

Analysis of the economic situation in the Serb-populated areas in Kosovo

April
2021



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of the open society
within Serb community
in Kosovo

Openness of Serbian
media in Kosovo

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Kosovo

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dialogue process

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1. Introduction

On 11 March 2020, the World Health Organization officially announced the Corona virus (COVID-19) pandemic.¹ Countries have had different approaches in fighting the pandemic which led to different results. Governments of some countries, for example, gave priority to the prevention of pandemic spreading by closing their borders and restricting economic activities (majority of countries in Europe and the Western Balkans). On the other hand, there are examples of focusing on preservation of economic activities (USA), while some countries made attempts to overcome the pandemic through the imposed population immunization (Sweden).

The COVID-19 pandemic led to serious economic disruptions, as well as to changes in how countries worldwide function. Enterprises, other institutions and employees had to adapt to the new circumstances. Kosovo institutions have also introduced a number of measures since 13 March 2020 when first cases of Corona virus positive persons were registered.

Upon a proposal of the Kosovo Ministry of Finance, the Government of Kosovo adopted at the end of March 2020 the **Emergency Fiscal Measures Package to neutralize the adverse effects in economy due to COVID-19 pandemic**.² Among others, this assistance package comprised a financial support to the private sector which, due

to a fall in productivity during the state of emergency period, was among those most affected. The support included coverage of monthly costs of employee salaries, rental subsidies for SMEs, coverage of retirement contributions costs, subsidies for companies with registered employees with employee contracts for a period of at least one year, as well as provision of financial liquidity for micro enterprises. All measures were subject to certain criteria, amounts and periods of time.

According to a research conducted by InTER in 2017, in municipalities in the north of Kosovo were 3,180 registered business entities.³ As certain number of economic measures of the Government of Kosovo from the Emergency Fiscal Measures Package (EFMP) included assistance to the private sector, the question is if Serbian companies registered in the Serb-majority municipalities in Kosovo were informed on this form of support and to what extent they met the requirements for eligibility for financial support anticipated by those measures.

In addition to that, prior to declaring the COVID-19 pandemic, a decision of the Government of Kosovo on the imposition of 100% tariff on goods imported from Serbia (and Bosnia and Herzegovina) was in force. This decision was in force from November 2018 until March 2020, when its gradual abolishing commenced. The

¹ World Health Organization, available on <http://bit.ly/2M-9RYqb>

² Decision of the Government of Kosovo No. 01/19, available on <http://bit.ly/2WK6xCH>

³ Freakonomics of Northern Kosovo, InTER 2017, available on <https://bit.ly/3aPTQlk>

tariff was fully abolished by a decision made on 31 March 2020, however they were simultaneously replaced with new reciprocity trade measures relating exclusively on import from Serbia.⁴ Reciprocity measures primarily relate to phytosanitary and veterinary certificates and accompanying documentation in which the "Republic of Kosovo" must be stated as an exporting country which is not recognized by the Serbian customs authorities. That has created additional problems, first of all in trading activities in the Serb-populated places usually directly dependent on import and supplying the population with necessary goods from Serbia.

New measures – healthcare, economic and trade – have been a change affecting doing business in the Serb-majority municipalities in Kosovo, as well their adapting to the new circumstances. Due to all circumstances mentioned, this paper is divided into three units. To give as comprehensive presentation as possible, part one deals with an analysis on the number of registered business entities in the Serb-majority municipalities, number of employees in the private sector, prevailing business activities and main business challenges. Part two is an analysis of the package of financial assistance of the Government of Kosovo to the private sector during the COVID-19 pandemic. The analysis in part three is part of a broader OPEN initiative, and this part is about views of the Ser-

bian community in ten Serb-majority municipalities in Kosovo on their openness to the integration of Serbian businessmen into Kosovo economy and improvement of cooperation between Serbian and Albanian businessmen.

4 Decision of the Government of Kosovo No. 01/20, available on <http://bit.ly/2WK6xCH>

2. Situation analysis

Political context

The adoption of the UN Security Council Resolution 1244/99 putting Kosovo under international protectorate created a great number of challenges, both positive and negative, that subsequently impacted democratization, inter-ethnic tolerance, sound governance and socio-economic development of municipalities in Kosovo.

Circumstances got more unfavorable for the Serb municipalities in Kosovo after the proclamation of Kosovo independence in 2008. Then, in the decentralization process, as a key element of the Ahtisaari plan to be subsequently incorporated in the Kosovo legal framework, six new Serb-majority municipalities were created. Five of them are south of the Ibar/Ibër and they are: Novo Brdo/Novobërdë, Gračanica/Graçanicë, Ranilug/Ranillug, Parteš/Partesh and Klokot/Klllokot. While the Serb-majority municipalities in the north of Kosovo refused to recognize legitimacy to Pristina central authorities, municipalities in the south of Kosovo have been participating in Kosovo local elections since 2009. They were integrated in the Kosovo system then and accordingly, their degree of adaptation and integration in the Kosovo legal system differs from that in the north.

Since March 2011, the dialogue between Serbia and Kosovo has been EU-facilitated. The most important event took place on 19 April 2013 when "The First Agreement Regulating the Normalization of Relations", colloquially termed the "Brussels

Agreement", was signed. Beside this one, over twenty other agreements have been made, either within political or technical negotiations. The majority of them relate to resolving technical issues of significance for the normalization of relations and creating conditions for smooth movement of persons and commodities, although many of them deal with dissolution of the institutions of the Republic of Serbia present in Kosovo and their integration in the Kosovo legal system.

The situation in the Serb-majority municipalities changed following the signing of the Brussels Agreement. As part of the agreement realization, the Government of Serbia accepted to dissolve local self-governments and introduce provisional measures in local self-governments functioning within the laws of Serbia. Local elections under the laws of Kosovo were organized then for the first time and included the Serb-majority municipalities in the north of Kosovo as well (Leposavić/Leposaviq, North Mitrovica, Zubin Potok and Zvečan/Zveçan). Four municipalities in the north of Kosovo were constituted, making with other six in the south ten Serb-majority municipalities in Kosovo.

As far the implementation of the Brussels Agreement is concerned, it is a process not taking a straight-line direction all the time. Realization of certain agreements or parts of agreements is behind schedule, mostly due to political disagreements and different interpretations of the agreed provisions. In addition to that, in November 2018, the Government of Kosovo imposed tariff on imports of goods

from Serbia (and Bosnia and Herzegovina), first at the rate of 10 %, and subsequently of 100 %. This decision of the Government of Kosovo was contrary to the provisions of the CEFTA, and also to other agreements made. As a response to this measure, the Government of Serbia suspended its participation in the Brussels dialogue until the withdrawal of the disputable decision. After more than a year, in March 2020, the Government of Kosovo made a new decision abolishing the tariff on import of goods from Serbia and B-H. However, new barriers to trade were imposed to Serbia, i. e. reciprocity trade measures relating only to import from Serbia.

Socio-economic context

After the suspension of practically all global economic activities and with uncertainty about further situation due to the COVID-19 pandemic, it is expected that a great number of countries will face an economic crisis the proportions of which are still unknown. After COVID-19 pandemic cases in Kosovo, the government restricted movement of people and ordered closing of a major part of economy for longer than two months. Measures aimed at containing the spreading of the pandemic slowed down the production which further led to a fall in gross domestic product (GDP) by 9.28 percent in the second quarter of this year.⁵ However, the magnitude of this economic slowdown depends on several factors, such as ability to control virus spreading, efficiency of economic measures the Government adopted to facilitate the economic recovery, as well as consumer and business expectations from the private sector.

Private sector in the Serb-majority places in Kosovo was, even prior to the COVID-19 pandemic, functioning in unfavorable business environment due to security challenges, limited market, non-familiarity with administrative procedures, difficulties in free movement of persons, commodities and services. A majority of businesspersons in southern municipa-

lities began to do business within the Kosovo legal system as early as 2008, immediately after the declaration of independence of Kosovo and integration of municipalities south of the Ibar/Ibër in their system. That happened in northern Kosovo much later, more precisely, only after signing the Brussels Agreement, when the process of registration of business entities with the Kosovo Business Registration Agency was improved and the number of registered enterprises began to grow. Registration within the Kosovo system enables businessmen to get connected and do business with businessmen from other parts of Kosovo easier, as well as the same rights and responsibilities assumed by the registration to carry out business activities in Kosovo. Registered enterprises have access to the Kosovo market without restrictions encountered by non-registered enterprises or enterprises registered in other legal systems, Serbian in this case. This is particularly important for those involved in trade. Participation of the private sector from the Serb-populated areas in the total economic activity in Kosovo is small-scale, but within it the greatest portion is that of trade and service industry followed by agriculture and processing industry.

Although Serb-populated areas in Kosovo used to be a prosperous business environment with different natural resources, industry and high employment rate in relevant sectors, the present-day picture is quite the opposite. These areas are short of investments in the private sector, the current economic situation is dire, depending mainly on Serbian institutions and frequently reflecting political and security instability. An example among a sequence of such events is the decision of the Government of Kosovo to impose tariff on import of products from Serbia (and Bosnia and Herzegovina), which had an adverse impact on the private sector in Serb-populated parts, as the majority of business entities is involved in trade, mainly in goods of Serbian origin. When the tariff imposed by the Government of Kosovo was abolished, new reciprocity trade measures were introduced to goods imported from Serbia, which additionally worsened the conditions in which business is done and in which the private sector is developing in the Serb-majority communities.

⁵ Kosovo Agency of Statistics, Gross domestic product Q2 2020, available on <https://bit.ly/38E3yRZ>

Goal of the research

The overall goal of the study is to contribute to a higher degree of openness of business entities based in the Serb-majority communities to other communities and institutions. In a narrow sense, the goal of the study is to contribute to better awareness of citizens on economic conditions and their access to financial support of the development of private sector in Serb-majority municipalities.

Methodology and design of quantitative research

A field face-to-face survey was conducted in the period from 1 October through 20 October 2020. In total, 582 citizens of Serbian ethnicity on the entire territory of Kosovo were included in the survey. Out of that, 50.5 % of respondents south of the Ibar/Ibër and 49.5 % respondents north of the Ibar/Ibër were included in the survey. The questionnaire consists of 65 questions covering 8 areas. The sample is non-random, the quota and quota determining criterion is the size of population of a municipality. Confidence interval is +/-5. The sample is made of 54.7 % of men and 45.3 % of women. The average age of respondents is 44. Out of the total number, 14.4 % of respondents are with completed elementary school, 62.1 % with completed secondary school and 23.5 % of respondents are with completed higher school or faculty. Out of the total number of respondents, 25.9% are employed in the public sector, 22.3% in the private sector, 35.2% are unemployed and 16.6% are retired persons. It is important to point out that, due to the fact that there are no statistical data on the demographic structure of the targeted population, i. e. Serbian population in Kosovo, it could only conditionally be said that it is a representative sample.

Methodology and design of qualitative research

INTERVIEWS

Time of survey:

The survey was conducted from April until November 2020.

Research instrument:

37-question interview guide

Total number of interviewed persons:

40

Selection criteria:

place of residence, profession, sex

Collocutors:

representatives of the private and public sector and financial institutions

3. Research results

Economy in the Serb-majority places in Kosovo is comprised of



The prevailing economic activity is **Wholesale and Retail Trade**. The greatest number of business entities are registered in Leposavić/Leposaviq, the fewest are in Parteš/Partesh.

In the third quarter of 2020 the **number of newly registered entities is by**

25%

Structure of economy in the Serb-majority places in Kosovo

After the conflict in 1999, the structure of the serb population in Kosovo has changed significantly.

Originally, the Serb-majority municipalities were Zvečan/Zveçan, Zubin Potok, Štrpce/Shtërpçë and Leposavić/Leposaviq. After the proclamation of independence of Kosovo, in the decentralization process under the Law on Administrative Borders of Municipalities in 2009, six new Serb-majority municipalities were formed: North Mitrovica, Gračanica/Graçanicë, Novo Brdo/Novobërdë, Ranilug/Ranillug, Parteš/Partesh and Klokot/Kllkot.⁶ Geographically, municipalities of North Mitrovica, Zvečan/Zveçan, Zubin Potok and Leposavić/Leposaviq are four municipalities situated in the north of Kosovo, whereas the remaining six municipalities are on the territory south of the Ibar/Ibër.

As Serbs in the four municipalities in the north of Kosovo boycotted the 2011 population census, there are no precise data on the number of citizens in these municipalities. Based on the data

⁶ Law No. 03/L – 041- On Administrative Borders of Municipalities, Kosovo Official Gazette, available on <https://bit.ly/2WNerv3>

of the Kosovo Agency of Statistics and OSCE estimates on the population in the north of Kosovo, the said ten municipalities have a population of approximately 113,000, of which 91,000 are Kosovo Serbs. The biggest demographic agglomeration is in Mitrovica North with of 2,678 inhabitants per km², whereas the least densely populated is Leposavić/Leposaviq Municipality with only 25 inhabitants per km².

Statistical data on business demography by municipalities are somewhat different. According to the data of the Business Registration Agency, 6,440 business entities were registered in the

municipalities under observation in the period from 2000 until 2020, which is 5.7 business entities per 100 inhabitants on average. The greatest number of registered enterprises is in Leposavić/Leposaviq and Gračanica/Graçanica municipalities. On the one hand, the smallest number of businessmen is doing business in Parteš/Partesh Municipality, only 10. It is also the smallest among the ten Serb-majority municipalities, both in terms of population and the size of area it covers. Data on the total population by municipalities, their size and number of registered business entities from 2000 until November 2020 are given in the following table:

Table 1. Population density and density of business entities by municipalities

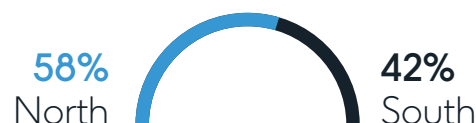
Municipality	Size (km ²)	Population	Population density by km ²	Number of enterprises	Density of business entities by 100 inhabitants
Mitrovica North	11	29.460	2.678	727	2,47
Zvečan/Zveçan	122	16.650	136	874	5,25
Leposavić/Leposaviq	750	18.600	25	1.482	7,97
Zubin Potok	335	15.200	45	664	4,37
Gračanica/Graçanicë	131	10.675	81	1.245	11,66
Štrpce/Shtërpçë	247	6.949	28	970	13,96
Novo Brdo/Novbërdë	204	6.729	33	418	6,21
Parteš/Partesh	18,3	1.787	98	10	0,56
Klokot/Klllokot	24	2.556	107	30	1,17
Ranilug/Ranillug	77,6	3.866	50	20	0,52
Ukupno	1.920	112.469	58,6	6.440	5,7

Source: INTER, based on the data of Municipal profiles, OSCE Mission in Kosovo, September 2015, and data of the Business Registration Agency of Kosovo)

Enterprises registered in the period from 2000 until 2020 are involved in versatile business activities. According to the statistical data of business entities in Kosovo harmonized with the statistical classification of economic activities in the European Community - NACE⁷, business activities registered in Kosovo municipalities are classified into 21 sectors.⁸ Predominant activity is Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles with 2,386 registered enterprises, accounting for 37 % of the total number of registered business entities. The second predominant activity is Agriculture, Forestry and Fishing with 966 business entities, making 15 % of total economic activities. These activities are followed by Manufacturing Industry with 788 registered enterprises (12.2 %), Accommodation and Food Service Activities (470 enterprises, 7.3 %) and Construction (421 enterprises, 6.5 %). Other identified economic activities are present to a lesser extent as presented in Graph 1.

As to distribution of enterprises by municipalities in the north and south, it is not entirely even. Out of the total number of registered business entities, 3,747 are registered in northern Kosovo municipalities, accounting for 58 % of the total number of registered entities, whereas the remaining 42 % are business entities carrying out their business activities in the six southern municipalities included in this research. In addition to that, there are no significant differences in predominant economic activities, thus three predominant activities both in municipalities in the north and in the south under consideration in this research are *Wholesale and Retail Trade; Agriculture, Forestry and Fishery; and Manufacture*. When other activities

are concerned, in the majority of them there are more business entities registered in the north. There are exceptions, such as *Accommodation and Food Service Activities* with almost twice as many enterprises in this economic activity in southern municipalities than in the northern. Business entities involved in *Arts, Entertainment and Recreation* are also more numerous in municipalities south of the Ibar/Ibër.



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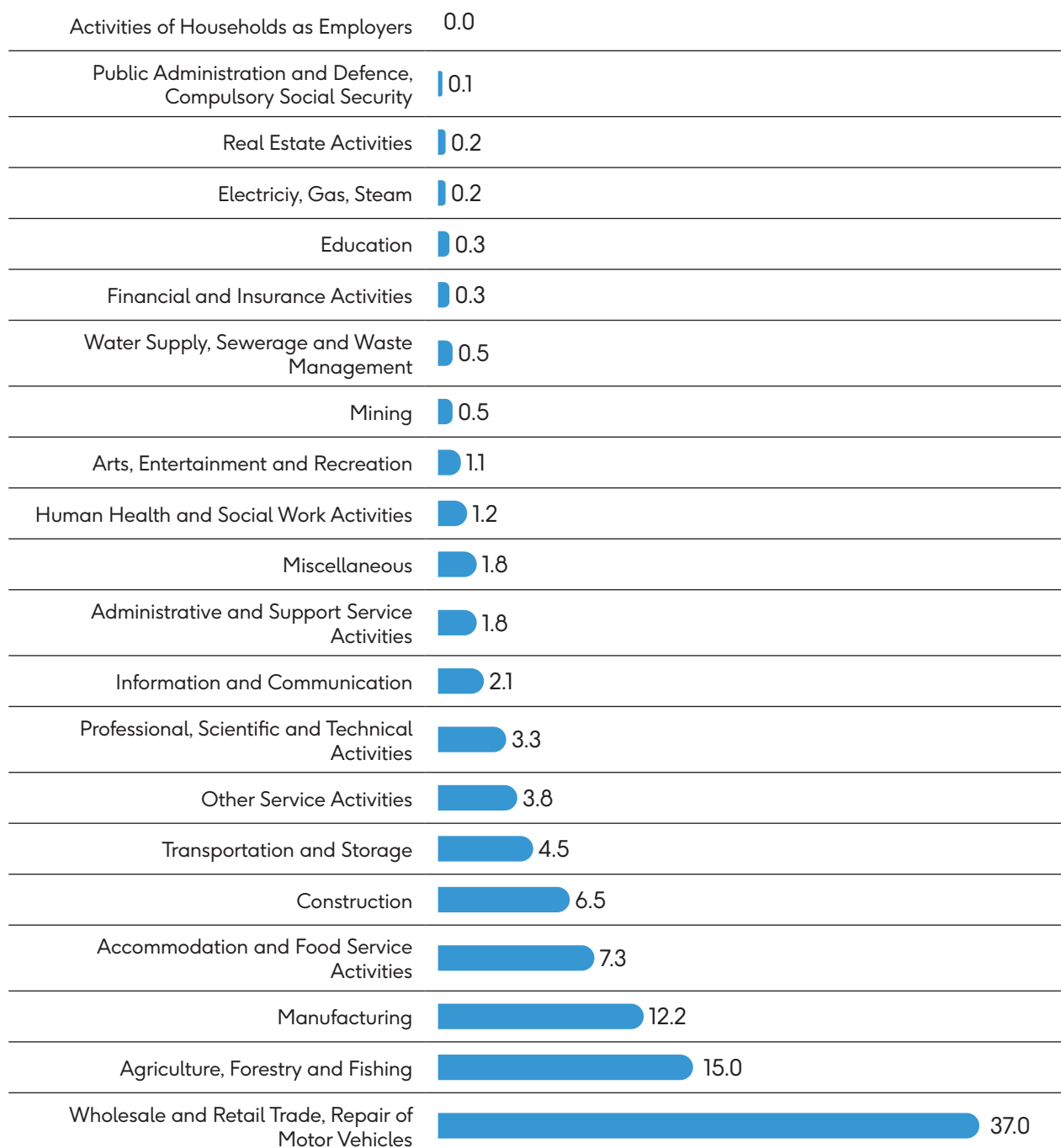
42%

are business entities carrying out their business activities in the six southern municipalities included in this research

⁷ NACE - Statistical classification of economic activities in the European Community

⁸ 1. Agriculture, Forestry and Fishery; 2. Mining and Quarrying; 3. Manufacturing; 4. Electricity, Gas, Steam and Air Conditioning Supply; 5. Water Supply, Sewerage, Waste Management and Remediation Activities; 6. Construction; 7. Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles; 8. Transportation and Storage; 9. Accommodation and Food Service Activities; 10. Information and Communication; 11. Financial and Insurance Activities; 12. Real Estate Activities; 13. Professional, Scientific and Technical Activities; 14. Administrative and Support Service Activities; 15. Public Administration and Defence, Compulsory Social Security; 16. Education; 17. Human Health and Social Work Activities; 18. Arts, Entertainment and Recreation; 19. Other Service Activities; 20. Activities of Households as Employers; Undifferentiated Goods and Services Producing Activities of Households for own use; and 21. Activities of Extraterritorial Organisations and Bodies

Graph 1. Share of individual economic activities in the Serb-majority municipalities in Kosovo, in %



Source: InTER, based on data of the Business Registration Agency of Kosovo for the 2000-2020 period

According to the Kosovo Statistics Agency data, in the third quarter of this year 2,593 new enterprises were registered Kosovo-wide, which is by 8.9 % more than in the same period last year. At the same time it is by 27.5 % more than in Q2.⁹ A trend of growth in the number of new enterprises is also registered in the Serb-majority municipalities in Kosovo in which in Q3 of this year 65 new enterprises were registered and in comparison with the same quarter last year it is a growth by 25 %. In Q3 there were as many as 75 % new registrations more than in Q2 of this year when 37 enterprises were registered. The greatest number of new enterprises was registered in Gračanica/Graçanicë, which is followed by the municipalities of Zubin Potok, Leposavić/Leposaviq and Novo Brdo/Novobërdë. On the other hand, in Q3 this year 9 enterprises were dissolved in the Serb-majority municipalities in Kosovo, whereas 20 enterprises in total were dissolved in 2020. In comparison with the previous year in which 28 enterprises were dissolved, this year 28.6 % less enterprises were dissolved. However, the statistical data on the number of enterprises that suspended their operations in the period of COVID-19 pandemic due to strict measures relating to doing business in the first months since the announcement of the pandemic are not available.

Based on the data gathered through interviews with business entities, the activities were suspended due to measures aimed at the prevention of Corona virus spreading introduced by the Government of Kosovo and depending on the sector within which businesses operate. The biggest losses were suffered in the catering industry as multiple restrictions originally meant a complete closure of restaurants and cafes, whereas afterwards their working hours were restricted against the compliance of the respective epidemiologic measures. On the other hand, there are economic activities, such as furniture manufacture, on which the pandemic effect is the increase in production and income.

⁹ Kosovo Agency of Statistics, Statistical Repertoire on Economic Enterprises in Kosovo Q3 2020, available on <https://bit.ly/3ruVPy>

Employment in the private sector











A high unemployment rate poses one of the greatest challenges to the entire Western Balkan region, including Kosovo. According to the latest available data of the Kosovo Statistics Agency, the unemployment rate in Kosovo at the end of Q1 2020 was 25.0 %.¹⁰ The number of employed persons in Kosovo is 354,672, which accounts for 29.1 % of active labor force, and the majority of them are in trade (17.1 %), in production sector (12.0 %), education (10.7 %) and construction (10.6 %). Data on changes in the number of the employed after Q1 in Kosovo as a consequence of the COVID-19 pandemic will be available in the 2020 annual statement as there are restrictions to regular field data gathering. When it is about employment in the private sector in the 10 Serb-majority municipalities in Kosovo under consideration, according to the data of the Tax Administration of Kosovo, 9,805 employees were registered in the period January-October 2020. The number of registered employees by municipalities is presented in the following table:



However, the statistical data on the number of enterprises that suspended their operations in the period of COVID-19 pandemic due to strict measures relating to doing business in the first months since the announcement of the pandemic are not available.

¹⁰ Kosovo Agency of Statistics, Labour Force Survey, Q1 2020, available on <https://bit.ly/37OAdEh>

Table 2. Number of registered employees in the private sector by municipalities

Municipality		Number of registered employees
Mitrovica North		370
Zvečan/Zveçan		111
Leposavić/Leposaviq		169
Zubin Potok		98
Gračanica/Graçanicë		8,150
Štrpce/Shtërpçë		303
Novo Brdo/Novobërdë		196
Parteš/Partesh		189
Klokot/Kllokot		200
Ranilug/Ranillug		19

Source: InTER, based on the data of the Tax Administration of Kosovo

A significant deviation is noticed in the municipality of Gračanica/Graçanicë with 1,245 active enterprises and over 8,000 registered employees. This municipality, according to the latest 2011 census, has a population of 10,675. However, according to the latest Kosovo Statistical Office report, 66 % of Kosovo population is of working age on average, which is 2/3 of the total number of inhabitants. If this ratio were applied on the municipality of Gračanica/Graçanicë, that would mean that in this municipality 7,117 of its inhabitants are the working-age population, which is less than the number of employees registered in the private sector. That actually means that if 100 % of the working-age population from this municipality were engaged to work in the private sector, that would be below the number of registered employees. Such situation may be explained by either engagement of employees not residing in this municipality or by incorrect statistical record-keeping.

When other municipalities are concerned, with the exception of Gračanica/Graçanicë, the number of registered employees in comparison with the number of registered enterprises is 3.1 employees per enterprise on average, which corresponds to the

statistical data that 98.8 % of enterprises in Kosovo are classified as micro (1-4 employees).¹¹ However, when each municipality is observed independently there are significant deviations in municipalities in the north in comparison to the municipalities in the south. Although a greater number of business entities are registered in the municipalities in the north of Kosovo than in southern municipalities, a greater number of employees are registered in southern municipalities. Thus, in southern municipalities with 907 registered employees, an average number of employees per enterprise is 5.5, whereas in the north, that number is significantly lower - 0.2 employees per enterprise.¹² Among southern municipalities, only 10 registered business entities in Parteš employ as many as 189 employees (18.9 employees per enterprise).

With such a great difference between the north and the south, an impression is that enterprises in the north of Kosovo either very rarely register their

¹¹ Kosovo Agency of Statistics, Statistical Repertoire on Economic Enterprises in Kosovo, Q3 2020, available on <https://bit.ly/3ruVPyq>

¹² With the exception of Gračanica Municipality due to the lack of clarity regarding the registered number of employees in the private sector.

employees with the Tax Administration of Kosovo or that there is a great number of registered enterprises that are inactive. If it is about a failure to register employees, an explanation might be the fact that the Serb-majority municipalities in the south began to function within the Kosovo legal system much earlier than municipalities in the north and therefore the integration of their private sector into Kosovo legal system and compliance with the law in doing business are at a much higher level.

Challenges in doing business in the Serb-majority places in Kosovo

General difficulties in doing business

Due to a number of political, security and economic hardships, as well as the absence of the rule of law, in particular in the north of Kosovo, a system is established in which businessmen in the Serb-majority municipalities are in a difficult position. They mostly evaluate their business environment as good, yet there is a great number of issues and obstacles they encounter in their business activities in the municipalities under observation.

When it is about administrative and legal impediments encountered by businessmen in the Serb-populated places, they mainly relate to import, export and transit of goods, and occasionally on availability of texts and explanations of laws, decisions, procedures etc. in the Serbian language. The identical issues were identified in the research involving businessmen from the north in Kosovo in 2017.¹³ However, as far as procedures relating to business registration and administration are concerned, businessmen evaluate them most frequently as very simple and free of any problems.

13 Frikonomija severa Kosova, InTER 2017, dostupno na <https://bit.ly/3aPTQIk>

Stigmatization of businessmen is one of the problems that is mentioned either when it is about inter-ethnic cooperation (it is not recommendable among the Albanians to buy goods from entrepreneurs of Serbian ethnicity) or one's own community in which a concept of doing business implying the cooperation between Serbian and Albanian enterprises still has not been fully accepted. Thus, although a small market is one of frequent challenges to doing business, entrepreneurs from the Serb-majority places very often carry out their business activities only on the territory of their municipality and that is mostly pronounced in the north of Kosovo. Another obstacle to business expansion is the language barrier between the communities, and there are cases of withdrawing from cooperation in spite of good preconditions. There are examples of more favorable prices of raw materials required for ordinary operations on the Kosovo market, but due to the language barrier it is not easy to find a business partner and agree on cooperation.

Although enterprises in the private sector in the Serb-majority places in Kosovo do not seek highly professional human resources, they face challenges in finding the required profiles of employees. One of the reasons is inadequate qualification for jobs offered on the market, and the other is of economic nature, i. e. low salaries in the private sector. This is often the reason why the unemployed do not want poorly paid jobs or seek job opportunities elsewhere and not on the Serb-majority municipalities' market.

Enterprises in the Serb-majority communities in Kosovo are mainly not members of any trade association or chamber and this particularly relates to business entities registered in the north of Kosovo. Their business is organized in a way that does not anticipate collective activities and that is why there is no membership in business associations. Insecure environment in which business is done and lack of planning on the long run in these municipalities have as a consequence missed opportunities and not having benefits that are possible through networking, business associations and business events to an extent in which opportunities are taken.

In the municipalities under consideration, especially in the north of Kosovo, it often happens that entrepreneurs do business in two systems, i. e. they have a registered business both within the legal systems of Kosovo and Serbia. However, the majority of those included in in-depth interviews have been predominantly doing business within the Kosovo system in the past few years. As the reason of that they state facilitated business activities and cooperation with business entities in the south, whereas businesses registered within the Serbian system are most frequently used for invoicing services to business entities operating in the Serbian system. The most active firms within the Serbian legal system in Kosovo are those participating in public tenders called for by Serbian institutions. Entrepreneurs operating in these two systems mainly see that more as a cost than advantage, requiring double bookkeeping and resulting in higher prices of products or services. According to them, that eventually diminishes their competitiveness on the market.

The crisis resulting from the COVID-19 pandemic forced business entities in the Serb-majority communities in Kosovo to adapt their activities to new circumstances. Whether they ceased their operations, retained the same volume of business or expanded it depended greatly on the activity they were involved in. Hospitality industry is one of the activities that sustained heavy losses due to highly restrictive measures of the Government of Kosovo, including closing their facilities for a certain period, and afterwards restrictions as to the number of visitors, reduced working hours and compliance with preventive health measures. Other entrepreneurs mainly reduced their business activities, whereas there are examples of those that, in spite of the COVID-19 pandemic, retained their scope of activities. Those are predominantly consumer goods shops. Besides, furniture production is a good example of doing business in the time of pandemic as those involved in this activity significantly increased the scope of activities in comparison to the period prior to the pandemic.

Difficulties caused by the imposition of 100 % tariff and reciprocity principle

Looking back at the relations between Kosovo and Serbia there were numerous challenges and tensions in different areas and particularly in trade. The last in a sequence of them was the consequence of a decision of the Government of Kosovo made on 6 November 2018 to increase the tariff on import of goods from Serbia and Bosnia and Herzegovina by 10 %, justified as aimed at the protection of the local market. The situation got more complicated after Kosovo's unsuccessful application for INTERPOL membership, for which the Government of Kosovo accused Serbia and raised the tariff from 10 % to 100 %. The tariff remained in force until March 2020 and then its gradual abolition began. The tariff on import of raw materials from Serbia and Bosnia and Herzegovina was abolished and following that, on 1 April, the Government of Kosovo made a decision on the full abolition of tariff, with the introduction of certain reciprocity measures for Serbia which did not relate to Bosnia and Herzegovina.

Reciprocity measures mean that in trade relations with Serbia terms used in the required documents have to be in accordance with the Constitution of Kosovo and applicable laws, and that it is not allowed to use terms denying the independence and sovereignty of Kosovo. This primarily relates to phytosanitary certificates and accompanying documentation for food and nonfood products of plant and non-animal origin subject to veterinary border control; as well as veterinary products and accompanying documentation for food and nonfood products of animal origin subject to veterinary border control.¹⁴ Beside that, the Kosovo Government in May activated its earlier decision on special tariffs on import of flour and construction blocks from central Serbia, which is four cents per one kilo of flour and two cents per block. This is a direct impact on the import of flour and blocks due to non-economic logic of the importer, i. e. non-competitive prices of these Serbian products on the Kosovo market.

¹⁴ Decision of the Government of Kosovo No. 01/20, available on <http://bit.ly/2WK6xCH>

Imposition of import barriers, from tariffs to reciprocity measures toward Serbia, posed a challenge to a certain number of manufacturers in Kosovo as they are dependent on raw materials from Serbia, as well as to importers of finished products. In addition to a need to replace products imported from Serbia, enterprises are facing increased transport costs. These tariffs have not had a significant impact on other local enterprises from the Serb-majority municipalities in Kosovo importing goods from other countries or those which already had established cooperation with Kosovo suppliers.

Entrepreneurs from the Serbian communities in Kosovo whose business activities are directly linked with imports of raw materials and finished products from Serbia faced new challenges and changes of the way they do business. Certain raw materials could be supplied from Kosovo distributors but at higher prices both of raw materials of Serbian origin and of those from other countries. Substitute products of Kosovo origin could be supplied at more favorable prices, yet they are of significantly poorer quality. Since the imposition of tariff, some products of Serbian origin have not been on the market, and on the other hand, consumers from the Serbian community are reluctant to replace them with those of Kosovo producers. In such cases businesses are facing significant losses in their operations which is reflected in the cut of jobs.

Use of funds allocated within measures for alleviating economic consequences of the COVID-19 pandemic

On 11 March this year first preventive measures in Kosovo for the protection of population from Corona virus were adopted and that was before the first Corona virus positive case was confirmed.¹⁵ In addition to general measures aimed at protection

¹⁵ Ministry of Health of Kosovo confirmed the first Corona virus case on 13 March 2020

of the health of population and prevention of Corona virus spreading, the Government of Kosovo adopted in April the Emergency Fiscal Measures Package to maintain, beside the health of the population, its economic soundness.

The Emergency Fiscal Measures Package contained 15 measures with no long-term policies aimed at the recovery of economy, because, as its title suggests, the package was adopted when Kosovo suddenly faced adverse health conditions.¹⁶ It was devised to provide additional financial assistance to the poorest segments of population after the COVID-19 pandemic; to support businesses in covering their operating costs and ensuring minimum salary for all employees during the state of emergency; as well as to enable businesses to continue with their activities during and after the state of emergency.



Over 30,000 enterprises in Kosovo were given assistance through the Emergency Fiscal Measures Package in overcoming economic consequences of the COVID-19 pandemic. **781 enterprises** from the Serb-majority municipalities in Kosovo received assistance.

Out of 15 measures in total in the Emergency Fiscal Measures Package, one of them (No. 3) related to direct aid to the private sector. Private sector was also given aid through additional two measures (Nos. 10 and 14) of economic stimuli. Measure No. 3 defines monthly coverage of salaries in the amount of EUR 170 per employee for the period April-May 2020. The total amount of this measure was EUR 41 m. In addition to covering salaries, it was defined that the Government would pay

¹⁶ Ministry of Finance of Kosovo, Operational Plan on Emergency Fiscal Package, April 2020, available on <https://bit.ly/3mTeVui>

the accompanying retirement contributions for that period in the total amount of EUR 8 m. This measure also provided for rental subsidies to small and medium-sized enterprises of up to 50 % of monthly rents for the April-May 2020 period for which an amount of EUR 12 m was earmarked.

Enterprises needed to meet certain criteria to be eligible to receive the assistance defined through Measure 3, such as to prove that Government's decisions had an impact on the fall of their income through balance sheet and similar documents. Employers were expected to fill out and send through EDI¹⁷ electronic system a form and other documentation required by the Tax Administration of Kosovo not later than 15 May 2020. In addition to that, employees could be beneficiaries if they were on the February 2020 payroll and if they had an active bank account in one of the banks licensed by the Central Bank of Kosovo. There was an exception regarding this criterion, providing for an employee to be beneficiary of the subsidy within this measure even if he/she was not on

the February 2020 payroll if his/her employment commenced in March with the employment agreement period of not less than one year. Monthly coverage provided for by this measure was paid directly from the Treasury to the employee account, so that the employer was not an intermediary in the transaction. Exceptions were the cases in which enterprises paid full March salaries despite financial difficulties. In such cases, payment of EUR 170 was credited to employer's account as cost refund.

There were also certain criteria to be met to be eligible for the rental subsidy of up to fifty percent (50 %) of the April and May rental amount for small and medium-sized enterprises. The lessee needed to prove that its operations were directly or indirectly affected by the state of emergency declared due to the COVID-19 pandemic, it was required to have a lease agreement concluded prior to 1 March 2020 and to submit the required forms and other documentation through EDI electronic system within the prescribed deadline.

Table 3. Number of entrepreneur beneficiaries of Measure 3 of the Emergency Fiscal Measures Package by municipalities

Municipality	No. of beneficiaries of Measure 3 of the EFMP	Number of registered business entities
Mitrovica North	34	727
Zvečan/Zveçan	20	874
Leposavić/Leposaviq	34	1.482
Zubin Potok	8	664
Gračanica/Graçanicë	415	1.245
Štrpce/Shtërpçë	110	970
Novo Brdo/Novobërdë	47	418
Parteš/Partesh	66	10
Klokot/Kllokot	40	30
Ranilug/Ranillug	7	20
Total	781	6.440

Source: InTER, based on the data of the Tax Administration of Kosovo

17 Electronic registration with the Tax Authority of Kosovo

According to the data of the Tax Administration of Kosovo, the criteria for subsidies provided for by Measure 3 of the Emergency Fiscal Measures Package were met by 781 enterprises in total from the ten Kosovo municipalities under consideration. The greatest number of applications was approved for the Municipality of Gračanica/Gračanicë (415), and the fewest for the Municipality of Ranilug/Ranillug (7). Just as there is a difference in the number of registered employees, the same is with the subsidy distribution in the north and south. More precisely, out of 781 enterprises which were granted funds under Measure 3, only 96 (12.3 %) are registered in the municipalities in the north of Kosovo (see Table 3).

As to the very application process, it should be noted that, based on the evaluations of representatives of the private sector in municipalities in the north and south of Kosovo, the procedures were clear, documentation was also available in Serbian, and the electronic system for submitting the required forms worked very well. That means that if enterprises had met the requirements there were no significant administrative obstacles to the submission of applications for subsidies.

As far as economic stimulus measures are concerned, two more measures within the Emergency Fiscal Measures Package were earmarked for the private sector:

MEASURE 10 - Provision of financial liquidity for two categories - (a) Micro enterprises and the self-employed through certain programs of the Kosovo Credit Guarantee Fund in the amount of od EUR 10,000 for a two-year period, totaling up to EUR 15 m; - (b) Trade companies/Licensed companies providing basic services (similar to those provided by public enterprises) to be repaid by 31 December 2020, within the amount set in 1.4 of the decision on EFMP;

MEASURE 14 - financial support for trade companies which registered employees under employment contract for a period of at least one year during the state of emergency period, of EUR 130 for the following two months after registration, in the total amount of up to EUR 6 m.

In addition to the financial support from Measure 10, Measure 14 was intended to increase the official employment rate as it was intended for enterprises which registered employees under employment contract for at least one year. At the time the research was underway there were no data available with the Tax Administration of Kosovo on the number of applicants for support within these two measures from the 10 Serb-majority municipalities in Kosovo.

However, despite the fact that the EFMP was approved at the beginning of April, only one third of the funds from the emergency package were utilized. The reasons of a delay, beside limitations of institutional capacities, were of bureaucratic, fiscal and political nature. The 2020 Law on Budget did not provide for such expenses, meaning that being short of sufficient funds in emergency cases, the Budget required rebalancing and necessary legal amendments. The political crisis and changes on the political scene also had an adverse impact on the implementation of measures from this support package.

Beside the EFMP, the Government of Kosovo within the Economic Recovery Fund earmarked EUR 87 m in total to subsidize salaries in the private sector (EUR 60 m), assistance to families recipients of social assistance (EUR 7.5 m), farmers (EUR 12 m), entrepreneurs (EUR 1 m), regional development projects (EUR 1 m), cultural institutions (EUR 2.5 m), public enterprises (EUR 1 m), families members of non-majority communities (EUR 1 m) and promotion of employment of women (EUR 1 m).¹⁸

Funds earmarked to subsidize salaries in enterprises were distributed depending on the number of their employees. Procedures for the allocation of those funds were simplified and enterprises were not required to register with the Ministry of Finance, but a criterion based on the number of employees of an enterprise in December 2019 was applied. This criterion was adopted because some enterprises might have reduced the number of employees due to the COVID-19 pandemic, and December was taken

¹⁸ Decision of the Government of Kosovo No. 10/33, available on <https://bit.ly/37OCHDt>

as the last month prior to Corona virus appearance when everything worked. It was also decided that the criteria applied to all. This measure of providing subsidizes comprised all active enterprises with updated data in the EDI system, such as correct bank accounts, taxpayer identification numbers etc. According to the data of the Ministry of Finance, an average payment to enterprise per employee amounted to EUR 290 and it was paid directly to employer's account. The funds were intended for activities facilitating overcoming the crisis caused by the COVID-19 pandemic. According to the spokesman of the Ministry of Finance of Kosovo, by 30 October funds in the amount of EUR 57,304,976 were paid to 31,000 enterprises, whereas the remaining portion was reserved for enterprises that did not enter correct data with EDI and the Kosovo Ministry of Finance required their updating to make the payments.

All business entities included in the research and doing business actively within the Kosovo legal system got funds from this package of financial aid. They find the package simple and non-discriminating in terms of ethnicity of beneficiaries, yet they deem that they should have been directed more to specific sectors depending on the extent to which they were affected by the measures implemented to fight the COVID-19 pandemic. The funds received as assistance meant a lot to entrepreneurs as subsidies for their employees' salaries and as investments aimed at improvement of their business activities.

Approach to financial institutions in developing business

Creating better business opportunities is crucial for the development of private sector in any community, therefore in the Serb-majority municipalities as well. One of the main challenge businessmen are constantly faced with are limited opportunities of obtaining finance.

The majority of enterprises rely heavily on own capital to make investments. Use of own capital for

investments is a more frequent source of financing than bank loans. Businessmen need to meet certain requirements to get access to financial arrangements with commercial banks, i. e. to obtain loans. To apply for a bank loan it is required to have a registered business activity within the Kosovo legal system, to produce tax certificates on meeting all tax liabilities, to have a lien in movable property, a guarantor firm and an account opened with a bank to which the enterprise applies for funds.

Most businesses apply for smaller amounts of loans as their granting does not require taking out mortgages. As an illustration, the limit for such loans with NLB Bank is EUR 30,000. When mortgage loans are concerned, there are not many enterprises which might enter into bigger arrangements. On the other hand, proprietary relations are an issue occurring at applying for mortgage loans with commercial banks in Kosovo, particularly for entrepreneurs in the north. Property of enterprises in the north of Kosovo is mainly registered with courts that until recently were within the judiciary system of the Republic of Serbia and which is not recognized by Kosovo institutions.

There is another problem in obtaining funds which is specific for enterprises in the north beside proving proprietary rights when applying for loans, and that is performance proving, as enterprises frequently do not comply with all tax and accounting procedures and register for lump-sum taxation. This makes the procedure of determining solvency and liquidity of enterprise more difficult. In addition to that, there is another issue characteristic of the north of Kosovo. Namely, enterprises do not implement the fiscal system, which complicates their control. When assessments of loan applications are made, banks themselves frequently perform the of control internal purchase and cost books of enterprises and some banks in certain cases also take into account the turnover made within the Serbian system.

Entrepreneurs from the Serb-majority communities which used the financial services of banks, mainly in the form of smaller commercial loans, assess the access to these services as good. On the other hand, banks do not have greater difficulties with

the repayment of loans. For loans extended to trade companies, cars registered within the Kosovo system are frequently taken as lien due to a possibility of registering them with the credit bureau.

When it is about special measures that banks took at the time of the COVID-19 pandemic, there was a facility in the form of a moratorium on loan repayment, whereby it did not apply to all debtors, but legal and physical persons needed to apply with the bank to be granted that facility.

The total amount of loans granted by Kosovo banks decreased in 2020, particularly in the private sector and in the course of a longer period in 2020 there was a suspension in granting loans to hospitality sector which makes a significant portion of the private sector in the Serb-majority communities in Kosovo. According to the available data of NLB Bank, in 2019 funds granted under loans in municipalities in the north of Kosovo amounted to EUR 4,010,170 within 912 loans, out of which the amount of only EUR 93,000 (2,3 %) was granted to legal persons. In 2020 there was a significant drop in credit operations and by the end of November funds granted under loans amounted to EUR 2,708,510 or 567 loans, out of which only one loan extended to a business was refinanced in the amount of EUR 5,000.

According to the data of NLB Bank, the situation is better with commercial loans in municipalities in the south, and in the Municipality of Štrpce/Shtërpçë the total loan portfolio amounted to EUR 2,777,889 or consisted of 866 loans, out of which EUR 948,196 were invested in the private sector, i. e. in 48 companies, accounting for 34 %. In Gračanica/Graçanicë the total loan portfolio amounted to EUR 1,176,051, comprising 414 loans, out of which EUR 728,800 was invested in the private sector (approximately 62 %). If the loan portfolios in the south and north are compared, it can be seen that only in Štrpce there are more active commercial loans than in all four northern municipalities combined. The main reason of a greater number of loans in the private sector in the south is the existence of a legal framework for registration of the required lien, i. e. mortgage necessary for all investments exceeding EUR 30,000.

Openness to the economic integration in Kosovo

To determine to which extent the Serbian community from ten Serb-majority municipalities in Kosovo is open to the integration of business entities into Kosovo economy, a research was conducted comprising 582 respondents who answered to six questions on this topic. The research results are grouped by the place of residence of respondents, i. e. those from the north and south of Kosovo. As it is already explained in this paper, municipalities in the north include North Mitrovića, Zvečan/Zveçan, Leposavić/Leposaviq and Zubin Potok, whereas municipalities in the south of Kosovo include Gračanica/Graçanicë, Štrpce/Shtërpçë, Novo Brdo/Novobërdë, Parteš/Partesh, Klokot/Kllokot and Ranilug/Ranillug. .



53% of respondents

are of opinion that **economic relations** between Serbian and Albanian enterprises should be fostered. Over 60 % of respondents do not agree with the statement that they should not do business with the Albanians irrespective of the profit which could be made. Over

65%

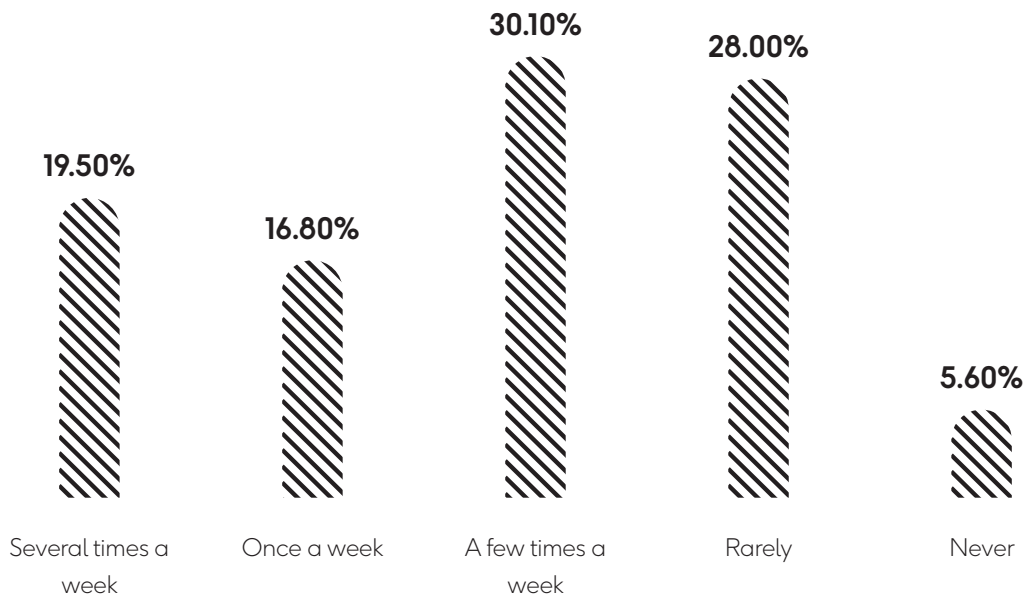
of the Serbian community members agree with the statement that it does not matter to them at all if the owner of a company is of Albanian or Serbian ethnicity, but who offers a cheaper/better service/product. The entire business relations between Serbs and Albanians are mostly affected by a still present **general mistrust** between the two communities, as well as a **language barrier**, i. e. the fact that members of one community cannot speak the language of the other.

1. Trade in the Albanian-majority communities or in shops owned by the Albanians

The prevailing answer to the question how frequently Serbs from the targeted municipalities go shopping in the Albanian-majority communities or in shops owned by the Albanians is *a few times a month*, and to a lesser extent the *answer is never*. A significant difference in buying habits of consumers in the north and south is noticeable, so in the south there are twice as many

consumers buying a few times a week in the Albanian-majority communities than in the north, where there are twice as many consumers who do it seldom in relation to the consumers from southern municipalities (Graph 2). Due to the fact that among consumer preferences the vicinity of shop is important, the results obtained in the north do not necessarily indicate avoidance of shops owned by the Albanians but could be in connection with the fact that there are almost no such shops in the northern municipalities.¹⁹

● **Graph 2.** Trade in the Albanian-majority municipalities or shops owned by the Albanians



Source: Results of the research of economic situation in the Serb-majority communities in Kosovo

¹⁹ The exception is Bošnjaka mahala, a multi-ethnic part in Mitrovica North

2. Economic relations between Serbs and Albanians

Economic cooperation between business entities from different ethnic communities is among first larger-scale forms of cooperation developed after the conflicts in Kosovo. Presently, members of the Serbian community from the municipalities in the north and south are predominantly of opinion that economic relations between Serbs and Albanians should be fostered and this is the opinion of a majority of respondents irrespective of their age. Approximately 15 % of the population from the municipalities under consideration still has a negative opinion and it is equally present in the north and south, though slightly more among older population, i. e. among respondents above the age of 50.

Over 60 % of respondents disagree with the statement that they would not do business with the Albanians regardless of the profit they could make that way, 12 % are neutral, whereas 22 % believe that profit does not justify doing business with the members of the Albanian community. There are no significant differences in respondents' answers in the north and south with the exception of smaller deviations due to answers ranging from full agreement to full disagreement with the given statement. There is a greater percentage of respondents in the south than in the north who do not agree at all with the statement "Regardless of the profit, I do not want to do business with the Albanians", whereas in the north there are more respondents sharing the opposite view. When compared by the age, the majority of negative views are among respondents older than 65, whereas based on the level of education, this view is mostly shared by respondents with completed secondary school.

The view that in making choice consumers are mostly driven by the price-quality ratio is confirmed in this research in which over 65 % of the members of the Serbian community say they agree with the statement that it does not matter to them at all if the business owner is Albanian or Serbian, but who offers a cheaper and better service/product. Among the respondents from the Serb-majority communities in the south, the statement that it does not matter who owns the business as long as they are offered an adequate

and cheap service/product is shared by 71.6 % of them, whereas 17 % think the opposite. In the northern municipalities the ratio is somewhat different, 59.4 % of respondents find the low price and good quality more important than the ethnicity of business owner, whereas 31 % have the opposite view. In connection with this question, an affirmative attitude is shared by those with higher level of education and better economic status, whereas there are no significant differences as to the age of respondents, meaning both positive and negative attitudes are present among the respondents of all age groups.

Whether Serbs do not want Albanians for employers or whether Albanians do not want Serbs in their companies are questions included in the survey in the 10 Serb-majority municipalities in Kosovo. It is interesting that approximately 20% of respondents have a neutral attitude to these questions. Among the members of the Serbian community a still predominant attitude is that they do not want to work in companies owned by the Albanians (42.8 %), whereas 35 % disagree with this view. When it is about the manner in which they see the openness of Albanian employers to employ members of the Serbian community, 58.2 % are of opinion that the Albanians do not want that, but there is also a group disagreeing with that (21.1%). The attitude that Albanians do not want Serbs in their companies is equally present in northern and southern municipalities, but their views differ as to whether Serbs want or do not want to be employed by Albanian employers. In the north of Kosovo the majority of respondents agree that Serbs do not want to work in Albanian companies, whereas in southern municipalities the majority respondents disagree with this view (48.1 %).

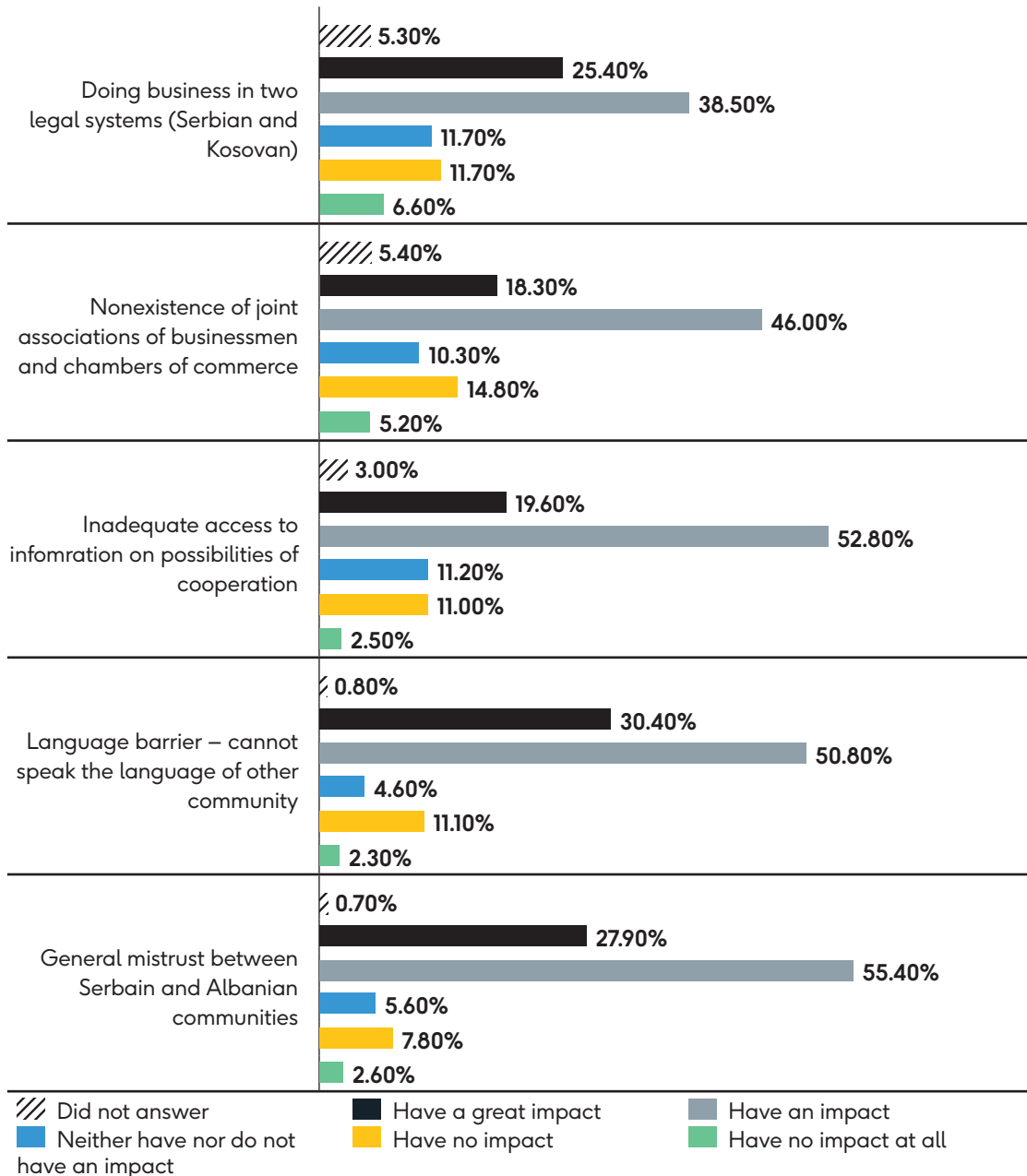
3. Barriers between Serbs and Albanians in doing business

For many years there have been numerous barriers between Serbs and Albanians in Kosovo in doing business which to a different extent affect establishing of business relations between them. Some of those barriers in the opinion of respondents from the Serbian community are mistrust between the communities, language barriers, lack of information,

non-existence of joint associations and business activities in the two legal systems. In their opinion, the overall business relationship between Serbs and Albanians is mostly affected by a general mistrust between these two communities, as well as a language barrier, i. e. the fact that members of one community cannot speak the language of the other. Graph 3 presents how the respondents assess the impact of other issues on their business

activities. Views in the north and south mainly do not differ, with the exception of the opinion on the issue of doing business in two legal systems (Kosovo and Serbian). The opinion of 28.2 % of respondents from southern municipalities is that this issue does not significantly affect the business cooperation between the Serbian and the Albanian community, whereas only 10 % of respondents from the north of Kosovo do not see that as an issue.

Graph 3. Impact of different barriers on doing business between Serbs and Albanians in percentage



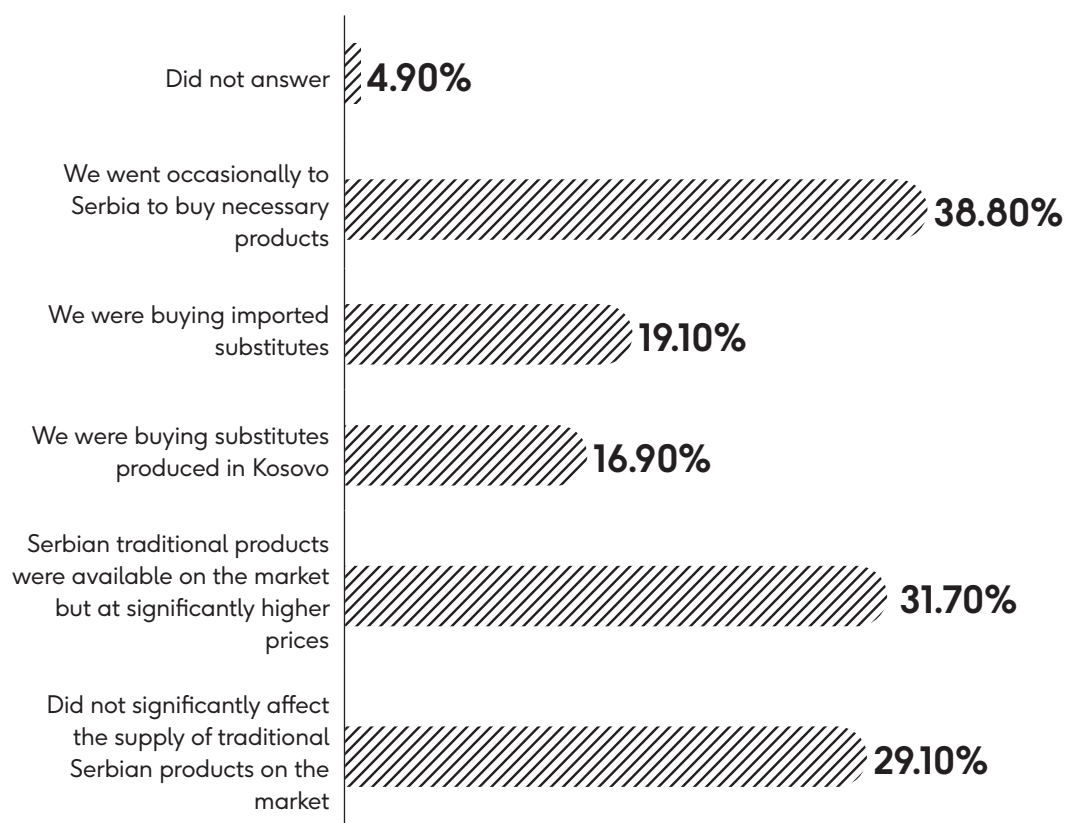
Source: Results of the research on economic situation in Serbian communities in Kosovo

4. The impact of tariff on imports from Serbia on consumer habits

The decision of the Government of Kosovo from November 2019 to impose 100 % tariff on import of goods from Serbia and B-H had significant economic and political consequences, including the impact on habits of consumers from Serb-majority communities in Kosovo as they could not buy the traditional products. Based on the obtained responses, the smallest number of respondents decided to replace the traditional products with

those made in Kosovo, whereas the percentage of those who decided to replace those products with products imported from other countries is slightly higher. On the other hand, the percentage of those who chose to go to Serbia occasionally to shop necessary products is the highest and there is also a significant percentage of those respondents who believe that the tariff did not significantly affect the presence of traditional Serbian products on the market, that they were available, yet their prices were significantly higher.

Graph 4. The impact of tariff on imports from Serbia on consumer habits



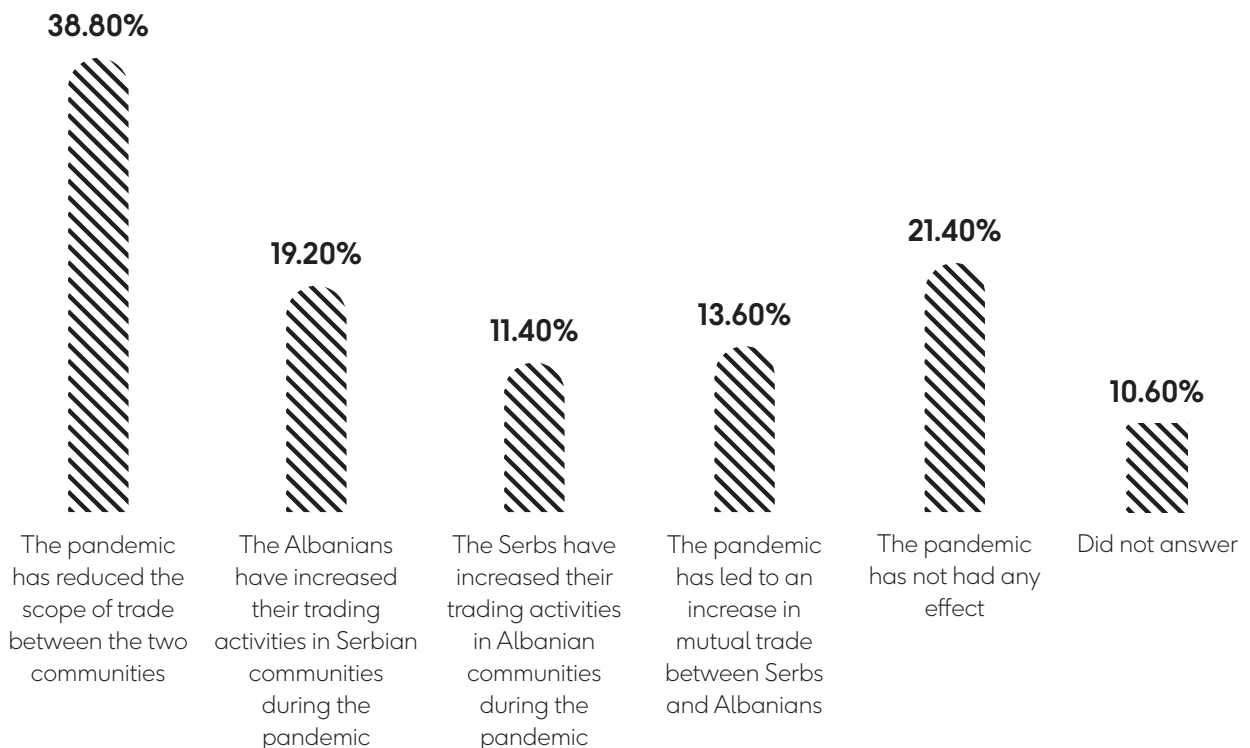
Source: Results of the research on economic situation in the Serb-majority communities in Kosovo

Changes in habits of respondents relating to buying traditional Serbian products as a consequence of tariff imposition differ in northern and southern municipalities. The most pronounced difference is the extent of the impact of tariff on substitution of traditional products with those made in Kosovo or imported from other countries. As an illustration, 27 % of respondents south of the Ibar/Ibër decided to replace an unavailable traditional Serbian product with a similar product made in Kosovo, whereas that percentage is 7.3 in the north. Besides that, in the opinion of 38 % of respondents from the north, the tariff did not have a significant impact on the presence of traditional Serbian products on the market, whereas only 20.3% respondents in the south shares this opinion.

5. The impact of the COVID-19 pandemic on trade between Serbs and Albanians

Beside the already stated issues in doing business between Serbs and Albanians in Kosovo, the COVID-19 pandemic is one in a series of developments with adverse effects on the entire process. When trade is concerned, respondents are of opinion that the biggest effect of the pandemic is a reduction in trade volume between the two communities and that opinion is shared by more respondents in southern municipalities (41.9 %) than in northern (35.6 %). The research shows that 19.2 % of respondents believe that commercial activities of the Albanians in Serbian communities have grown due to the pandemic, whereas 11.4 % believe that commercial activities of the Serbs have grown in Albanian communities in comparison to the pre-pandemic period. 3.6 % of respondents are of opinion that at the time of the pandemic the trade between Serbs and Albanians has been improved, whereas a significant portion of them making 21.4 % believe that the trade between the two communities is not conditioned by the circumstances resulting from the COVID-19 pandemic.

Graph 5. The impact of the COVID-19 pandemic on trade between Serbs and Albanians



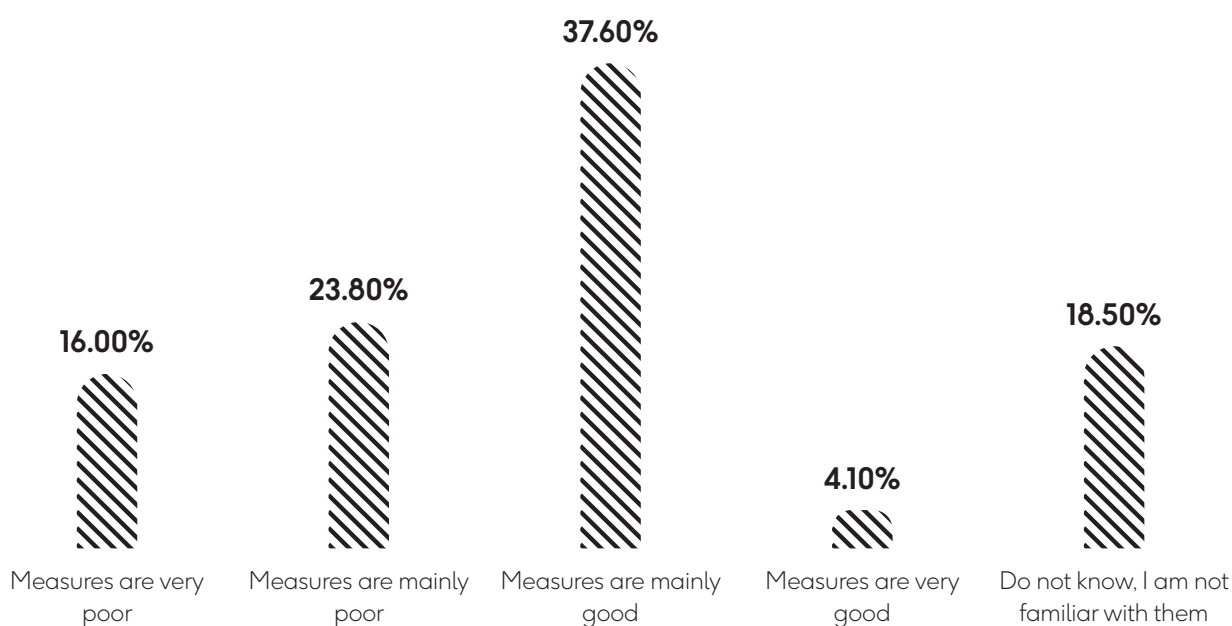
Source: Results of the research on economic conditions in Serbian municipalities in Kosovo

6. Measures of the Government of Kosovo as support to citizens affected by the COVID-19 pandemic

The Emergency Fiscal Measures Package adopted by the Government of Kosovo as a response to newly emerged circumstances due to the COVID-19 pandemic also comprised measures defined as a support to citizens facing the COVID-19 pandemic. That was a financial support to persons who lost their jobs during the pandemic, as well as to persons registered as unemployed

with the Employment Agency of the Republic of Kosovo and other vulnerable groups of the population. In the Serb-majority municipalities 18.5 % of respondents were not at all informed that such support measures existed and among them are twice as many from the municipalities in the north of Kosovo than in the south. Measures are rated as good by 37 % of the total number of respondents, whereas only 4.1 % see the measures as very good. Contrary to this view, 16 % of respondents find the measures very poor.

Graph 6. Evaluation of support measures of the Government of Kosovo intended for citizens affected by the COVID-19 pandemic-19



Source: Results of the research on economic conditions in Serbian communities in Kosovo

4. Conclusion and Recommendations

Specific features of the legal-institutional and security circumstances, trade barriers on import from Serbia, insufficient openness to economic integration, as well as the Corona virus pandemic have left consequences to the entire economy of the Serb-majority communities in Kosovo. This paper presents the private sector structure and impediments faced by enterprises in ten municipalities with the Serb-majority population in Kosovo, as well as the current business environment following the imposition of tariff and implementation of measures to fight the COVID-19 pandemic.

With regard to the structure of enterprises, similarly as in other parts of Kosovo, business environment is characterized by predominantly trade activities and less by production. Trade is followed by agriculture which is developed in the north due to favorable conditions, therefore two thirds of business entities registered for agriculture are based in Serbian communities in the north of Kosovo. The presence of construction has increased in recent years mainly due to significant investments in community infrastructure and public construction (schools, hospitals, other public infrastructure).

Economic development of Serb-majority communities in Kosovo depends to a high extent on the presence of public-sector institutions functioning

either within the Serbian or Kosovo system. In that sense, tenders called for by public institutions, subsidies given from the budget or salaries paid in the public sector could be an important trigger of development of trade or production. On the other hand, public institutions in these communities employ a great number of persons with salaries higher than in the private sector, so businessmen are facing difficulties in finding employees even though they provide a small number of jobs.

The Brussels Agreement introduced a few novelties with a favorable effect on business, from registration of enterprises in the north in the legal system of Kosovo, through regulation of crossing the integrated administrative crossings of Jarinje and Brnjak to the customs clearance of goods intended for northern municipalities and cooperation between chambers of commerce of Kosovo and Serbia. Nevertheless, there are still numerous challenges faced by entrepreneurs in Serb-majority communities in Kosovo.

Functioning within two legal systems is a challenge due to double payment of tax and customs duty, as well as bookkeeping. Entrepreneurs are forced to be simultaneously familiar with regulations in Serbia and in Kosovo, which poses a problem in the case of Kosovo regulations due to not knowing competences of institutions and poor translation of legal deeds and bylaws into Serbian.

Although there are no official data on that, it is evident that there are not sufficient foreign or local direct investments in the economy of Serbian communities in Kosovo. Access to financial markets is also difficult due to numerous legal and administrative procedures which entrepreneurs cannot fulfill easily. Resolving proprietary-relations issues and proving business performance are also challenges, particularly in attempts to get access to bank loans and other sources of financing. Problems in proving business results and continuity are present when applying to tenders called for by local self-governments and other institutions within the Kosovo legal system. As businessmen from Serbian communities are very rarely members of associations and chambers, there is no organized response as to how to solve these challenges. Entrepreneurs from the north of Kosovo are more affected by these issues due to incomplete integration of all institutions in the Kosovo legal system.

Imposition of trade barriers on Serbia by the Government of Kosovo, 100 % tariff on imports of goods from Serbia first and after that reciprocity trade measures, had an additional adverse effect on the development of private sector in Serbian communities. Those measures particularly affected producers dependent on the import from Serbia who sought a solution through import from other countries at significantly higher prices or by substitution with products and raw materials of Kosovo

origin which were not of adequate quality. That consequently affected the total scope of business activities and marketing of their products which mainly takes place in Serbian communities.

When the COVID-19 pandemic is concerned, restrictions of movement of citizens and suspension of activities in some industries resulted in operating losses including Serbian communities, because the restrictions caused a fall in aggregate demand. That is why the Emergency Fiscal Package Measures adopted by the Government of Kosovo, with more than a half of its value earmarked as financial aid to the private sector, also provided aid to enterprises from these communities, i. e. for 781 of them. As over 30,000 businesses in Kosovo as a whole were given support through this package, the conclusion is that the degree of participation of Serbian enterprises in the total economic activities of Kosovo is very low.

Serbian communities in Kosovo, particularly those in the north, are mainly isolated economic units with a very low level of business relations with the rest of Kosovo. Business activities are predominantly carried out within one's own or with neighboring municipalities, or with Serbian enterprises in other parts of Kosovo. However, there is a growing awareness on the necessity of integration into a bigger market, as 53 % of respondents are of opinion that economic relations between Serbian and

Albanian enterprises in Kosovo should be fostered. Although access to a broader market would be a very important factor for economic growth and economic integration of Serbian entrepreneurs in Kosovo, there are still numerous obstacles to establishing a higher level of business cooperation between them. These obstacles are non-existence of joint associations and chambers of commerce, inadequate access to information on possibilities of cooperation, language barriers and a general mistrust between the two communities. Although business cooperation might be a strong driving force to building bridges to overcome current divisions between ethnic groups in Kosovo, in addition to the stated barriers, respondents are of opinion that under circumstances of the COVID-19 pandemic, trade volume between Serbs and Albanians has shrunk even more.

Establishing better business relations, as well as integration of the private sector into Kosovo economy are not activities which can be viewed isolated issues. They depend on social aspects, such as fostering trust between communities, and political aspects, such as efficient functioning of government institutions. If all those preconditions were met, they might have effect on businesses in the sense of establishing a business cooperation of larger scale, which would bring long-term economic benefits to both communities.

Based on all stated, the following recommendations are given aimed at the improvement of economic development in Serbian communities in Kosovo:

- › Activities on fostering the rule of law and creation of a secure, politically stable and investment-safe legal environment, not only in municipalities with the Serb-majority population, but in Kosovo as a whole;
- › Activities on establishing a well-developed system of professional education and training to enable enterprises to find employees with skills corresponding to their needs;
- › Provision of more favorable conditions by financial institutions to enterprises applying for loans if they establish cooperation with business entities from other ethnic group;
- › Devising programs which would empower enterprises from Serbian communities to become members of associations enabling their collective decision making and increasing their negotiating power with public institutions;
- › Fostering business cooperation between enterprises from Serbian communities, particularly from the north, with other parts of Kosovo and promotion of good examples of business cooperation on multi-ethnic basis.

On the Initiative

"Democracy, Openness and Prospects of the Serb Community in Kosovo – Open" is a new initiative of the Kosovo Foundation for Open Society (KFOS), initiated in 2020. Open is realized in cooperation with nine civil-society organizations that are active in the Serb community in Kosovo.

A general objective of this new initiative is development of an open and dynamic space for discussion within the Serb community and between the Serb and other communities, as well as among institutions in Kosovo.

- The initiative will specifically be engaged in the analysis and estimate of the impact of civil-society and political organizations on the implementation of democratic principles and openness of the Serb community in Kosovo.
- Implementation of democratic standards and the openness of institutions, public policies, and important processes in their relations with the Serb community in Kosovo will be analyzed and estimated, as well a degree of openness of the Serbian community towards them.
- These analyses will assist in understanding the current position and prospects of the Serbian community in Kosovo, serving at the same time as a basis of their argued advocacy among citizens, institutions, local and central authorities, and the international community.

Experienced and established civil-society organizations will make eight (8) sectoral analyses with the purpose of meeting general and specific objectives.

The areas analyzed by our partners in 2020 are as follows:

Media To what extent media in the Serbian language in Kosovo have an impact on the degree of openness, possibility to hear and pluralism of opinions and topics? This area is researched by **Media Center** and **Crno Beli Svet**.

Civil society How civil-society organizations give their contribution to openness and principles of democracy of the Serbian community and generally of Kosovo society? **New Social Initiative** and **Forum for Development and Multiethnic Collaboration** are dealing with this topic.

Political parties Observance of democratic principles and pluralist activism of political parties of the Kosovo Serbs, as well as their openness to participate in the political system of Kosovo and give their contribution to the improvement of public policies. These issues are in the focus of **New Social Initiative and Media Center**.

Responsibility of institutions Better understanding of the position of the Serbian community in Kosovo by observing the openness of the institutions to address the problems of the Serbs. This analysis is made by **Crno Beli Svet** and **Forum for Development and Multiethnic Collaboration**.

Security How the feeling of security affects the openness of the Serbian community to Kosovo security institutions? The answer to this question is sought by **Human Center Mitrovica**.

Economics To what extent are business entities from the communities with Serbian majority open to be integrated in the economy of Kosovo? This area is analyzed by **Institute for Territorial Economic Development**.

Rights of minorities How to get to a more open society through pointing out to the gaps in the implementation of the rights of minorities? This topic is dealt with by **NVO Aktiv** and **Center for the Rights of Minority Communities**.

Process of dialogue and normalization of relations between

Kosovo and Serbia To which extent and which positions of the community of the Kosovo Serbs are represented relating to the impact on and future of the process? **NVO Aktiv** and **Forum for Development and Multiethnic Collaboration** are dealing with this issue.

A consolidated report, „**Characteristics of the open society within Serb community in Kosovo**“, will be published at the end of Open 2020 cycle. It will consolidate results and conclusions from sectorial analysis made by members of Open 2020 initiative into a wider socio-political context of Kosovo.

The Open initiative is supported by KFOS

