timeframe, when compared to planned investment in the next 5 years it can be seen that companies are much more enthusiastic about future expansion. The previous 5 years investment may have been reduced due to economic recession in the region and worldwide, it also coincides with restrictions in the banking systems in north Kosovo and a lack of political stability. The somewhat recent progressions and stability within Kosovo main have some influence on the planned investment in equipment. In addition to this there is widespread expectation amongst the business community of international aid agency support designated for north Kosovo within the next 12 months.

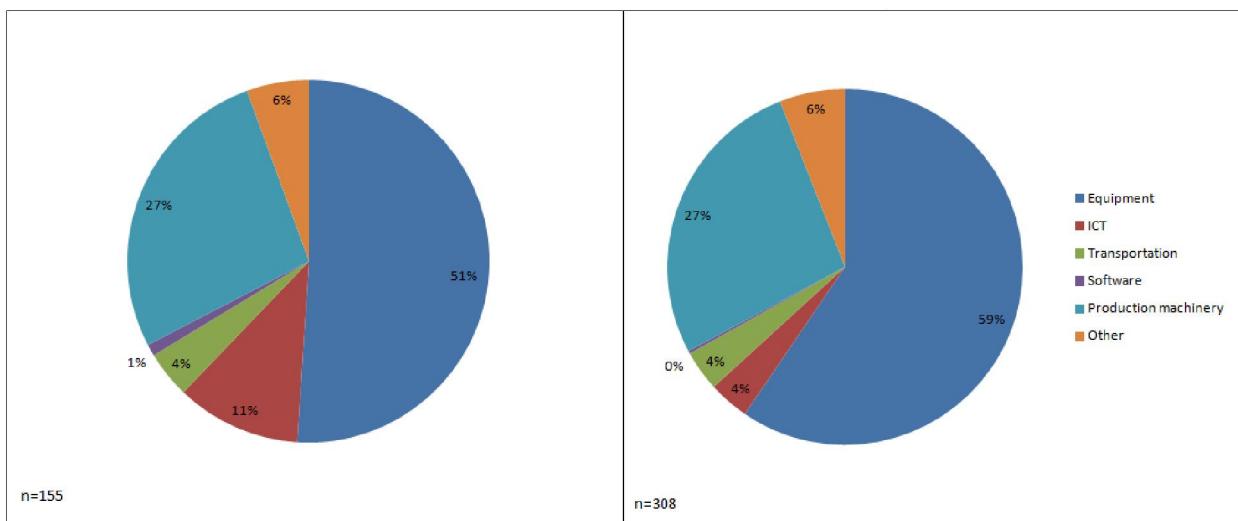


Figure 42: In what way did you modernised your business equipment in the last 5 years (left) and in what way do you plan to modernise in the next 5 years (right)?

If we compare the type of equipment that companies plan to invest in over the next 5 years, the pattern is very similar to what was purchased since 2008. There is a reduction in IT equipment and an increase in general equipment but apart from that the planned and previous investments are almost identical.

When we compare the financing of investment, since 2008 and over the next 5 years there seems to be little difference in the expectation of the availability of credit with just 9% of companies expecting this to be used to finance investment. As was previously stated above, there is a large expectation of international aid agency supporting the business community in north Kosovo in the near future; this is very much reflected by the 61% of companies who believe they will receive donor support as a tool of investment. The use of cash to support business modernization, widespread since 2008 is expected to reduce from 67% to 30% by 2018. As stated this may be due to the expected increase in donor support.

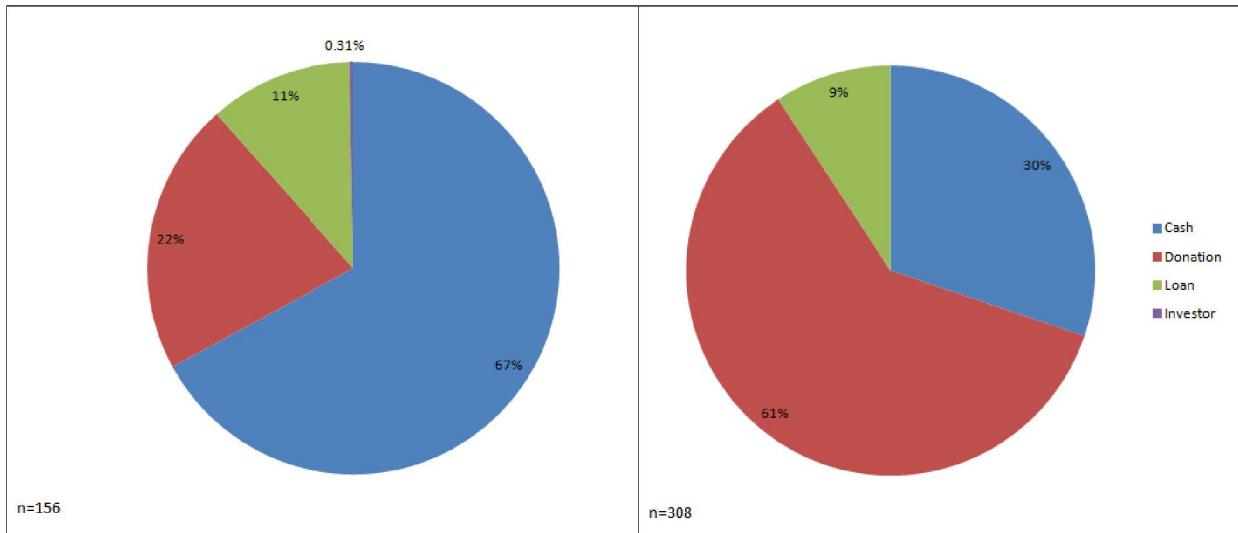


Figure 43: How was the purchased equipment financed in the last 5 years (left) and how will the equipment be purchased in the next 5 years (right)?

Companies from north Kosovo were asked to give an indication of where their labour force originated from. This information enabled the research to understand the movement of people in terms of employment and people's willingness to work and hire in areas of differing ethnic background. It has been suggested that the labour force, particularly in the construction industry do cross over the ethnic divide. It was evident that some of the workforce from south Kosovo are employed in the construction sector but not enough to suggest that this is a significant percentage of the overall labour force in north Kosovo. However, through discussions the number of subcontractors from south Kosovo working within the construction industry is probably more significant than the number of employees from the south.

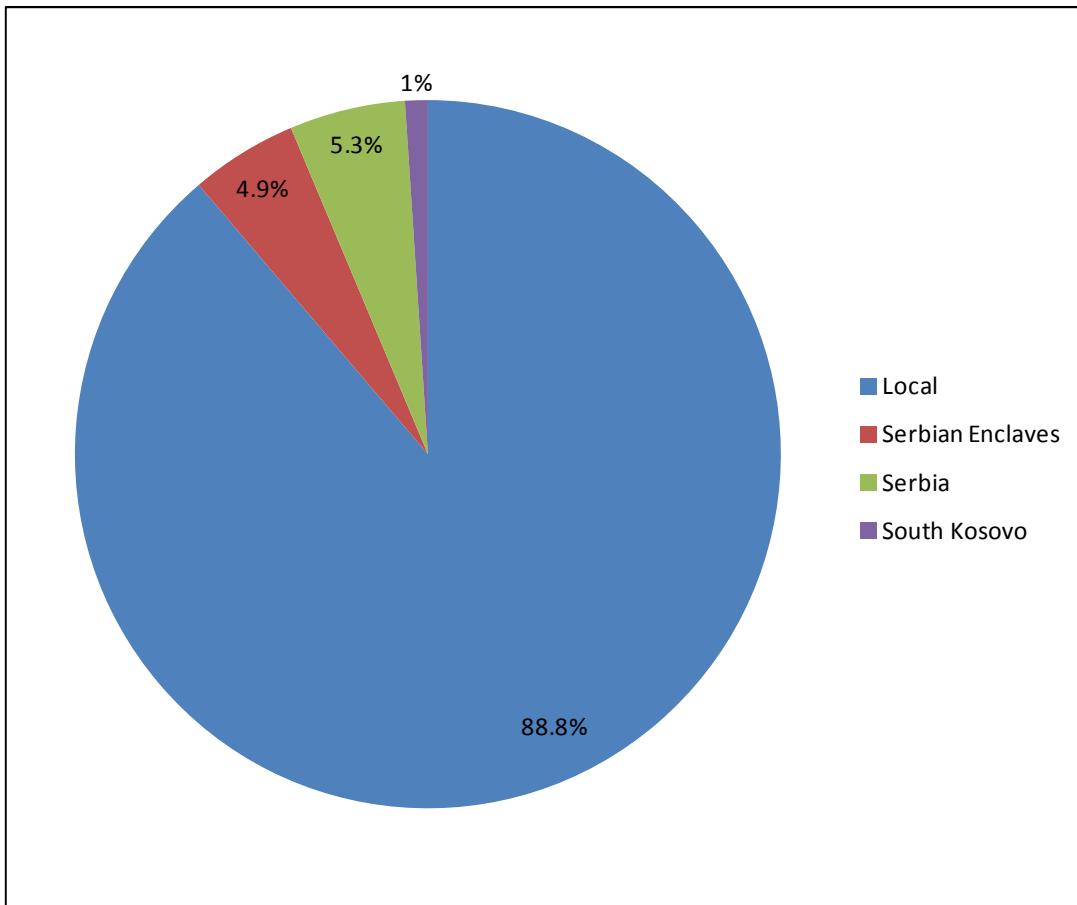


Figure 44: From which market does your labour force come?

### 6.3 Companies' needs to develop and expand

In order to identify company in terms of infrastructure and utilities companies were asked to indicate their usage and outage of electricity, water, gas, telephone, and internet. There are significant differences between the supply of utilities in the different municipalities which can affect investment and expansion opportunities of companies located there. In Leposavić/q and Zvečan/Zvečan it was recorded that there is an average 22% and 23% respectively outage of water per week, while in Mitrovica/ë and Zubin Potok this amounts to 14% and 11% respectively. Water outages are there other major issue in terms of utilities in north Kosovo, Mitrovica/ë, Zvečan/Zvečan and Leposavić/q suffer between 9-12% outages per week while in Zubin Potok this is reduced to just 5%. This is more than likely due the close proximity of Gazivode Lake to the municipality and the water supply it provides. It is evident from fig. 45 that some necessary utilities are not always available, in many cases these are key components of business development and a requirement to do business. This lack of utilities can affect company's ability to attract investment, and also affect their competitiveness relative to similar companies in neighbouring markets.

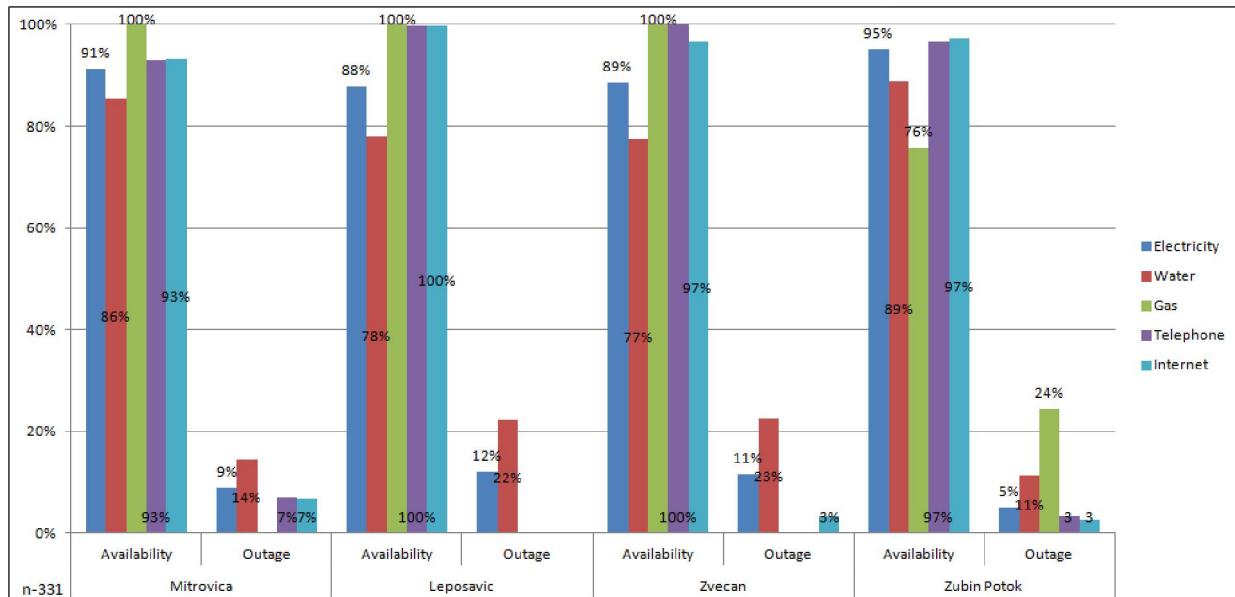


Figure 45: What is your demand for utilities and what is the average outage of used utilities?

Lack of services, contacts and other similar obstacles were previously identified as issues in becoming more competitive in the market. These are key indicators of what companies operating in north Kosovo needs in order to achieve their potential business capacities. However, companies also identified core support mechanisms that they believe will enable their businesses to expand. The most dominant of these mechanisms indicated that 78% of companies need support to introduce new technologies or upgrade existing methodologies in production and administration. In addition to this a majority of companies also believe they need support in introducing new quality standards and certifications (63%), the development of innovative products (62%) while they also wish to increase the capacity of their employees with an investment in vocational skills in 57% of the cases.

As was stated earlier in the study, approximately 30% of companies trade with south Kosovo in all aspects of the supply chain. However, more than 60% of business indicated they would welcome additional support and political backing to do business in south Kosovo. This gives strong indications the number of companies trading with the south may increase if the situation in north Kosovo was more politically stable

Companies (50%) also identified the need to register their products, trademarks or copyrights as key components of business expansion. According to focus group discussions the creation of a brand, the development of local products and marketed in a unified way is seen as way of engaging local companies in a sustainable way that will lead to real economic development. Brand creation and product development were identified as key growth indicators especially in rural areas.

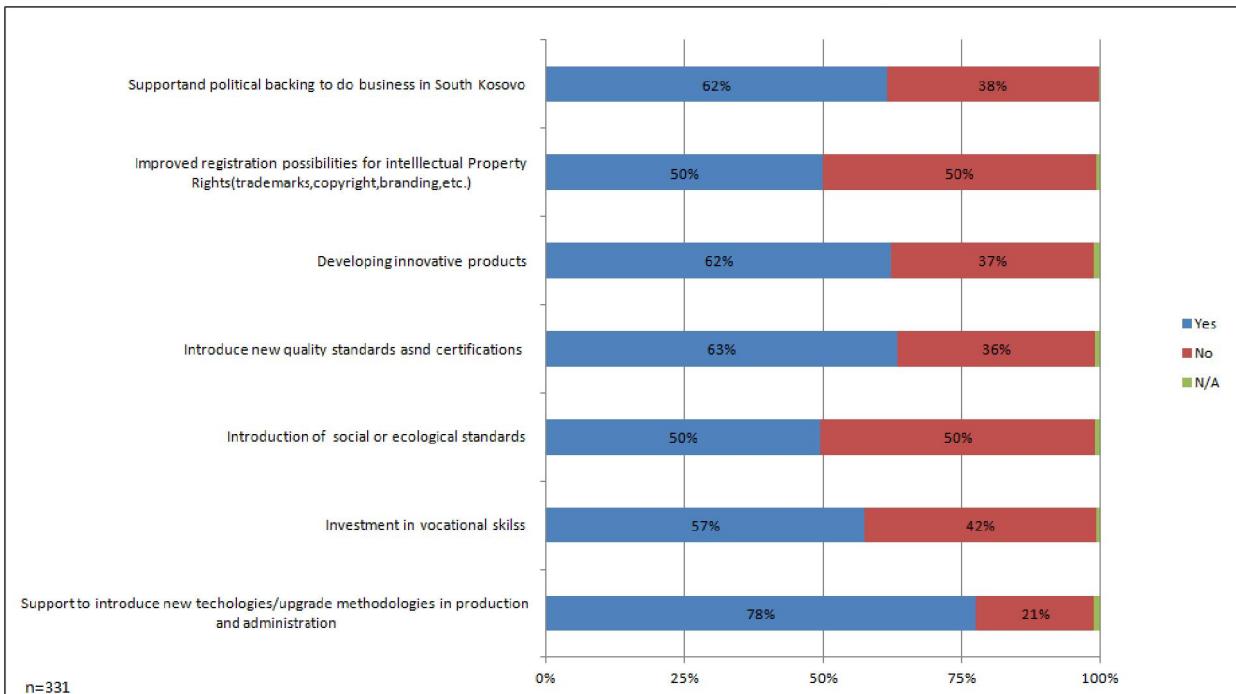


Figure 46: What kind of support does your company need to expand operations?

Companies were asked to identify what kind of support they would like to receive, as opposed to an earlier similar question where they were asked to identify the type of investment they intend. The majority of support companies would like to receive is equipment or machinery in 53% of cases. This is followed by financial assistance (15%) and support services (15%). Support services covered a number of areas such as training, employee up-skilling, mediation services, and marketing assistance.

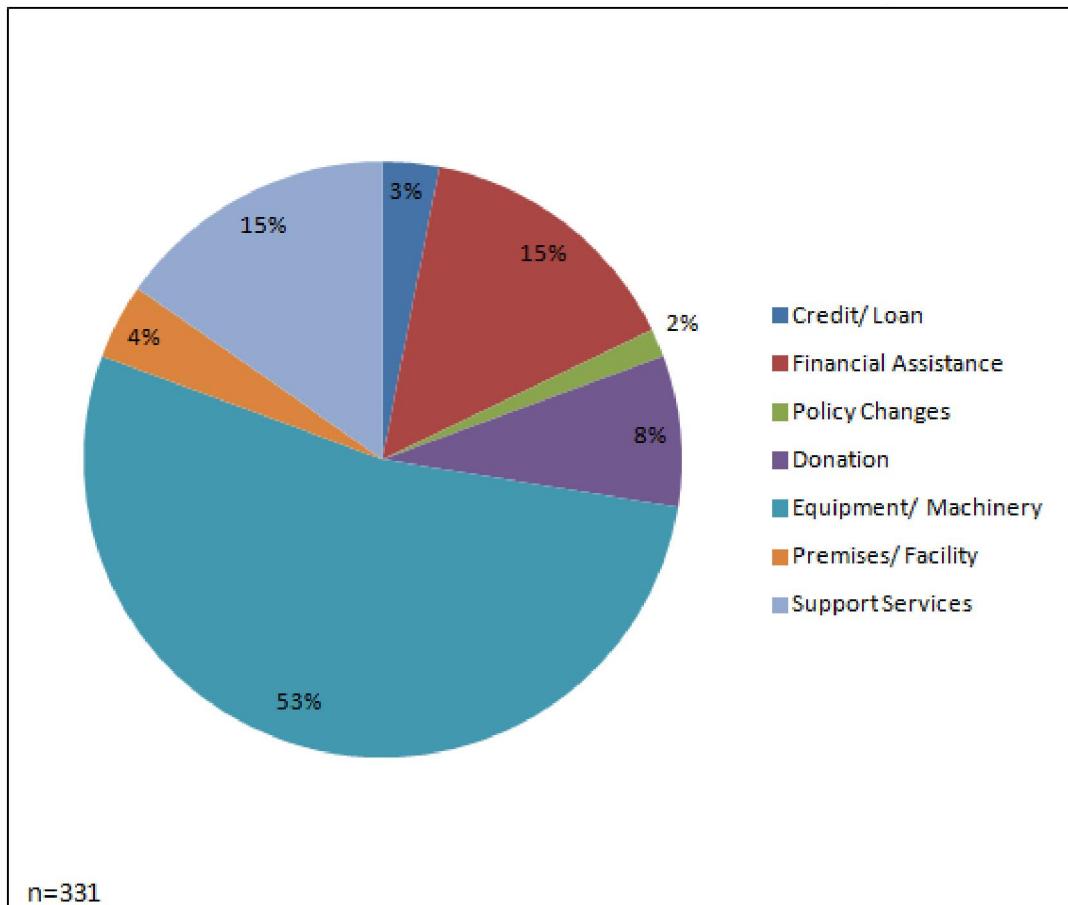


Figure 47: In order for growth and/or business development potential to happen what support (from donors) do you need?

In addition to the support outlined above, policy changes (2%), credit/ loan (3%) and premises/ facility (4%) were all indicated as types of support companies would like to receive. Furthermore, a donation, with no further description was the type of support indicated by 8% of the companies. In discussions with companies it was generally accepted that when donations were indicated this meant a grant or subvention.

In fig. 47 the types of support that companies would like to receive are displayed, this question was followed by asking the companies if they received the support they wished for what the consequences of this would be for their business. The data collected give clear indications that companies want to increase product quality and provide their customers with better products. From discussions with business owners it was identified that they also believe this is a key component of the extending their markets and developing their customer base. This is supported by considering the next 3 largest areas of expansion; increased production levels (14%), increase productivity (11%) and increasing the number of employees (11%). All these indicate a strong desire to expand all areas of business and give strong indicators that companies are optimistic about future opportunities, not only in local markets but in other surrounding markets also.

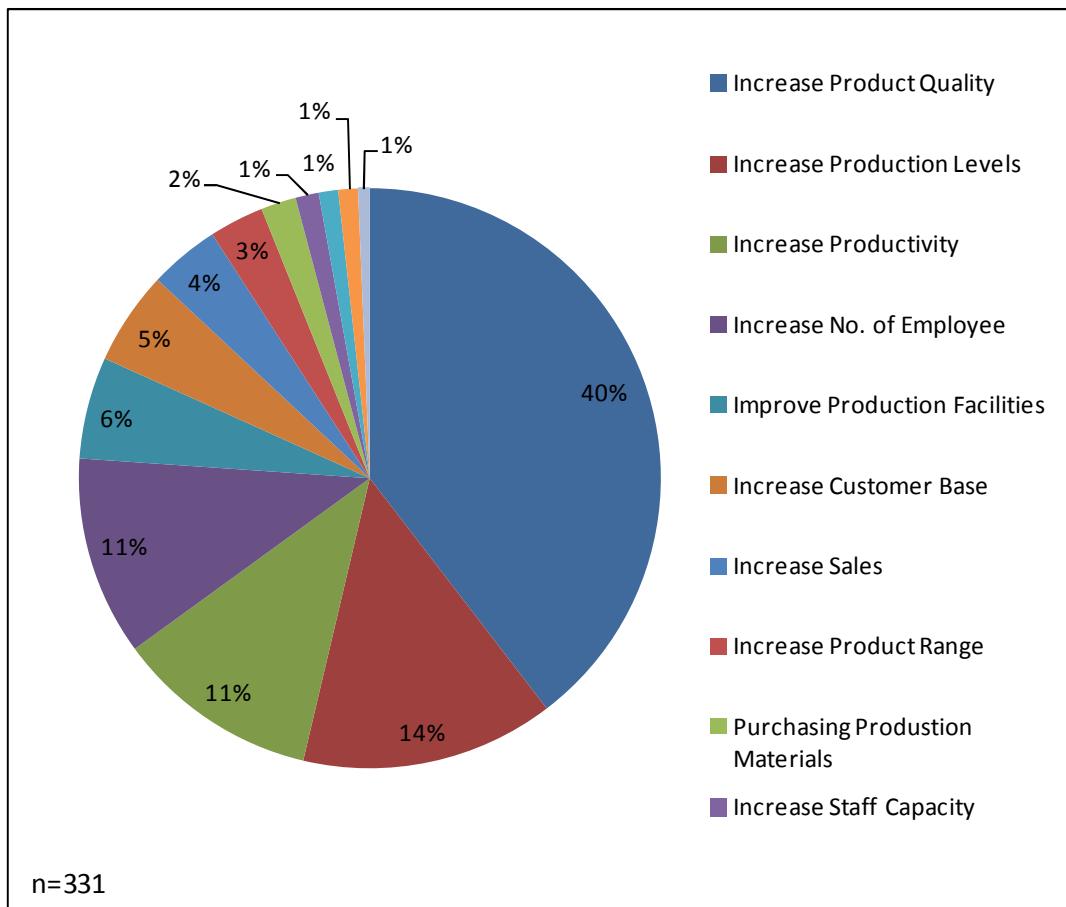


Figure 48: What are the growth and/or business development potential consequences from the needed support?

### Conclusions on chapter 6

In terms capacity utilisation most companies have (bigger) slack capacities. Only 23% have a capacity utilization above 70%. However 47% of companies report to have invested in the last five years. More so, a total of 92% of companies state that they will invest over the next five years, which is a sounding and solid positive outlook. However, this outlook appears to be a bit enthusiastic when considering the current capacity utilisation rate. However, the 47% that report investments have put their investment mainly into equipment (51%) and production machinery (27%). The investment outlook confirms this – 60% of companies' wishes to buy equipment and 25% production machinery.

In terms of financing the implemented investment has to 67% been financed by cash means, to 21% by donations and to only 11% via loans. Interestingly this figures turn upside down when looking to the financing of planned investment: 61% of companies say that they will finance their investment with donation, while (a realistic) 30% stay with cash. Considering the 47% of companies that actually did invest and the 30% that appear to have the cash to invest in the future, it is reasonable to assume that the real share of companies that are going to invest is somewhere between 30% which is still a very positive outlook. At the same time this confirms the positive findings on business growth and development in the four municipalities. In total few expect the improvement of the credit situation. The obvious non-availability of credit actually represents most likely one of the major growth restrictions to the economy of north Kosovo.

With regard to expanding and developing business companies are well aware of their needs and also on how to use productively perspective support. 78% reported that they would need support to introduce new technologies or upgrade methodologies in production and administration. This was with a larger gap the most frequent nomination. 62% of companies said that they would need support to introduce standards and certifications, develop innovative products and political backing to do business with south Kosovo. When asked on the effects they want to achieve with external support, 40% of companies mentioned product quality and an equal 11% increased production, productivity and employee numbers.

## 7 Options for future approaches

The study gives a number of insights into the economic situation of north Kosovo companies as well as into the economic structure of the four municipalities.

- First, the study finds that the north Kosovo economy is not particularly depressed and/or lacks substance in terms of ability to add value. Many businesses develop and report growth in turnover. However, the specific situation with regard to conflict potential holds back economic development.
- Second, the study finds the business sector in terms of donations not especially under-aided; however, companies' perceptions show that a systemic approach to support would be more adequate.

The study further confirms, despite some sound economic development that the north currently lacks key growth drivers:

- **FDI:** The research could not identify any FDI and / or themes of technology transfer and inbound orientation.
- **Outward orientation:** Only 20% of companies trade outside the local market. Growth is thus mainly based on the local market which has its limits.
- **Business environment:** 56% of companies lack a legal status that would simplify doing business in the wider Kosovo market. Only 19% of companies are registered with the Kosovo business registry.

Thus, future measures from donors to improve economic development should consider and target these three issues. In the following a number of possible fields of interventions on three systems levels are indicated within individual interventions can be designed.

### 7.1 Options on a policy level

Options for future approaches are, on policy level:

- Formation of sector strategies in terms of branding, marketing and quality infrastructure as well as standards and certification especially for the identified sectors.
- Political backing for further integration into companies main markets, i.e. south Kosovo as well as Serbia and,
- Establishing structures for providing access to finance for investments as well as
- Invest in infrastructure to avoid bigger outages in water and electricity especially in Zvečan/Zveçan and Leposavić/q.
- Formation of strategies to resolve perceived business risks coming from the remaining conflict potential, especially with south Kosovo.

### 7.2 Options on a institutional level

The main issues on institutional level are:

- Capacity building in government services concerning registration, trade and investment promotion as well as data provision and market information.
- Introduction of incentives for business development services and establishing a sound network in terms of chamber services would be essential to provide companies with services to expand production and trade.
- Private sector self organisation for advocacy and overriding market development also from a value chain perspective is equally important.
- Support to business registry would simplify access to support and to south Kosovo market.

### 7.3 Options on a company level

A striking finding on company level is a discrepancy between support supply (donations) and demand (technical advice). Thus, within a framework of an economic development strategy on a political and institutional level, a focus should be put on such advice as well as on access to credit as this will provide support in a way that markets are not distorted.

**Focus: Future intervention design**

After researching on the business and the economic structure in the north the authors feel it important to highlight that interventions should be designed carefully, and the design phase should analyse individual sectors and municipalities further. Although there are obvious deficits in economic development, e.g. the economy in municipality of Zubin Potok is a functioning system, as it is almost self sufficient in food production and also on other consumer goods needed. No large supermarket could be identified there and thus is the economic structure of food production in small quantities traded in smaller markets. Thus support programs should avoid e.g. the "Tesco-effect" that would bring many smallholders and their business into difficulties.

Furthermore the focus groups discussion revealed some irritation about the hitherto distribution of grants and additionally, participants claimed to know about misuse of funds from grants. Thus, establishing a coordinated and transparent process to channel funds to companies seem to be essential to not distort the markets in the north and creating further conflict potential. Establishing a donor pool of funds as a (micro-) credit facility with some subsidies in the interest rate would probably be a good selection mechanism, as only companies would use it that have a clear strategy to invest and thus expect rates of return. This remark comes especially against the background of the individual expectations of the companies in this survey on future grants (92% expect grants for investment in the future) which is on an individual basis understandable, however not a realistic way to develop business in a sustainable way.

The focus group discussions further confirmed the assumption that partners to go through in economic development are either non-existent or very weak. Thus, mapping out partner structures and focus on capacity building to partners needs to be one priority in a future strategy on economic development.

## 8 Appendix

### 8.1 Results of the focus groups meetings

In order to verify the results and sample of the survey conducted it was determined that 3 focus groups should take place. The focus groups took place in Mitrovica/ë, incorporating representatives from Zveçan/Zveçan municipality, Leposavić/q and Zubin Potok. There were a number of pre-determined questions and discussion topics, in addition to this there were a number of spontaneous discussions that took place on each occasion. The results of the 3 focus groups are below.

**1. What do you believe are the most important companies for economic development in your municipality/ north Kosovo?**

**Participant** - believes that in the current moment the most important sectors are trade, i.e. retail, distribution, wholesale and similar, along with construction and construction related sectors are the most important. Although he does indicate that agriculture has the possibility to become a more significant and more important sector if the correct investments are made.

**Participant** - believes that with changes in terms of custom regulations and with improvements in political stability that other sectors related to production, manufacturing and processing will become more important. He believes that trade and construction will still be important sectors but in more supportive roles to these other sectors rather than leading sectors.

**Participant** - agriculture, but in his opinion little family farms are often not included in questionnaires, research and support incentives, however, they are a very important part of the agriculture sector.

**Participant** - he feels that agriculture is the most prevalent sector in Leposavić/q and the level of production is quite extensive.

**Participant** - believes that there is a very strong connection between wood processing and furniture production with many companies involved in both. However, the amount of furniture production is not a high level and is generally related to small scale companies.

**Participants** -the most important sectors in the municipality of Zubin Potok, it was agreed by participants that agriculture, wood processing and services were the most important.

**2. Can you confirm from your perspective the results of the survey on competitiveness and business environment?**

**Participant** - believes that with an investment in equipment and machinery that companies better position themselves in the wider market. This investment, along with increased labor capacity will allow companies to compete with competitors on a more equal basis.

**Participant** - believes that in his case he operates at an equal level to his competitors.

**Participant** - currently he operates without any competition in north Kosovo but there is competition from external markets which ensures he maintains competitive prices.

**Participant** - in terms of cost of products, those sold here are generally cheap but if production companies wish to export their products the related taxes and duties mean they find it difficult to compete with local companies in the export markets.

**Participant** - the influence of production costs varies a lot from sector to sector. In terms of agriculture, the old equipment that many farmers here own mean they find it difficult to compete with producers, especially those from Serbia.

**Participant** - believes that companies in the north are less competitive than companies operating in other markets (southern Kosovo, Serbia).

➤ **Focus on labor force:**

**Participant** - believe that a lot of the labor force are lacking experience and they learn on the job.

**Participant** - he believes that the labor force is qualified but they spend a lot of time and resources learning specifics for particular jobs.

**Participant** - his company operates in the meat production process, and he started with pig fattening with the goal to complete the process because he already operates a slaughterhouse. However, he found a number of issues with this; 1) local customers are not used to local food, they don't have trust in local food and that is a problem because exporting to the south is limited due to documentation and to Serbia, because the government will not allow the import food from Kosovo, 2) there is a lack of qualified labor force been produced by local educational institutions. The Agricultural High School in Leposavić/q doesn't produce students with relevant education and the slaughterhouse has capacity to, until end of this year, to hire 50 workers regardless of receiving support or investment in improving processes.

**Participant(s)** - the labour force is still more focused in searching for and obtaining a position in the public sector rather than the private sector.

➤ **General discussion on company registration**

**Participant** - says there are more companies registered within the KBRA system because companies that had previously registered within the UNMIK system have had their company registration transferred to the KBRA system.

**Participant** - Additionally, companies also register within the KBRA to allow them to gain easier access to credit and in order for them to gain easier access to the south Kosovo and wider regional markets.

➤ **General discussion on economic recession**

All participants believe that their business have suffered in some way, some indicated that their turnover had decreased by more than 20%.

**3. What does the focus group think the outcome that a lot of companies do business, or are interested in doing business with south Kosovo?**

The participants were given an explanation of the results that were found during the research, participants were asked to give their opinions.

**Participant** - believes that the number of companies willing to cooperate with south Kosovo is closely related to the current political situation. He does not know but would suspect that decreasing political stability would lead to a decrease in trade and vice versa.

**Participant** - believes that amount of trade with south Kosovo will change soon due to the recent agreement signed by Belgrade and Pristina. He believes that more companies will be open to trade and cooperation with companies from south Kosovo.

➤ **Focus on issues trading with south Kosovo.**

**Participant** - security is still an issue before everything else when trading with the south, it is definitely the biggest issue that is holding back further trade.

**Participant** - he believes it may have been lower than what the research shows. A big issue is ensuring on time payment

**Participant** - does not believe it's an issue to trade, however, vehicles are not registered and driving licenses are invalid which makes goods transportation difficult. He believes the quality of products pro-

duced by companies in the north is high enough but it's the initial steps to entering the markets (transportation etc) that cause problems.

**Participant** - regarding food production and agriculture, there is a lack of animal veterinarian inspection in north Kosovo which leads to difficulties in sale of food products in south Kosovo.

**Participant** - increasing market size is needed and it is impossible to do that at a local level, therefore there is a definite need to expand to trade to neighboring markets so companies can either work to full capacities or increase current capacities.

**Participant** - the problem in expanding to the south Kosovo market is they are very open to importing from other markets, and there is a need to create capacities in order for companies from the north to be more competitive. Regarding exporting to Serbia, the barriers that exist (competitiveness) it is difficult to export.

**Participant** - doing business with South Kosovo and Serbian enclaves has decreased due to the difficulty of transporting goods as well as the necessary documentation for doing business with the south of Kosovo.

#### 4. What are the structures [institutional] and offers of assistance of municipalities and business support centres in your municipality?

**Participant** - has never received any type of support or assistance from any structures, local or otherwise. He also believes that any support that comes from institutional structures is connected to political or personal connections or relationships.

**Participant** - is familiar with cases where companies have received assistance from institutions and organizations on more than 2 or 3 occasions. He believes that at least quarter of companies who stated they received support in the survey have probably received it more than once.

**Participant** - has applied for support from different organizations and institutions on a number of occasions but has never received anything.

**Participant** - he believes that there is a need for the formation of a group or pool of expertise that have a role in monitoring and controlling received investments and support. He is also aware that bribery is used as a way of receiving funds.

**Participant** - the Chamber of Commerce has no regulated status and has no resources, however, there are two Chambers of Commerce operating in north Kosovo.

**Participant** - would accept any kind of assistance from institutions or organization but there was no offer of support before now for his company. Some individuals/ companies get donations more than once and there is a need for control over-aiding of some companies in order to ensure a better use of donations.

**Participant** - in rural areas municipal support is important in implementing policies and legislation regarding forestry, agriculture and pollution related to processing and manufacturing to help preserve the environment and not to hinder growth in other sectors.

**Participant** - the municipalities are responsible for infrastructural support and this is one area where they are failing. Lack of electricity and water cause problems for companies.

**Participant** - support for the development of enterprises from the local government and the municipalities is almost non-existent and in the future more help is needed.

#### 5. From whom should assistance come? What are the accepted institutions in receiving support?

**Participant** - there is the possibility for the EU to invest and support businesses in north Kosovo. However, it is believed the Albanian lobby is very strong and that is possibly the reason why south Mitrovica/ë gets a significantly higher proportion of grants than north Mitrovica/ë. Furthermore, there is a serious abuse of grants.

**Participant** - an issue receiving support from certain organizations and institutions is the pre-condition that the company needs to be registered within the KBRA.

**Participant** - was unable to submit a support application for assistance from USAID due to the fact that his company was not registered within KBRA. Additionally, support and assistance was focused on processing but not on primary production.

**Participant** - support for development and production was previously not available and a lot of the support was received by retail and other trade companies. A lot of money and resources have been wasted.

➤ **General discussion on assistance.**

**Participant** - getting credit or loans is a big problem for company expansion.

**Participant** - furthermore, the interest rate is very high which is another issue.

**Participant** - lack of credit is a major issue, there is pretty much no access to credit.

**Participant** - subventions are the best way to assist the agriculture sector, equipment is needed to improve productivity and level of production.

**Participant** - he sought equipment from USAID, he was rejected due on the basis of poor standards, and after increasing standards he was rejected again, and aid was given to other companies who later sold the equipment.

**Participant** - in terms of receiving donations/ equipment - most people receive new equipment but in the agriculture sector second-hand equipment would be well received by those operating in the sector.

**Participant** - he needs assistance with developing projects, and writing project plans, expansion/ development plans - an organization or agency who can assist companies with writing project/ expansion proposal. He added that the reason why there are cases where individuals, (like himself, and companies that get assistance more than once, is because they implemented the resources they received and realized potential from the support they obtained.

**Participant** - there is a need to invest in start-up businesses.

**Participant** - Start-up businesses are important because investments in these are generally not high and in that way we are setting a good base for a successful company if they succeed. If they receive support there is a better chance that they will grow and develop.

**Participants** - a number of participants from Zubin Potok expressed interested in assistance such as consultations, trainings and workshops, which would be of great benefit for the development of companies, particularly in the wood industry and the agricultural sector.

**Participants** - If grants or support are given to companies there should be a strict follow up on implementation of this to ensure it is not wasted.

**Participant** - support distribution needs to be more transparent, there should be equal opportunities for all companies, and good promotion for the call for applicants.

**Participants** - a supervisory board should be created to ensure support distribution is fair and not open to abuse.

➤ **General discussion on credit**

**Participant** - Serbian banks do not approve loans within the territory of Kosovo, and in order to obtain a loan from a bank from Kosovo, Kosovo documents are required (ID, etc.) which a lot of people do not have which is a barrier.

**Participant** - Financial support to the business community is very bad; the lack of credit from banks is a problem that causes a lot of issues.

**6. Are there sector associations in your municipality and what is their role?**

**Participant** - to the best of their knowledge the only sector association that exists is for the Tourism and Hospitality sector. However, they are unsure if the association operates and is just formalized on paper.

**Participant** - there is an association of farmers and beekeepers.

**Participant** - The association of beekeepers operates well, enter the market as one and cooperate in buying of equipment.

**7. Where do you see the most promising development in your municipality - sector wise?**

**Participant** - to increase the level of agriculture and related sectors, and to improve the production and manufacturing industries (non-specific sectors).

**Participant** - there is a need to improve all sectors. The opening of the market in the south will mean two-way trade, with many south Kosovo companies looking to expand to the north. This will increase competition for local companies. Furthermore, if investments and support are to come from institutions, this support should be based on previous business results and potential to expand and create further employment.

**Participant** - believes that the creation of an industrial zone where companies can trade north-south in a secure environment would greatly encourage cooperation.

**Participant** - food production, drinks, and trade are quite important but there is potential to increase food processing sector, production of drinks and trade, i.e. distribution, wholesale, retail can grow.

**Participant** - The IT sector is completely undeveloped in north Kosovo apart from the provision of internet and telecommunications but software development and similar is almost non-existent and could possibly grow in the future.

**Participant** - in urban areas the service sector is very important and can grow significantly in the future.

## 8.2 Case studies

To further analysis the economic situation in north Kosovo two case studies were completed on companies operating in the Mitrovica/ë and Lesak (Leposavić/q municipality),, the findings are below.

### Case Study I: Florist, Mitrovica/ë

#### Development and current position in the market

- The florist shop was founded in Mitrovica/ë in 1991 by an entrepreneur with vast experience working in floriculture & horticulture. Since operations began the company has developed and grown and has traded successfully for 22 years.
- The company supplies customers throughout north Kosovo as well as Serbian enclaves in southern Kosovo. Working on its tradition and long-standing relationships with its customers it can be said that the company is one of the leading florist in the markets in which it operates.
- The company has been a member of Teleflora, a telephone and online floral ordering group for a number of years. Allowing it to receive order from abroad and those living outside north Kosovo for consumers in the locality.

#### Products, services and capacities

- The company provides their customers with best quality fresh cut flowers which are mostly imported from the Netherlands. The company works in partnership with other florist and horticulture outlets in Belgrade to import fresh cut flowers and plants from the Netherlands.
- The range of imported products is very large, with the company generally stocking more than 400 types of flowers. The large range of flowers is believed to be one of the main reasons for the company's success as competitors in the markets are not able to offer a similar product range.
- In addition to fresh cut flowers, they also provide a range of house and garden plants. Furthermore, they provide design, landscape and decorative services for public spaces, private garden and interior spaces.
- The company also operates a special service for specific celebrations such as weddings, christenings and similar where they provide floral decorations throughout the venue. The diversity and range of products and services provided are what separates it from its main competitors in north Kosovo.
- The company's employees are very knowledgeable of the floriculture and horticulture industry and have attended regular trainings and seminars. A number of staff members regularly visit the Netherlands to meet suppliers, attend conferences and other horticulture events.
- The two senior figures in the company, the current owner, and manager have over 25 years experience working in the industry and take a hands on approach to running the company ensuring quality control throughout the business.

#### Business environment and future investment

- The business operates under much the same conditions as other businesses in north Kosovo and find it increasingly difficult to trade normally due to an increasing level of restrictions. As a company that imports a majority of their material, new customs regulations have made doing business more difficult.
- Prior to 2004, the company owned and ran a plant and flower production nursery 4 kilometres from Mitrovica/ë but due to violent unrest it was forced to abandon this facility. The company has plans to invest in new production facilities, enabling them to decrease import costs and restrictions whilst increasing production and turnover. The current barriers to making such an investment are lack of finance, partly due to credit restrictions in the banking system and lack of support from donor organizations for such an investment.
- They believe making such an investment would allow them to expand operations, making a positive contribution to the local economy and increase the company's employment levels.

### Case Study II: Slaughterhouse and butcher shops, Leposavić/q

#### Establishment

- The slaughterhouse was founded in September 2004, with the support of the USAID (United States Agency for International Development) and is registered as a private with one owner/manager.
- The slaughterhouse facility along with the purchase of necessary equipment for operations were supported with an aim of establishing the first slaughterhouse in north Kosovo, which unlike other existing slaughterhouses, is registered to slaughter pigs, the most widely eaten meat in north Kosovo.
- Through the utilization of the received grant the company was established with few problems. The biggest issue during the start-up phase was finding staff that were qualified to operate the new machinery and equipment.
- The company has progressed from a very small enterprise that operated in meat retail sales and employed two people to a leader in the production of fresh and processed meats in north Kosovo with over 25 employees.

#### Current position

- The company has grown to an enterprise that supplies a range of products to the market such as fresh pork, beef and chicken meat which they import. In addition to fresh meat that the company produces it also provides wide product range of processed meat products.
- The company currently employs 27 employees, almost a 1400% increase since receiving a grant to extend operations in 2004.
- They possess a production line hall of approximately 500 sq.metres along with auxiliary storeage space and slaughterhouse facilities.
- The company has intensions to expand it's operation to more than 50 employees in the near future.

#### Markets

- Their products can be found throughout north Kosovo in butchers operated by the company in Lesak, Leposavić/q, Zvečan/Zveçan and Mitrovica/ë. Additionally, they also supply butcher shops and supermarkets operated independently from the company.
- They have plans to further expand their markets to south Kosovo, with some trade already existing to retail outlets in Serbian enclaves. There are plans to expand trade outside of Serbian enclave areas in the south in order to open the market further.
- The company is currently registered within Serbian and Kosovo business registration agencies which allows them to sell their products to larger markets.
- It is the only slaughterhouse operating at its scale in north Kosovo, there are a number of smaller butchers but they mainly operate in the sale and distribution of meat. However, there are quite a number of agricultural households that produce livestock, slaughter the animals and sell the meat without meeting the healthy and safety requirements of a commercial slaughterhouse.

#### Cooperation and expansion

- They cooperate with a number of farms in the municipality of Leposavić/q, with pig farms in the villages of Donje Jarinje, Dren, Kajkovo and Socanica as well as beef breeding farms in Dren, Ostrace and Granicane. Additionally they have invested Euro 10.000 in 3 farms and plan to continue investing in primary production to ensure supply of raw materials if they have sufficient financial resources.
- Since operations increased in 2004 the market has become competitive ensuring the company remains cost effective. They remain competitive in the market and have become a cost leader in north Kosovo for meat and meat products.
- Currently the slaughterhouse is working on improvement of their facilities and production line in order to apply for HACCP standard. In order to meet these requirements they need to apply a new set of standards. These standards have the aim of ensuring good quality, healthy food and the safe transfer of raw materials from suppliers to the slaughterhouse and onwards to the end consumers.
- When HACCP standards have been achieved company expansion should accelerate as export limitations should be reduced and the ability to apply for large institution tenders will increase. However, both these possibilities are also affected by the current political situation and bank credit restrictions allowing access to finance.
- There are plans to invest in further equipment and machinery to accelerate the production of processed meats. This will allow the production line for processed meats to become more efficient and increase production levels to meet current demand.

### 8.3 List of products and quantities from north Kosovo

Identifying the products and quantities of companies operating in north Kosovo was a key part of the study. By gathering information on products it will be easier for potential trading partners to identify possibilities of creating business between north Kosovo and other markets. Below you will find the product, with number of producing companies in brackets followed quantities produced separated by municipality.

Mitrovica; products, service and quantities.

Product	Quantity
Cabinets	60 units
Cake and cakes	1,800 units
Carbonated,non carbonated,alcoholic and soft drinks	400 units
Chests of drawers	180 units
Closets	100 units
Clothing	n/a
Construction joinery	60 units
Construction of commercial and residential buildings	4,000-5,000 m <sup>2</sup>
Cosmetics	n/a
Desks	80 units
Dried fruit	n/a
Fish	4 tons
Fishing equipment	n/a
Formal hairstyles	n/a
Fresh meat	20.000 kg
Furniture	60
Glass	300 m <sup>2</sup>
Groceries (3)	14,000 units
House plant	1,020 units
Hunting equipment	n/a
Hygiene products (2)	4,000 units
Ironing	1,000 units
Jewelry	300 units
Kids furniture	1,000 units
Kitchens	45 units
Magnetic oscillators	170 (2)
Making jewelry	n/a
Meat products	n/a
Medicines, medical devices,auxiliary medical remedies (3)	22,200 kg
Milk products (2)	2,000,050 units

Other types of healthy food and teas	50 units
Pet equipment	n/a
Pet food	100 units
Repair and making of clothing	100 units
Restaurant	n/a
Shelves (3)	n/a
Shoes sale	300 units
Stabilizers	150 units
Voltage converters	50 units
Wedding dresses	300 units
<b>Service</b>	<b>Amount</b>
Bus service (5)	5656 journeys
Cable TV	3,650 units
Catering services	14,400 units
Coloring	n/a
Dry cleaning	n/a
Haircut	300 units
Hotel (2)	55 beds
Informations and entertainment	n/a
Installation and servicing of computers	n/a
Internet service (2)	n/a
Lodging	4,200 units
Professional cosmetics	n/a
Renting wedding dresses	22,000 units
Styling	n/a
Tourist service	n/a
Video monitoring	400 units
Washing	n/a

Zvecan; products, service and quantities.

Product	Quantity

Ajvar	2,000 kg
Aluminum	10 tons
Animal feed	12,000kg
Apple production	7-12 tons
Beds	20 units
Bread and pastry	36,000 units
Bulls	10 units
Burek	28,800 units
Cabbage	10,000 kg
Cabinets	20 units
Cake	1,200 units
Cakes	1,200-2,400 units
Cardboard	200 tons
Chemicals	n/a
Chicken meat	25 tons
Chickens	12,000 units
Concrete blocks (2)	52,500
Construction iron	20 tons
Construction joinery	25,000
Construction material (2)	320.000 units
Corn	5 tons
Cucumbers	600 kg
Cupboards and wardrobes	30 units
Decorative printing	120,000 units
Drink products (3)	100,000 units

Fert joists	1,200 units
Flowers	7,000 units
Folk costumes	60 units
Food (3)	100,000 units
Food for Bees	2 tons
Frozen fish	80 tons
Fruit (5)	116 tons
Fried fish	4 tons
Furniture (5)	15,820 units
Garden hose	20 tons
Goat milk	9,520litres
Grain (3)	45 tons
Gravel	1,000 tons
Grilled meat	10,000 units
Honey (per hive)	30 hives
Honey	80 kg
Icecream	14 tons
Jam	2,000 kg
Jewelry-Silver	10 kg
Jewerly-Gold	2,5 kg
Joinery (2)	2,400 units
Kitchens (2)	100 units
Livestock	80 units
Lodging	600 units
Meat products (4)	31 tons

Metal gutters	12,000 units
Nylon	40 tons
Painting of vehicle	36 units
Pastry	20 tons
Peppers (3)	3,1 tons
PET	120 tons
Pigs (2)	1,570 units
Pizza	2,160 units
Plastic	50 tons
Printing of comercial material	n/a
Production of construction materials	28,000 m <sup>3</sup> (2)
Production of planks	300 m <sup>3</sup>
Promo material	n/a
PVC and aluminum joinery	3,500 units
Rakija	3,000 litres
Recycling plastic	80 tons
Rolls	21,600 units
Sandwich	18,000 units
Sheeps (2)	175 units
Spare parts for trucks and freight traffic	10,000 units
Stone processing	11 m <sup>3</sup>
Tables	20 units
Tomato	1 tons
Vegetables (5)	61 tons
Wine	800 litres
Water pipes	20 tons
Welding of metal	n/a
Wheat	5 tons
Wine	1,000litres
Wood processing	60 m <sup>3</sup>
Service	Amount
Accommodation	80 units
Construction service (9)	126,650m <sup>2</sup>
Design and construction supervision	30 units
Design and consulting	6 units
Distribution of certain product and daily press	n/a
Drink services (8)	143,200 units
Food service	7,300 units
Internet	450 units
Jewerly-repair	5,000 units
License for sport fishing	2,700 units
Machining and metal construction	by order
Meal services (6)	83,850 units
Printing	600 units
Selling food	50,000 units
Selling medicines	200,000 units
Selling pigs	10 units
Service of exhaust system	480 units
Service of vehicles	1,920 units
Servicing of bosch pumps	1,000 units

TV	450 units
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Leposavic; products, service and quantities.

Product	Quantity
Adhesives for ceramic tiles	30,000 units
Adhesives for walls	10,000 units
Agr.production material	10,000 units
Animal feed (2)	1,150 tons
Apples	2,500 kg
Appliances	1,000 units
Baby equipment	800 units
Banding	50 units
Beds (3)	90 units
Billboards	3,000 units
Billiards	1,800 units
Blocks	10,0000 units
Blueberries	200 tons
Braces for adults	100 units
Briquettes	780 units
Bulls	40 units
Butter	200 units
Cake and cakes (3)	1280 units
Calendars	3,000 units
Calves (3)	17 units
Car oil	4,000 litres
Car tires	8,000 units
Cement	800 tons
Ceramic braces	600 units
Cheese (4)	26 tons
Chemicals	17,500 units
Chicken meat	1,000 kg
Chickens	250 units
Cladding material	3,000 units
Closets	100 unit

Closets	50 units
Clothes processing	2,900 units
Coloring	500 units
Computers	300 units
Concrete blocks	449,000 units
Concrete cubes (2)	2,050 units
Concrete pipes	4,000 units
Constructing houses	6,000 units
Cured meat products	7,000 units
Leather bags	1,000 units
Delicatessen	180 tons
Depilation	300 units
Desks (3)	350 units
Dog food	150 kg
Doors	500 units
Doy Pak packaged products	600,000 units
Drainage material	6,000 units
Drink services (3)	8,000 units
Electrical equipment (3)	10,650 units
Fences	10 units
Fertilizer	5,000 kg
Fish (4)	15,7 tons
Fittings	40 units
Flour	150 kg
Food	40,000 units
Fresh meat	14,000 kg
Fruits	20,000 kg
Grapes	500kg
Gravel	3,600 kg
Gutters	12,000 m
Gypsum boards	12,000
Hard candy	30,000 units
Heifers	20 units

Honey	13,000 kg	Production & sale of pomegranate	20 tons
Ice cream	20,000 litres	Producing flour(T500,T400 and whole wheat)	2,000 tons
Italian underwear	1,200 units	Production of furniture (2)	1,200 units
Jelly cubes	60,000 units	Promotional material	8,000 units
Joinery	200 units	Propolis	20 kg
Kids clothes	1,500 units	Prunes	2,000 kg
Kids shoes	1,200 units	PVC doors	5,000 units
Kitchens (4)	270 units	PVC windows	60,000 units
Knitwear sale	1,500 units	Road maintenance	235 km
Lawnmower	100 units	Roasted lamb	15,000 kg
Lean fruit	3,000 kg	Roasted pork	10,000 kg
Lean vegetables	300 kg	Sale of coal	500 tons
Low construction	n/a	Sale of cosmetics	1,560 units
Machine mortar	30,000 tons	Sale of flower arrangements	1,000-1,200 units
Manicure	500 units	Sale of production materials	1000 units
Milk (4)	86,000 litres	Sale of textiles	3,000 units
Milk cream (3)	15,8 tons	Sale of wood	8,350 m3
Mushrooms	25 tons	Selling parts for sewing machines	100 units
Nail extension (2)	3,000 units	Selling car parts	2,000 units
Organic eggs	80,000 units	Sand	4,000 tons
Parquet	3,000 units	Sandwiches	1,500 units
Pens	5,000 units	Saws	80 units
Cosmetics	600 units	Seeds	100 kg
Piglet	200 units	Selling bicycles	150 units
Pigs	60 units	Selling computers	50,000 units
Plows and harrows	20 units	Shoes	3,060 units
Plumbing material	11,000 units	Sports shoes	2,100 units
Plums	6 tons	Software (3)	10,200 units
Pollen	100 kg	Sports equipment	520 unit
Potatoes (2)	2 tons	Stairs	4 units
Printing flyers	3,000 unit	Strawberries	4 tons
Printing posters	800 units	Stringing rackets	100 units
Printing T-shirts	1,600 units	Struts	6 units
Processing & sale of raspberry	50 tons	Sugar,coconut,raisins	18,000 kg
Processing & sale of blackberry	20 tons	Suits	800 units
Processing & sale of mushrooms	50 tons		
Production & sale of blueberries	70 tons		

Table Football	18,000 units
Tables	150 units
Tea	500 kg
Timber	450 tons
Timbering	300 tons
Tire sale	1,000 units
Tomato	500-800t
Toner cartidges for printers	1,000 units
T-shirts	1,000 units
Turkey meat	500 kg
Turkish delight	150,000 units
Upholstery and renovation of furniture	1,200 units
Vehicle wheel	80 units
VICKO dishes	700 units
Videos	30 units
Lawnmowers	50 units
Wax	1,000 kg
<b>Service</b>	<b>Amount</b>
Accommodation	1,200 units
Broiling	30 units
Car repair	250 units
Car wash	3,700 units
Carpet cleaning	11,000 units
Clothes correction (2)	10,600 units
Coffee service (2)	65,000 units
Coloring (3)	1,200 units
Computer service and equipment	50,000 units
Decoration	80 units
Dental surgery	200 units
Dental treatment	1,500 units
Depilation	300 units
Developing projects in the energy sector	5 units
Development of computer networks	5 units
Digital TV network	500 units

Distribution of milk and yogurt	300 tons
Dressers	20 units
Drink services (6)	182,000 units
Driver training	500 (2)
Electronic security system	30 units
Excavation of earth	30,000 m <sup>3</sup>
Face treatment and massage	1,500 units
Fertilizer	5,000 tons
Film screenings	20 units
Final construction	120 units
Fittings	40 units
Food service (3)	2,700 units
Furnishing of facilities	6 units
General repair	40 units
Gym	60 units
Gypsum decoration	5,000 units
Haircut(5)	8,100 units
Hairstyle (3)	4,800 units
Hardware installation	1,000 units
Healthcare activity	n/a
Installation,removal and tire balancing	2,000 units
Insurance	800 units
Internet services(3)	340 units
Ironing and straightening vehicles (4)	15,340 units
Insurance of restaurants	200 units
Maintenance of computers	12,000 units
Photography	100 units
Manicure	5,200 units
Marketing service	800 units
Massage	48,000 units
Meals service (2)	9,600 units
Moldings	1,800 units
Motor vehicle registration	9,600 units
Mounting and installation of heating	400 units

Painting of vehicle	30 units
Property management (7)	10,295 units
Renting space for events	5 units
Sauna (2)	3,010 units
Service and maintenance of computer systems	3,000 units
Service of agricultural machinery (2)	1,300 units
Sewing clothes (3)	2,600 units
Shaving (2)	3,000 units
Soft drink service	500 units
Solarium	50 units
SPA	2,000 units
Styling	3,000 units
Tailoring	1,000 units
Technical control (2)	1,300 units
Tennis school	800 units
Tennis training	240 units
Theatre performances	300 units
Theses	15 units
Tire-repair shop	1,500 units
Transportation (2)	400 units
Vehicle insurance	200 units
Vehicle registration	50 units
Waxing (4)	4,900 units
Welding vehicles	300 units
Window installation	150 units

Zubin Potok; products, service and quantities.

Product	Quantity
Almond	400 kg
Apples	200kg
Artificial insemination	250 units
Barbecued food (2)	9,2 tons
Barrels	50 units

Bearings	120 units
Beer distribution	400 units
Beer wholesale	n/a
Beer wholesale	18,250 litres
Benches	300 units
Bread (4)	3,705,400 units
Builders joinery	600 m2
Burek	1,2 tons
Cake (4)	1,150kg
Calves	22 units
Candies	50 kg
Car-parts	7,000 units
Catfish fillet	1,000 kg
Cheese (5)	1,510 kg
Cheese	80 kg
Chicken	1,000 units
Chicken meat	10 tons
Chiropody	5,000 units
Chocolade	500 kg
Concentrates	65 tons
Construction material (3)	4,500 m <sup>3</sup>
Corn	3,5 tons
Cream "Rinfuz"	500 kg
Cream cheese	150 kg
Cucumber	3 tons
Deodorants (2)	3,300 units
Desks and benches	30 units
Dried mushrooms	1 ton
Dry mushroom	5 tons
Equipment for mobile telephones	1,500 units
Face creams	1,700 units
Flour	4,800 kg
Food for Bees	100 kg
Fresh juniper	20tons

Frozen berries	15 tons
Fruit (3)	13 tons
Fruvita wholesale	n/a
Gaming	1,000 hours
Goat	3 units
Goat cheese	1,500 kg
Goat milk (4)	2,400 litres
Grapes	600 kg
Groceries	100 tons
Hake	3 tons
Hake fillet	200 kg
Hazelnut	300 kg
Hives	10-15 units
Honey (8)	5,550 kg
Juice	1,000 litres
Juice	9,125 litres
Kid goats(3)	96 units
Kids clothes	15,000 units
Kitchen elements (2)	75 units
Knjaz wholesale	n/a
Lambs	25 UNITS
Leather products	120 units
Men's shirts	200 units
Men's suits	300 units
Mascara	1,500 units
Meat product wholesale	n/a
Meat products	n/a
Medical equipment	n/a
Medicines	6,000 units
Mehanics	1,200 units
Men's shirts	250 units
Milk (3)	4,860 litres
Milk products (2)	7,800 units
Mushroom chanterelle	30 tons
Mushroom morel	50 kg

Mushroom porcini	10 tons
Nail extension	400 units
Office equipment	600 units
Office supplies	400 units
Paper	1,200 tons
Perfumes	400 units
Pastry (3)	405 tons
Peppers (2)	4 tons
Pickles	400 kg
Piglets	200 units
Pigs	50 units
Plastic	870 tons
Plumbing and electrical material	1,000 units
Plums (2)	10,300 kg
Printing	20,000 units
Production of furniture	200 units
Production of paper forms	10,000 units
Production of vegetables	5 tons
Propolis (2)	4,5 kg
Quail eggs	7,500 units
Rakia made of plums (9)	5,210 litres
Raspberry	40 kg
Recycling paper	2,5 tons
Roast meats	31,200 kg
Rubin wholesale	n/a
Sale walnut	500-1,000 kg
Sales household appliances	400 units
Salmon	250 kg
Sandwich	2,000 units
School supplies (2)	11,000 units
Seedlings (3)	20t ons
Selling bees	19 hives
Selling chickens	11,000
Selling concentrates	25 t

Selling fattened chickens	1,200 kg
Shampoo	800 units
Servicing carpenter's tools	2,000 units
Sheep	20 units
Sheet metal	30 units
Shoes sale	800 units
Souvenirs	1,500 units
Spinach	600 kg
Tables	300 units
The roof frame	80 m <sup>3</sup>
Tobacco	3,5 t (3)
Toothpaste	1,500 units
Toys	2,000 units
Training t-shirt	300 units
Trout	250 kg
T-shirts	300 units
Vegetables (4)	6,3 tons
Waste collection	3,000 m <sup>3</sup>
Water	7,300 litres
Water waste	n/a
Water supply	120 m <sup>3</sup>
Weddings	70 units
Wheat (3)	9,5 tons
Wine	700 litres
Women's tunics	250 units
Women's suits	300 units
Wooden doors	300 units
Wooden windows	300 units
Yogurt	5,000 units
<b>Service</b>	<b>Amount</b>
Accommodation	7,200 units
Ads (2)	470 units
Analysis of blood	1,300 units
Analysis of cholesterol and triglycerides	500 units
Babysitting	3,600 units
Birthday celebration	180 units
Bus service (2)	1,825 journeys

Car detail cleaning	30 units
Car wash (2)	1,920 units
Carpentry services (3)	2,380 units
Christening events	10 units
Clothes correction	3,200 units
Coffee service (4)	430 kg
Coloring(4)	3,100 units
Commercials	1,000 units
Construction service	150 units
Consulting	70 h
Decoration of restaurants for weddings	50 units
Depilation	1,500 units
Drink service (7)	55,500 units
Driver training (2)	280 units
Fertilizer (2)	25 tons
Flower arrangements	100 units
Food service	700 units
Hair dye	1,000 units
Haircut (6)	15,900 units
Imaging	10,000 units
Internet provision	2,000 units
Transportation	40 units
Kids education	3,600 units
Meals service (3)	10,600 units
Preparations for plant protection	2,000 litres / 1,5 tons
Recording	30 units
Repair of mobile telephones	2,500 units
Sale and service of computers	900 units
Services of fixing the furniture	400 units
Shaving	600 units
Shooting	20,000 units
Soft drink services (2)	116,400 units
Styling (4)	7,500 units
Urinanalysis and urinoculture	700 units

Vehicle servicing	190 units
Veterinarian services	1,000 units
Transportation (2)	650 journeys

## 8.4 Company Questionnaire

The company questionnaire consisted of 31 questions covering various aspects of the business and their operations. The 31 questions covered 5 differing areas; structural data, target markets, framework conditions/ business environment, competitiveness and needs. Through answering these questions the companies were able to give the research team valuable insight into the economic situation of north Kosovo businesses. The full questionnaire, divided into the 5 sections is replicated below.

### I. Structural data

QI.1	When did your company begin operations?	Year: _____ <input type="checkbox"/> Before 1999 <input type="checkbox"/> Between 2000 and 2005 <input type="checkbox"/> Between 2005 and 2010 <input type="checkbox"/> Since 2011 <input type="checkbox"/> No answer provided																				
QI.2	What is your number of employees?	<table border="1"> <tr> <th>Total</th> <th>Type</th> <th>Male</th> <th>Female</th> <th>Uni.Degree (total male/ female)</th> </tr> <tr> <td> <input type="checkbox"/> 0-9  <input type="checkbox"/> 10-19  <input type="checkbox"/> 20-49  <input type="checkbox"/> 50-249  <input type="checkbox"/> 250 or more  <input type="checkbox"/> No answer provided                 </td> <td>Full-time</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Part-time</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Seasonal</td> <td></td> <td></td> <td></td> </tr> </table>	Total	Type	Male	Female	Uni.Degree (total male/ female)	<input type="checkbox"/> 0-9 <input type="checkbox"/> 10-19 <input type="checkbox"/> 20-49 <input type="checkbox"/> 50-249 <input type="checkbox"/> 250 or more <input type="checkbox"/> No answer provided	Full-time					Part-time					Seasonal			
Total	Type	Male	Female	Uni.Degree (total male/ female)																		
<input type="checkbox"/> 0-9 <input type="checkbox"/> 10-19 <input type="checkbox"/> 20-49 <input type="checkbox"/> 50-249 <input type="checkbox"/> 250 or more <input type="checkbox"/> No answer provided	Full-time																					
	Part-time																					
	Seasonal																					
QI.3	What was your annual turnover in 2012?	<input type="checkbox"/> 0 - €5,000 <input type="checkbox"/> €5,001 - €10,000 <input type="checkbox"/> €10,001 - €20,000 <input type="checkbox"/> €20,001 - €50,000 <input type="checkbox"/> €50,001 - €100,000 <input type="checkbox"/> €100,001 - €200,000 <input type="checkbox"/> €200,001- €500,000 <input type="checkbox"/> €500,001 - €1,000,000 <input type="checkbox"/> ≥1,000,001 Or Exact amount: € _____																				
QI.4	How did your turnover change over the last 5 years?	<input type="checkbox"/> ≤ -6 % <input type="checkbox"/> 0 – -5 % <input type="checkbox"/> 0 – 5 % <input type="checkbox"/> 6 – 10 % <input type="checkbox"/> ≤ 11%																				

QI.5	How have your employee numbers changed in the last year?	Increased by: _____ Decreased by: _____ No change: _____	
QI.6	How do you expect your employee numbers to change in the next year?	Increase by: _____ Decrease by: _____ No change: _____	
QI.7	What is the legal status of your company?	<input type="checkbox"/> Unregistered <input type="checkbox"/> Registered within Serbian business registry <input type="checkbox"/> Registered within UNMIK <input type="checkbox"/> Registered within Kosovo business registry <input type="checkbox"/> Other _____	
QI.8	What type of ownership is the business operating under?	<input type="checkbox"/> Sole Proprietor <input type="checkbox"/> General Partnership <input type="checkbox"/> Limited Partnership <input type="checkbox"/> Limited Liability Company <input type="checkbox"/> Joint Stock Company <input type="checkbox"/> Foreign Owned Company <input type="checkbox"/> Socially Owned Company <input type="checkbox"/> Publicly Owned Company <input type="checkbox"/> Agricultural Cooperative <input type="checkbox"/> Branch of a company from Serbia <input type="checkbox"/> Other _____	
QI.9	In what sector does your company operate?	<input type="checkbox"/> Retail <input type="checkbox"/> Transport, storage and distribution <input type="checkbox"/> Food goods, beverages and tobacco <input type="checkbox"/> Hospitality and tourism <input type="checkbox"/> Agriculture <input type="checkbox"/> Food processing <input type="checkbox"/> Wood processing <input type="checkbox"/> Metal processing <input type="checkbox"/> Furniture production <input type="checkbox"/> Textiles <input type="checkbox"/> Construction <input type="checkbox"/> Construction materials <input type="checkbox"/> Machinery and equipment production <input type="checkbox"/> Information, Communication, Telecommunication (ICT) <input type="checkbox"/> Other: _____	

## II. Target Markets

QII.1	What products or services do you currently provide to the market and what is the current production capacity per annum?		
	Product/ Service	Annual Production	
1			
2			
3			



4				
5				

QII.2	How would you describe your business activities?	<input type="checkbox"/> Business-to-Business <input type="checkbox"/> Business-to-Consumer <input type="checkbox"/> Business-to-Institutions			
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QII.3	In which markets are you active, which markets are under preparation, which markets are interested in exploring market opportunities in and which markets are not relevant?				
	Market	Active	Under preparation	Interested in exploring market	Not relevant
1	Locally				
2	Serbian Enclaves				
3	Serbia				
4	South Kosovo				
5	Other Balkan countries				
6	EU countries				
7	Rest of world e.g. Turkey, Russia				

QII.4	What share of your turnover is achieved in the markets in which you operate?				
	Market	≤ 10%	11% – 29 %	30% - 49%	≥ 50%
1	Locally				
2	Serbian Enclaves				
3	Serbia				
4	South Kosovo				
5	Other Balkan countries				
6	EU countries				
7	Rest of world e.g. Turkey, Russia				

QII.5	What is the average growth rate of your business outside your local market?				
	Market	Negative	0% - 5%	6% - 15%	≥16%
1	Serbian Enclaves				
2	Serbia				
3	South Kosovo				
4	Other Balkan countries				
5	Eastern Europe				
6	Western Europe				
	<b>Comments:</b> <hr/> <hr/> <hr/> <hr/>				

QII.6	What is your perception/ expectation, how will the relevance of the markets listed below change over the next 5 years?							
	Market	Locally	Serbian Enclaves	Serbia	South Kosovo	Other Balkan countries	EU countries	Rest of world e.g. Russia, Turkey
1	Relevance will strongly increase							
2	Relevance will increase							



	Relevance will not change							
3	Relevance will decrease							
4	Do not know							
<b>Comments:</b>								

QII.7	How did you come to this perception/ expectation?							
	Market	Locally	Serbian Enclaves	Serbia	South Kosovo	Other Balkan countries	EU countries	Rest of world e.g. Russia, Turkey
1	Increase in growth in target markets							
	Decrease in growth in target markets							
2	Increasing openness of markets							
	Decreasing of openness of markets							
3	Increrasing barriers to trade in terms of informal/ formal barriers							
	Decreasing barriers to trade in terms of informal/ formal barriers							
4	Improved political climate supporting to business development							
	Disimproved political climate supporting to business development							
<b>Comments:</b>								

QII.8	In which market are your suppliers located? (if Yes, which percentage of your supply comes from that market)		
	Market	Yes + %	No
1	Locally		
2	Serbian Enclaves		
3	Serbia		
4	South Kosovo		
5	Other Balkan countries		
6	EU countries		
7	Rest of world e.g. Russia, Turkey		



QII.9	In which market are your trading partners (both sale and supply) located?	<input type="checkbox"/> Locally _____ <input type="checkbox"/> Serbian Enclaves _____ <input type="checkbox"/> Serbia _____ <input type="checkbox"/> South Kosovo _____ <input type="checkbox"/> Other Balkan countries _____ <input type="checkbox"/> EU countries _____ <input type="checkbox"/> Rest of world _____ <input type="checkbox"/> Other: Please state _____
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### III. Framework conditions/ Business environment

QIII.1	Have you received business development assistance from local or international, governmental or non-governmental organization or business development agency?			
	Organisation/ institution name	Assistance (Yes/ No)	Type of assistance (training, loan, grant, workshop, consultant)	Would you accept assistance from the following organisations
1	Local Municipality			
2	Chamber of Commerce			
3	Govt. Of Serbia			
4	USAID			
5	Swiss Agency for Development & Cooperation			
6	Bristish Foreign & Commonwealth Office			
7	European Commission			
8	Govt. Of Kosovo			
9	G.I.Z.			
10	Mercy Corps			
11	Pozlojni Centar			
12	Other: _____			

QIII.2	Are the following variables a challenge in doing business in the markets below?							
	Market	Locally	Serbian Enclaves	Serbia	South Kosovo	Other Balkan countries	EU countries	Rest of world e.g. Russia, Turkey
1	Insufficient knowledge of the market							
2	Missing business partners in markets							
3	Competition of local competitors in that market							



4	Taxes/ duties & other tariff barriers						
5	Uncontrollable risk in terms of payments & currency						
6	Uncontrollable risk in terms of remaining conflict potential						
7	Other: Please state						
	<b>Comments:</b> <hr/> <hr/> <hr/> <hr/>						

**Do businesses dealing with south Kosovo experience disadvantage in their local community?**

Yes  (Ask the next question)  
No  (Skip the next question)

QIII. 3	From your perspective; doing business with south Kosovo would lead to....				
		Strongly Agree	Agree	Disagree	Strongly Disagree
1	Loss of reputation amongst your community				
2	Increase risks to payment of invoices				
3	Loss of freight/ goods through robbery or destruction				
4	Benefit in terms of increased revenue and profitability				
5	Would cause problems or create barriers to doing business in your local market				
6	Loss of earnings				
7	Increase in payable tax				
8	Risk to your person or personal security of your family				
9	Acceptance as business partner in the south				

QIII. 4	Do you agree that the following are barriers in doing business in south Kosovo				
	Barrier	Strongly Agree	Agree	Disagree	Strongly Disagree
1	Corruption				
2	Tax evasion/ black market				
3	Non loyal competition				
4	Administrative barriers				
5	Rule of law				
6	High Taxes				
7	Electric energy				
8	Legislation				
9	Roads and Telecommunication				



10	Competition				
11	Payment delays				
12	Lack of demand				
13	Raw Material				
14	Access to finance				
15	Production capacities				
16	Lack of internet				
17	Workers' skills				
18	Managerial skills				

#### IV. Competitiveness

QIV.1	How do you rate the competitiveness of your company compared to your competitors in your main markets?			
	Variable	Higher/ Better	Lower/ Worse	Equal
1	Labour costs			
2	Productivity of equipment			
3	Cost of production (per unit)			
4	Input costs			
5	Energy & water costs			
6	Qualified & skilled staff			
7	Business environment			

QIV.2	We earlier discussed your current products and production capacity. What is your ability to increase your current production capacity? What is your optimal production capacity and what do you need in order to achieve this?			
		Product	Current	At what capacity are you currently producing? Percentage
Product	Annual Production	Current	At what capacity are you currently producing? Percentage	
1				
2				
3				
4				
5				

QIV.3	In the last 5 years have you modernized your business equipment?			
		Type of equipment (production machinery, IT equipment, software, agricultural machinery, etc)	Purchased new/ 2 <sup>nd</sup> hand	Financed by (cash, investor, bank loan, family/friend loan, grant or loan from donors (local/international), development organizations or government agencies.)
1				
2				
3				
4				
5				
6				

QIV.4	In the next 5 years do you plan on modernizing your business equipment?			
		Type of equipment (production machinery, IT equipment, software, agricultural machinery, etc)	Purchased new/ 2 <sup>nd</sup> hand	Financed by (cash, investor, bank loan, family/friend loan, grant or loan from donors (local/international), development organizations or government agencies.)
1				
2				
3				
4				
5				
6				



	Type of equipment (production machinery, IT equipment, software, agricultural machinery, etc)	Purchased new/ 2 <sup>nd</sup> hand	Financed by (cash, investor, bank loan, family/friend loan, grant or loan from donors (local/international), development organizations or government agencies.)
1			
2			
3			
4			
5			
6			

QIV.5	From which market does your labour force come from?			
	Market	Number of employees	Male	Female
1	Locally			
2	Serb Enclaves			
3	Serbia			
4	South Kosovo			
5	Other Balkan countries			
6	EU countries			
7	Rest of world e.g. Russia, Turkey			

QIV.6	What is your demand for utilities? What is the average outage of used utilities?			
		Weekly need (hourly)	Average weekly outage (hourly)	
	Electricity			
	Water			
	Gas			
	Telephone			
	Internet			
	Other:			

QIV.7	What obstacles have you experienced or believe you may experience in becoming more competitive in the market?				
	Obstacles	Strongly Agree	Agree	Disagree	Strongly Disagree
1	Lack of information on sales market				
	Lack of information on sourcing materials				
	Lack of information on marketing of products/ services				
	Lack of quality partners and contacts in sales				
2	Lack of quality partners and contacts in sourcing of materials				
	Lack of quality partners and contacts in distribution of products				
3	Lack of services from business associations, chambers of commerce, service providers.				
4	Lack governmental promotion services.				



	5	Difficulties in meeting standards and requirements of external markets				
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#### V. Needs

QV.1	In order for growth and/or business development potential to happen what support (from donors) do you need?					
		Type of support (e.g. Match making)	Growth/ business development potential through received support (e.g. Trading in new markets and regions)			
	1					
	2					
	3					
	4					
	5					
	6					

QV.2	What kind of support does your company need to expand operations?			Yes	No
	1	Support to introduce new technologies/ upgraded methodologies in production and administration			
	2	Investment in vocational skills			
	3	Introduction of social or ecological standards			
	4	Introduce new quality standards and certifications			
	5	Developing innovative products			
	6	Improved registration possibilities for Intellectual Property Rights (trademarks, copyrights, branding etc)			
	7	Support and political backing to do business in south Kosovo			

## 8.5 List of references

1. Labour Survey 2012, Agency for Statistics of Kosovo, May 2012, Pristina.
2. Assessment of Economic Conditions and Possible Development Projects in Northern Kosovo, USAID, October 2006.
3. Improving The Kosovo Serbian Business Community Involvement In Economic Activities In Kosovo, Riinvest Institute, March 2012, Pristina.
4. Municipal Profiles, OSCE, 2006.
5. North Kosovo: Dual Sovereignty in Practice, International Crisis Group, March 2011.