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Alternative Dispute Resolution Center is a Mitrovica region - based organization whose work is focused on encouraging communication and mutual understanding between communities and mediating access to justice.

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# Assessment of Inter-Ethnic Economic Cooperation in Kosovo

In focus: Mitrovica Region, Pristina and Gracanica

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# Summary

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Relations between Kosovo Albanians and Kosovo Serbs have been strained for decades. The antagonisms are perpetuated by trends dictated by the political elites and other societal actors. However, they can be opposed by increased inter-ethnic communication - sustainability of which can be established through interest-based economic cooperation.

Unfortunately, the level of economic cooperation between Albanian-run and Serb-run businesses is insufficient to annul the damage of toxic narratives. Paradoxically, a positive impulse from the political leaders and other societal actors is needed to catalyze economic integration, suggests this research conducted by Alternative Dispute Resolution Center.

The purpose of this research is to provide an insight into the current situation, challenges, needs, and potentials of inter-ethnic cooperation at the business level in the Region of Mitrovica<sup>1</sup>, Gracanica, and Pristina.

The project this research is a part of aims to promote inter-ethnic business cooperation and report on the areas requiring intervention and future work. Key findings will be presented in an event organized by ADRC where communities would draft small-scale development interventions to address issues identified by this report.

This paper is organized as follows: Section 1 gives an overview of Kosovo's overall socio-economic situation and in Mitrovica Region municipalities, Pristina and Gracanica specifically. Section 2 assesses the economic cooperation, presents and analyses the intercommunity cooperation's key findings, obstacles to doing business, and opportunities to improve inter-ethnic business cooperation. The final section provides the conclusions and recommendations of the paper.

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<sup>1</sup> Mitrovica Region includes the municipalities of: Leosavic, North Mitrovica, Zvecan, Zubin Potok, South Mitrovica, Skenderaj and Vushtri

## Key findings:

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- Pristina remains the most developed region, while Mitrovica is one of the poorest regions in Kosovo. Ever since Trepca lost its dominant economic role as the largest employer in the region, Mitrovica did not successfully manage to shift to other economic sectors;
- Compared to other areas in Kosovo, the private sector in Serb-majority communities is less developed. The reasons could be found in the following:
  - lack of private sector investments due to political instability, unresolved political dispute, and distrust towards the institutional system;
  - lack of motivation to join private sector business due to perceived ample opportunity of employment in the public sector in the Serb-populated areas;
  - difficulties to economically integrate in Kosovo due to language barrier, economic nationalism present, and administrative barriers caused by the incomplete integration process;
  - difficulties to export to Serbia due to their lack of competitiveness and non-tariff measures in force;
- Compared with those from North Kosovo<sup>2</sup>, businesses run by the ethnic Serbs from Gracanica are more economically integrated in Kosovo's economy and have a higher degree of cooperation with businesses run by ethnic Albanians. Although Brussels-led agreements contributed to businesses' economic integration from Serb-majority municipalities of northern Kosovo, their business interaction remains primarily focused on trade with Serbia. The key reasons for identified differences between Gracanica and northern municipalities are related to:
  - incomplete institutional integration of four northernmost municipalities into the Kosovo legal system;
  - territorial connection of northern municipalities with Serbia proper. Namely, although there is a strong demand for goods produced in Serbia in all Serb-majority areas across Kosovo, the territorial connection of North Kosovo with Serbia provides an option to Serb-run businesses and community to get goods either in Serbian or wider Kosovo market. The 100% tariff did not affect much availability of Serbian products in North Kosovo as businesses could use alternative routes to avoid IBMs and Kosovo Customs for import;
- Serb-run businesses from Kosovo are more interested in cooperation with their Albanian peers than vice versa. The key reason lies in the size of the markets. Serbian-run businesses have a higher interest in participating in the wider Kosovo market, both in terms of selling their product to the majority population and purchasing goods and services as that market has more to offer. On the other hand, Albanian business owners show lower interest to penetrate the small market such as Serb-majority municipalities. Additionally, the weak private sector in these areas does not have much to offer to the wider Kosovo market;

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<sup>2</sup> Leposavic, North Mitrovica, Zvecan and Zubin Potok

- The language barrier remains one of the biggest obstacles in establishing communication and economic cooperation;
- Due to the poor inter-ethnic relations and language barrier, many Albanians and Serbs do not feel completely safe to freely move in the areas dominated by the opposing ethnic community. This obstacle in establishing cooperation has more nuances as there are Serb-majority areas perceived as safe by Albanians (Gracanica) and perceived as less safe (four northernmost municipalities). The same stands for the Serbian community. Pristina is perceived as safer to move freely than Vushtri, Skenderaj, and Mitrovica South. This difference in safety perception between Mitrovica region and Pristina and Gracanica is a result of the 1998-1999 conflict, which was more intense in the Mitrovica region than in Pristina and due to the consequence of decades-long political tensions which predominantly had the epicenter in Mitrovica. North Kosovo is perceived as the area where two nationalisms meet;
- The fact that many of the Serb-run businesses remain unregistered and operate outside of the Kosovo legal system, including the fragile political situation, affects Albanian-run companies in their decision not to enter formal cooperation with companies from four northernmost municipalities;
- Emotional economy or economic nationalism is to a certain extent present among consumers. According to the research, 15 out of 63 respondents from interviews and round tables expressed this belief, giving many empirical examples. The result, however, also showed that Albanian and Serb-run businesses, like any other business, are primarily profit-oriented. Regardless, business people are driven by the consumers' economic preferences, which causes them as suppliers to behave in accordance with the market demand;
- There is no structured institutional support from the central level to enhance economic cooperation between Albanian and Serbian-run businesses in Kosovo. On the other hand, although local institutions have limited powers to support inter-ethnic economic cooperation, such efforts tend to be politicized. Finally, although the political tensions can temporarily halt economic cooperation, there are no systemic policies to discourage inter-ethnic economic cooperation;
- Covid-19 leaves grave consequences for the world economy, including Kosovo as well. Due to Kosovo's economic structure, which is based on trade and services, the economic consequences are even more devastating. The decrease in economic exchange overall further negatively affected already low inter-ethnic cooperation.

# Methodology

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The research's main hypothesis is that in post-conflict areas, building strong economic ties and interdependence between confronting parties, besides positive economic consequences, also brings opportunities for peacebuilding. On the one hand, economic interdependence makes conflict, at both individual and national levels, non-profitable. On the other hand, closer economic ties and economic cooperation come with the unavoidable renewal of lines of communication between members of opposing ethnic groups. This, in turn, is the key to breaking down prejudices and humanizes the "other side". Interaction and communication with a disputing party are the core element of every peace project. What differentiates economic connectivity projects from other peace projects is the strong sustainability component pertaining to communication and interaction between the confronted sides.

This research, conducted between July 2020 and February 2021, is based on desk analysis and qualitative methods. Desk research entails consulting available socio-economic research studies on Kosovo's economy, the economy in the Serb-populated areas, and studies related to interethnic relations and cooperation between communities in Kosovo. This phase of the research also consulted the technical and political agreements reached between Kosovo and Serbia and analyzed their effects on the Serbian community's economic integration in Kosovo.

The qualitative research consisted of in-depth interviews with various stakeholders and round tables conducted with professionals engaged in economic cooperation. Interviews were conducted with 33 business representatives<sup>3</sup> (19 Serbian and 14 Albanian entrepreneurs). Furthermore, interviews were conducted with the Ministry of Agriculture and Ministry of Economy and Environment, representatives of Pristina Municipality<sup>4</sup> and South Mitrovica Municipality, Kosovo Chamber of Commerce, and interest groups.<sup>5</sup> The questions addressed to stakeholders aimed to assess the current scale of inter-ethnic business cooperation and the Serbian and Albanian communities' willingness to work together; they also examined the main challenges and obstacles businesses faced while cooperating with other communities. Four round tables were conducted with professionals in the relevant field from the Mitrovica region, Pristina and Gračanica. In total, 19 professionals participated in these discussions. They supported the research by analyzing findings and some of the key specifics related to differences in the targeted municipalities' context.

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<sup>3</sup> Pharmacy in North Mitrovica; Etno Kuca in Gračanica; Farmer in Zubin Potok; Construction company in North Mitrovica; Kombinat (catering company) in North Mitrovica and Zvečan; Honey production and distributor in Zvečan; Bakery in Zvečan; Processing company in Gračanica; Furniture store Stanić in Zubinog Potok; Furniture store Simpo in Zubin Potok; Supermarket in Zubin Potok; Catering company in Leposavić, Catering company in Zubin Potok; Catering Company Vez in North Mitrovica; Furniture and carpentry store in Zvečan; Private carrier in North Mitrovica; Petrol Station in Zvečan; Winery in Leposavić; Agriculture cooperative Zvečan; "Aurora" company; Bunjamin, Construction company in Mitrovica; Rukolli, Construction company in Skenderaj; Company "Araf"; Bonevet Center; Polymath Labs; Riinvest College; Sheraton company; TrePharm company; ITBM company; Goldsmith, Jewelry Company in Skenderaj; Pruthi Sport; SME company in Pristina; Villastar.

<sup>4</sup> Economic Office and Office for Communities and Returnees, Municipality of Pristina

<sup>5</sup> ARDA in North Mitrovica; Innovation Center Kosovo in Pristina; Kosovo Appeal Marketing Association; Kosovo Credit Guarantee Fund; Institute for Territorial Economic Development

# Introduction

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In addition to human casualties and material damage, interethnic conflicts leave devastating consequences: divided societies that do not communicate and hatred that creates the basis for building one-sided national narratives with huge potential to dehumanize the other side. The broken bridges of communication between ethnic groups, one-sided narratives, and dehumanization are the main contributors to the continuation of conflict and its potential resurgence. Contrary to this, strengthening economic cooperation between members of society of the two opposing sides facilitates sustainable communication between members of ethnic groups. This is key to breaking down prejudices and one-sided narratives in the long run. This was corroborated by research concerning the level of communication between Serbs and Albanians in the divided city of Mitrovica, conducted by the Alternative Dispute Resolution Center. The survey that included both ethnic groups, namely the Serbs and the Albanians, showed direct causality between the degree of communication with the "other side" and the degree of ethnic distance towards the "other side". Albanians who communicate more with the other side, whether they work with or trade with Serbs, measure lower ethnic distance towards that ethnic group and vice versa. Another aspect of interethnic communication in Mitrovica revealed by ADRC research is that communication and interaction with the "other side" are mainly caused by economic interest or business needs.<sup>6</sup>

Accordingly, it can be postulated that the economic normalization of relations at the community level can also contribute to the political normalization of relations and the political elites' change of discourse.

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<sup>6</sup> [Alternative Dispute Resolution Center, "Beyond the Bridge: The Symbolism Freedom of Movement and Safety", 2017](#)

## Section 1.

### Overview of Kosovo's economy

According to macroeconomic indicators, Kosovo's economy measures continuous growth in the last 20 years. The World Bank, data presented in the chart below, show that the GDP per capita increased from \$ 1,087 to \$ 4,417 per capita from 2000 to 2019.<sup>7</sup>

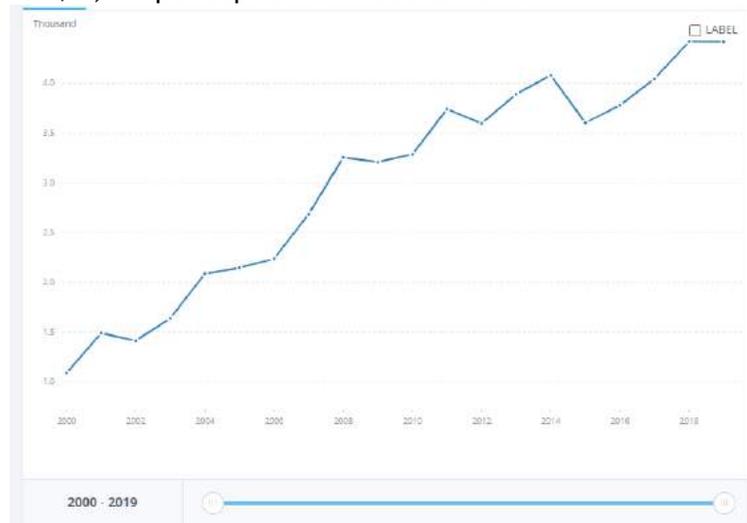


Figure: GDP per capita in Kosovo 2000 - 2019 (Source: World Bank)

According to the World Bank's overview of Kosovo's economy, as it has lower economic base, the growth outperformed its neighbours in the past decade but, it has not been sufficient to provide enough formal jobs, particularly for women and youth, or to significantly reduce the high rates of unemployment. The growth model relies heavily on remittances to fuel domestic consumption but has recently shifted to more investment and export-driven growth.<sup>8</sup>

Over the last two decades, despite steady growth rate, the unemployment rate - along with other labor market indicators - remains the weakest in the Western Balkans region, as less than one-third of Kosovo's adult population holds a job - with nearly nine out of ten women not working and around fifty percent of country's young people unemployed. Kosovo has the youngest population in Europe. Youth (under 15) is 25.7% of the population, while working age (15-64) accounts for 67.6%. Only eight percent of Kosovo's population are elderly, compared to 19% in the European Union.<sup>9</sup>

<sup>10</sup>

<sup>7</sup>

<https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?end=2019&locations=XK&start=2000&view=chart>

<sup>8</sup> <https://www.worldbank.org/en/country/kosovo/overview>

<sup>9</sup> World Bank, "Jobs Diagnostic Kosovo", 2017

<sup>10</sup> Total estimated population in Kosovo is 1.8 million. The census in 2011, conducted by Kosovo authorities was boycotted by majority of K-Serb community. The estimation is that there are around 120.000 Serbs living in Kosovo

Economic sectors that are the biggest employers are: trade by 17.0%; construction by 12.6%; manufacturing by 11.9%; and education by 10.0%. At the same time, other sectors participate with a lower percentage.

According to the report of the Kosovo Agency of Statistics for 2018, the following economic activities contribute the most to Kosovo's GDP: Wholesale and retail trade and repair of motor vehicles and motorcycles 13%, Manufacturing 11.3%, Construction 8.7%, Public administration, defence and compulsory social security 7.8%, Real estate activities 7.4%, Agriculture, forestry and fishing 7.2%.<sup>11</sup>

In addition to official macroeconomic indicators by which Kosovo institutions record and present the formal economy's state, there are estimates that the size of the informal or shadow economy accounts for about 30% of Kosovo's GDP or about 1.8 billion euros. Also, the main cause of the shadow economy is considered to be high unemployment.<sup>12</sup>

## The effects of the Dialogue on economic cooperation and integration

When it comes to the political context relevant to this paper's topic, it is important to mention that the ongoing dialogue process between Kosovo and Serbia affects Serb-majority municipalities' economic and administrative integration, as well as interethnic relations.

Namely, after a long-standing political dispute between Kosovo and Serbia and the status quo of northernmost municipalities in Kosovo, the EU initiated a dialogue between the contested parties in 2011 to resolve technical and political issues which were obstructing the relations. The first stage of technical negotiations, a total of 6 relevant agreements that, among other things, aimed to regulate economic exchange, were reached in 2011 and 2012: Freedom of movement, Civil registry, Custom stamps, Recognition of diplomas, IBM<sup>13</sup>, Regional representation<sup>14</sup>.

Following the technical agreements reached, the first political agreement called "The First Agreement of Principles Governing the Normalisation of Relations" (widely known as the Brussels agreement) was reached in 2013. This agreement laid out the integration of North Kosovo into Kosovo's institutional system<sup>15</sup> and was followed by more agreements reached pertaining to the integration of Kosovo Serbs and economic cooperation between Kosovo and Serbia - most importantly, the agreement on the establishment of Association/Community of Serb-majority Municipalities, the agreement on vehicle insurance as well as the memorandum of understanding between Chamber of Commerce of Serbia and Chamber of Commerce of Kosovo.

In their first memorandum signed in 2013, among other things, the two chambers agreed to exchange information and analyze markets; support their membership enterprises in various trade and economic cooperation; organize joint events, and promote partnership opportunities.<sup>16</sup> In the

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<sup>11</sup> [Kosovo Agency of Statistics, "Gross Domestic Product 2008-2018", 2019](#)

<sup>12</sup> [British Council, "Study of the Challenges that Hinder MSME Development in Kosovo", 2018](#)

<sup>13</sup> Belgrade refers to this abbreviation as Integrated Boundary Management, while Pristina refers to it as Integrated Border Management

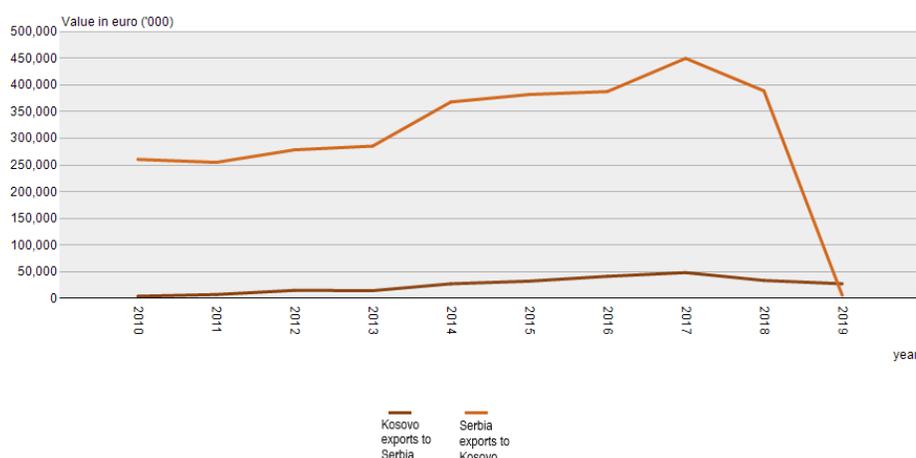
<sup>14</sup> All agreements available at: <http://www.kim.gov.rs/eng/pregovaracki-proces.php>

<sup>15</sup> <http://www.kim.gov.rs/eng/p03.php>

<sup>16</sup> [Memorandum of Understanding between the Chamber of Commerce and Industry of Serbia and the Kosovo Chamber of Commerce, signed in Brussels, 2013](#)

annex of this memorandum signed in 2013, it was further agreed to promote and cooperate on upgrading alternative dispute resolution mechanisms for the purpose of resolving commercial disputes between their membership enterprises.<sup>17</sup> Finally, two additional annexes were signed pertaining to the exchange of liaison officers in the offices of one-another<sup>18</sup>; and an annex committing to re-establish the postal traffic between Post offices of Serbia and Kosovo.<sup>19</sup>

As a result of political turbulence between the parties caused by mutual accusations of the purposeful delay of the implementation of the agreements and Serbia's lobbying against Kosovo's application for membership in INTERPOL, in November 2018, Kosovo introduced a 100% tariff on the products from Serbia and Bosnia and Herzegovina. The move put a halt to the EU facilitated dialogue for 18 months until it was renewed in mid-2020 after France and Germany's joint intervention.<sup>20</sup> This decision also caused almost complete disruption of Serbia's export to Kosovo. As visible in the figure below, Serbia's export to Kosovo increased from 260 million euros in 2010 to 450 million euros in 2017, and finally measured a steep decline in 2019.



*Figure: Economic exchange between Serbia and Kosovo 2010 - 2019 (Source: Kosovo Agency of Statistics)*

The dialogue resumed as soon as the new government coalition, formed in June 2020, immediately revoke the introduced reciprocity<sup>21</sup> measures, which resulted in the restoration of economic

<sup>17</sup> [Addendum to the Memorandum of Understanding between the Chamber of Commerce and Industry of Serbia and the Kosovo Chamber of Commerce, signed in Brussels, 2013](#)

<sup>18</sup> [Addendum No.2.1 to the Memorandum of Understanding between the Chamber of Commerce and Industry of Serbia and the Kosovo Chamber of Commerce, signed in Brussels, 2015](#)

<sup>19</sup> [Annex No.3 of the Memorandum of Understanding between the Chamber of Commerce and Industry Serbia and the Kosovo Chamber of Commerce, signed in Brussels, 2015](#)

<sup>20</sup> However, it should be noted that the EU-led dialogue was also renewed as a “positive consequence” of the pressure of the U.S. administration to Kosovo government to abolish reciprocity due to their own separate interest to fast track the negotiation process which will lead to the Washington deal in September 2020.

<sup>21</sup> Earlier in April 2020, Prime Minister Albin Kurti abolished 100% tariff measure and replaced it with reciprocity measures. The decision removed taxes but rendered Serbian businesses unable to continue import as they were required to use status-defining documentation and phrases such as “Republic of Kosovo”.

exchange with Serbia and the dialogue - both the one facilitated by the EU and the one facilitated by the US.

In September 2020, under the US Administration's facilitation, Belgrade and Pristina individually signed two slightly different agreements acknowledged in the separate letters signed by the then-president of the United States, Donald Trump. The documents signed by the parties was dubbed Economic Normalisation Agreement<sup>22</sup>, and it completed the previously signed letters of intent on the airline, railway, and highway (The Peace Highway). The agreement contains the points related to conducting a feasibility study for the purposes of sharing Gazivode/Ujmani lake as reliable water and energy supply; feasibility study on linking Belgrade-Pristina railway infrastructure to a deep sea port in Adriatic; Cooperation with US International Development Finance Corporation, which would open its offices in Belgrade, for the purpose of operationalizing The Peace Highway, railway links, providing financing to support small and medium-sized enterprises (SME's); membership of Serbia and Kosovo in "mini-Schengen zone".<sup>23</sup>

However, as acknowledged even by the facilitators, many of the agreements reached are either unimplemented or face continual challenges in implementation, which is particularly the case with the Agreement on Regional Representation. In words of the Special Representative of the EU for the dialogue between Belgrade and Pristina and other Western Balkan issues, Miroslav Lajcak, the EU-facilitated dialogue is the only framework for resolving implementation issues that, without such a framework, would be "dealt with in the media" and inevitably raise tensions.

This is precisely what is important to note - political relations between governments in Belgrade and Pristina and status of the dialogue continue to have an impact on the cooperation not just between the two parties but also between Serbian and Albanian-run businesses in Kosovo and the economic integration of Serb populated areas. More on the practical problems that emerged after North Kosovo's integration was initiated affecting economic integration will be further elaborated in Section 2 of the document.

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<sup>22</sup> [Kosovo&Serbia Economic Normalization Agreement, signed in Washington, 2020](#)

<sup>23</sup> <https://www.euronews.com/2019/11/11/western-balkan-leaders-plot-their-own-mini-schengen-zone>

## The economy in Pristina and Albanian-majority municipalities of Mitrovica region

Kosovo is administratively divided into seven regions and 38 municipalities, and Pristina is the capital and Kosovo's economic center. While Pristina is the fastest growing city in Kosovo after the 1999 conflict, the Mitrovica region remains one of the poorest regions as per indicators of the WorldBank.<sup>24</sup> Pristina's economic dominance over other Kosovo regions confirms the survey published by Kosovo's Agency of Statistics on Kosovo's economic investments in 2019. Out of all the investments made, 48.86% are the investments from businesses from Pristina region, while on the other hand, Mitrovica Region businesses contributed to the overall investments in 2019 with only 7.39%.<sup>25</sup>

Pristina's economic structure is predominantly oriented in trade and services. Based on data from the Ministry of Trade and Industry, out of 13.306 registered businesses, 54% of them are registered in the sector of wholesale and retail trade, hotels and restaurants, 15% transport, storage, and communication, 8% real estate and only 4% with processing activities.<sup>26</sup>

Service economic activities that constitute the competitive advantage of Pristina are mainly concentrated in the urban space of the city center and the urban areas of the neighborhoods: "Dardania", "Ulpiana", "Kodra e Diellit", "Lakerishta", "Qendra" and "Aktashi". In the Center's zone, dominate the administrative institutions of central and local government, hotels, restaurants, banks, cultural facilities, retails outlets, and office headquarters of various businesses. In other urbanized zones, in the framework of tertiary activities, different service activity is exercised, dominating the retail trade and restaurants. In recent years, Pristina has played a crucial role in providing opportunities for holding fairs in the city center, thus supporting the promotion of small businesses, handicrafts and family businesses.<sup>27</sup>

The main economic nodes in Pristina lie on the road axis Pristina - Fushe Kosovo and Pristina - Ferizaj. The Plan and Strategy for Urban Development of Pristina for the years 2004/2020+ defined the locations for economic and non-economic activities such as city ring roads, Pristina-Merdare highway, strategic nodes for development of service economies (Pristina-Airport), the existing industrial zone of 600ha and Pristina e Re with an area of 1000ha. These new spaces provide additional opportunities for business development according to the best standards.<sup>28</sup>

Mitrovica Region is located in the northern part of Kosovo. It is comprised of seven municipalities, three of which are with the Albanian majority<sup>29</sup>, and four municipalities with the Serb majority.<sup>30</sup> Decades after the Second World War, the Mitrovica region's economy was highly dependent on Trepca mining, which at its peak in 1988 had employed almost 23.000 people.<sup>31</sup> The period of the 90s of the last century brought conflict and the economic system transition where Trepca loses

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<sup>24</sup> The poverty rate in Pristina is 16%, while in Mitrovica region the poverty rate is 44%. Reference: [World Bank, "Republic of Kosovo Systematic Country Diagnostic", 2017](#)

<sup>25</sup> [Kosovo Agency of Statistics, "Enterprise Investment Statistics 2019", 2020](#)

<sup>26</sup> <https://Pristinaonline.com/drejtore/ekonomi-dhe-zhvillim-lokal/ekonomia>

<sup>27</sup> [Local Economic Development Strategy for the Municipality of Pristina 2013-2016](#)

<sup>28</sup> Ibid.

<sup>29</sup> South Mitrovica, Skenderaj and Vushtri

<sup>30</sup> Leposavic, North Mitrovica, Zvecan, Zubin Potok. In the document referred to as North Kosovo.

<sup>31</sup> [https://www.esiweb.org/pdf/esi\\_bridges\\_id\\_2\\_b.pdf](https://www.esiweb.org/pdf/esi_bridges_id_2_b.pdf)

most of its economic importance in this region. The unsuccessful economic transition marks the post-conflict era, and the region remains underdeveloped and divided along ethnic lines.

The private sector composition of Albanian-majority and Serb-majority parts of the region is very similar in terms of the six largest sectors of activities even though their shares vary. Manufacturing, wholesale and retail trade; repair of motor vehicles and motorcycles and construction comprise a large share of the Mitrovica region's private sector.<sup>32</sup>

Speaking of economic structure in Albanian-majority municipalities of the Mitrovica region, according to the Tax Administration of Kosovo (TAK) database, the private sector of South Mitrovica is dominated by the sectors of trade; construction; manufacturing (especially of food), and agriculture and forestry. The data do show slight differences in private sector composition across municipalities of this subregion. In Skenderaj, construction (24%); manufacturing (15%); trade (14%); and agriculture and forestry (12%) comprise the largest share of the private sector. In Vushtri, manufacturing (24%) is the largest sector, followed by trade (21%); construction (14%) and agriculture and forestry (10%). In South Mitrovica, the sector of agriculture and forestry comprises only 5% of the private sector, whereas manufacturing (19%), trade (18%) and construction (15%)<sup>33</sup>.

The sectors of manufacturing, wholesale trade, construction, human health and social work, other services, and professional, scientific, and technical services employed almost three-quarters (72%) of the workers in three Albanian-majority municipalities of the Mitrovica region in 2014.<sup>34</sup>

According to the survey United Nations Development Program conducted with SME<sup>35</sup> in Albanian-majority municipalities of the Mitrovica region, the key barriers for doing business are recognized in the region's political instability, unfair competition, lack and cost of energy supply, high taxes, and corruption.<sup>36</sup>

This perception was also confirmed in the interview with an entrepreneur from South Mitrovica speaking of the unsuccessful economic transition after Trepca mining lost its economic power in the region:

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*"The collapse of Trepca caught people unprepared for the economic transition and economic destruction caused by the conflict even further created difficulties for the Mitrovica region people to recover economically. On the other hand, current political instability in the region occupies people's minds with inter-ethnic relations instead with economic ideas."*

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<sup>32</sup> UNDP, "Mitrovica Region Baseline Assessment", 2016

<sup>33</sup> Ibid

<sup>34</sup> Ibid

<sup>35</sup> Small and medium enterprise

<sup>36</sup> UNDP, "Mitrovica Region Baseline Assessment", 2016

However, some efforts have been made by the authorities to facilitate economic progress in South Mitrovica as there are three economic zones established with the aim to facilitate and promote the work of businesses:

**Business Park in Mitrovica** was created in 2012 with a surface of 3.5ha. Currently, it is filled by 24 businesses that carry out their business activities, ranging from plastics recycling, carpentry, manufacturing of paper bags, textiles, metal products etc. There is no business space available in this Park.<sup>37</sup>

**Industrial Park in Mitrovica** (Frashër i Vogel-Zhigovina), was created in 2014 with a surface of 48 ha. The Ministry of Trade and Industry through the Kosovo Investment and Enterprise Support Agency (KIESA), along with the municipality, have started the first investments in this park in 2014, but due to the lack of budgetary funds the finalization of physical infrastructure construction has not been achieved yet. However, contracts for the establishment of some businesses have begun, including various activities such as: furniture production, production of paints and glues, production of wooden doors, processing of medical waste, etc. So far, only one business has started the business activity.

**Industrial Park in Vushtri** (Lumadh) was created in 2018 with a surface of 14.86 ha. Ministry of Trade and Industry, through Kosovo Investment and Enterprise Support Agency in Kosovo (KIESA), in 2019, has started investments in the construction of physical infrastructure for establishing businesses in this park.<sup>38</sup>

## The economy in Serb-majority areas in Kosovo and how it affects interethnic cooperation

Out of 38 municipalities in Kosovo, ten are with the majority of the Serbian community (six in southern Kosovo and four in northern Kosovo). The four northernmost Serb-majority municipalities in Mitrovica region were functioning almost completely outside Kosovo's institutional system until the First Agreement of Principles Governing the Normalization of Relations between Belgrade and Pristina was signed in 2013 (the Brussels Agreement).<sup>39</sup> The 15-point agreement created conditions for the integration of these four municipalities into the Kosovo system. The integration is still ongoing and not fully completed seven years after, as many of the reached agreements are still not implemented.

When it comes to the economy in Serb populated areas, it is important to point out its wide dependence on the Government of Serbia's budget, namely - salaries, pensions, and social welfare. There is no precise information on how many people are on Serbian-run institutions and enterprises' payroll. Still, there are indicators of the percent of people dependent on this income. Namely, after the end of the conflict in 1999, Serbian authorities continued to finance public institutions and enterprises in Kosovo, both those that remained operative such as education, healthcare and social welfare system; and not operative anymore. According to the Institute for

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<sup>37</sup> <https://kiesa.rks-gov.net/page.aspx?id=2,90>

<sup>38</sup> <https://kiesa.rks-gov.net/page.aspx?id=2,178>

<sup>39</sup> <http://www.kim.gov.rs/eng/p03.php>

Territorial Economic Development (InTER) research, there are around 8.000 employees in these institutions only in four northernmost municipalities.<sup>40</sup>

Accounting for the financial benefit of these incomes to their families, InTER concludes that approximately 80% of North Kosovo's inhabitants are financially dependent on the Serbian budget.<sup>41</sup> The situation should be no different in other Serb-populated areas. According to the survey conducted by NGO Aktiv in Serb populated areas in Kosovo, 26% of the surveyed people are employed by the Serbian institutional system, while around 9.3% of the questions people are employed by Kosovo institutional system, and only 18.3% of the people are working in the private sector<sup>42</sup>. In addition to this, Serbia continues to invest in development projects in Serb populated areas in Kosovo<sup>43</sup>. This policy of providing both financial assistance and the necessary services such as education and health insurance results from the Serbian government's intention to try to stop the further emigration of the Serb population from the post-conflict area of Kosovo.

## Private sector and its shortcomings

Furthermore, the research showed that the private sector in Serbian-majority areas remains underdeveloped and dependent on public spending. According to the study published by Rinvest in 2012, within which 200 Serbian-run businesses were interviewed from both northernmost and southern Serb-majority municipalities, 93% of Serbian-owned businesses are small individually owned businesses.<sup>44</sup> According to the above-mentioned study, the companies were mainly engaged in providing services and trading (76%) prior to the major integration processes, whilst a smaller number in production and processing (24%).<sup>45</sup> On the other hand, according to the data collected in 2018 from Kosovo Agency of Statistics on the share of economic activity in North Kosovo, wholesale and retail trade, repair of motor vehicles, and motorcycles is the biggest sector (40.4%). This sector is then followed by agriculture, forestry, and fishing (18.6%), manufacturing (11.7%), and construction (6.4%).<sup>46</sup> The structure of the share of economic activity in Gracanica in the last two years is somewhat different. The biggest sector is also wholesale and retail trade, repair of motor vehicles and motorcycles (32.3%), which is followed by accommodation and service activities with food (17.9%), manufacturing (10.2%) and construction (6.6%).<sup>47</sup>

Although weak, according to the last available data from 2010, the private sector is more developed in North Kosovo than in southern Serb-majority municipalities in terms of annual turnover. This study shows that 94% of businesses in the southern municipalities had a turnover of up to 50.000 EUR per annum, while 52% of interviewed businesses from the northernmost municipalities declared that they have a turnover of over 50.000 EUR.<sup>48</sup> As explained by one of the respondents on the round table, the reason for this discrepancy lies in the size of the North

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<sup>40</sup> [InTER, "Public Institutions of the Republic of Serbia in North Kosovo - What kind of future awaits us?", 2017](#)

<sup>41</sup> [Ibid](#)

<sup>42</sup> [NGO Aktiv, "Trend Analysis 2020: Attitudes of the Serbian Community in Kosovo", 2020](#)

<sup>43</sup> [The Bill on the Budget of the Republic of Serbia for 2021](#)

<sup>44</sup> [Rinvest Institute, "Improving the Kosovo Serbian Business Community Involvement in Economic Activities in Kosovo", 2012](#)

<sup>45</sup> [Ibid](#)

<sup>46</sup> [InTER, "Freakonomics of Northern Kosovo", 2018](#)

<sup>47</sup> [Kosovo Agency of Statistics](#)

<sup>48</sup> [Rinvest Institute, "Improving the Kosovo Serbian Business Community Involvement in Economic Activities in Kosovo", 2012](#)

Kosovo market, which is territorially and economically connected to Serbia as well as by the fact that North Mitrovica is the urban centre of Kosovo Serbs, which with its educational and healthcare system also attracts many non-residents who contribute to the local economy.

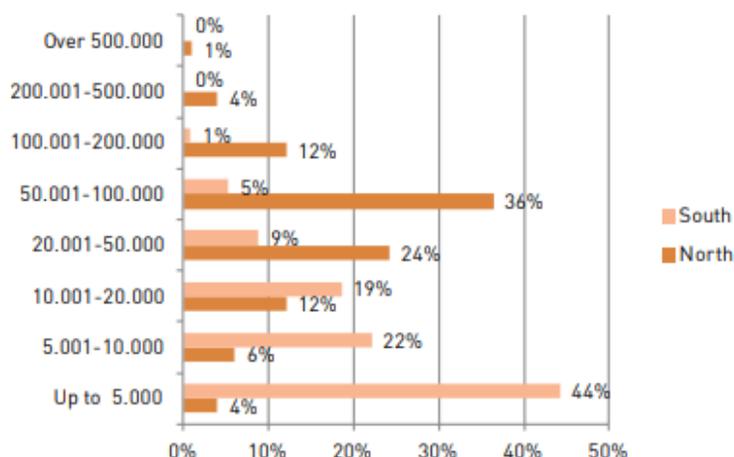


Figure: Turnover rate of K-Serbian Businesses in 2010 (Source: Riinvest)

## Different institutional context for North Kosovo and Gracanica

To a certain extent, the economy of North Kosovo functions outside of Kosovo institutional system, which complicates the trailing of economic indicators in the region. Out of 17 businesses from four northernmost municipalities interviewed within this research, 8 of them reported that they are registered both in Kosovo and Serbian system, 5 reported that they are registered only in Kosovo system and 4 reported that they are either registered only in Serbian system or are not registered at all. Two of the interviewed respondents from Gracanica stated that they are registered only within Kosovo system.

Dual registration has long been a reality for businesses in Serb-majority areas in North Kosovo. On the other hand, this practice is brought to a minimum in the areas in the southern Serb-majority areas. According to the explanation given on the round table, the key reason for this difference between Gracanica and North Kosovo lies in incomplete institutional integration of the latter and its territorial connection with Serbia, which provides them the option to, unlike businesses from southern municipalities, import goods from Serbia through alternative routes by avoiding Kosovo legal system.

As the participants of the round tables in North Mitrovica explained, the registration in the Serbian system simplifies cooperation and exchange with companies from Serbia. It is a prerequisite for signing purchase and supply agreements with Serbian institutions in Kosovo, which are an important client. In addition, registration in the Serbian system provides businesses an opportunity to sell their goods and services to individuals employed in the Serbian public sector through differed payments. According to the research conducted by Riinvest in 2015, the vast majority of sales of the businesses registered in North Kosovo, 90 percent, are done locally, around 6 percent are sold in other parts of Kosovo, and less than 3 percent of sales are done in

Serbia. The main source of revenues comes from Kosovo-Serbian households with 62%, followed by Kosovo-Albanian households with 16%, Serb-run businesses 8%, Serbian Government 7%, Albanian-run businesses 3%, other 3% and Kosovo government 1%<sup>49</sup>

On the other hand, the registration in the Kosovo system is necessary for doing business with anyone else in Kosovo. But doing business in both systems represents a burden to the company as it requires maintaining double bookkeeping, settling double administrative obligations, etc.

Like the trend in the South, this burden of dual registration is also followed by decreasing benefits

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*"I recommend businesses not to register in the Serbian system. Depending on the month, winter or summer, the costs they have in the Serbian system are somewhere around 9,000 - 9,500 dinars for the minimal profit. In Kosovo, they pay 23 euros and 3% of the profit during the quarter," said a round table participant from the NGO sector.*

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for the business in the North as well, round table participants warned. As one of them explained, businesses run by Kosovo Serbs that were registered in the Serbian system were able to export goods to Serbia without paying duties. However, as of recently, even the businesses with Serbian registration but located in Kosovo are also under the obligation to pay duties and tariffs for exporting goods to Serbia. Round table participant also testified that obtaining certificates necessary for export into Serbia poses another challenge.

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*"While it is difficult to penetrate the wider Kosovo market, it is too expensive to export it to the Serbian market", said Kosovo Serb producer from Gracanica, who faced extensive costs and difficult administrative procedures while trying to export his products to Serbia.*

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Two round table participants who have dual registrations were also able to compare the two systems' efficiency. Asked to quantify the amount of time needed to register a business in Kosovo and Serbian system, they testified that the Kosovo system was far simpler. Their experience was that, while in Kosovo system, only a couple of hours are needed to register a business; the same process lasts for more than a week in the Serbian system. They also pointed out that in the Kosovo system, once registered, a firm can change their primary fields of activity easily, or even be a

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*"These two systems that are still competing and the fact that we do not know which way that situation is going to develop, that remains unsolved because everyone is trying to make things go their own way. This is my biggest impression," said a jewelry store owner at a round table discussion.*

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<sup>49</sup> [Riinvest Institute, "Economic Potentials in the North of Kosovo", 2015](#)

hybrid business with working areas that are not closely related, something that would require separate registrations in the Serbian system.

Other studies too, show the difference in the institutional context Serb-run businesses from North Kosovo and southern Serb-majority municipalities operate. According to the Riinvest study from 2012, 65% of North Kosovo companies were registered only in the Serbian Business Registry, 2% only in Kosovo Business Registry, and 32% in both systems. On the other hand, the opposite results were received in southern Serb-majority municipalities where 7.9% reported they were registered in Serbian Business Registry, 56% in Kosovo Business Registry, and 30% in both systems.

Likewise, according to InTER<sup>50</sup>, in 2015, there were 340 companies operative within the Serbian system. They were mainly micro and small businesses and only one large enterprise. The same research found that following Brussels Agreement's implementation, more companies from North Kosovo got registered in Kosovo Business Registry - out of 3180 companies from North Kosovo registered within the Kosovo system from 2000 to 2017, almost half were registered after the signing of the Brussels Agreement in 2013.<sup>51</sup>

Namely, the Brussels Agreement's implementation and the implementation of the IBM agreement brought a new reality on the ground as it urged businesses to change their operational practice, especially regarding import.

Furthermore, although four northernmost municipalities remain partially integrated as the economic integration is dependent on the dialogue process, the dialogue also brought incentives to the integration, such as the agreement on revenue collection signed in 2013. Namely, this agreement foresaw that all the revenues collected on the crossing points in North Kosovo should be transferred to the Development Fund for North. The Fund was established for the socio-economic development of four northernmost municipalities. By November 2020, the total amount of 16.2 million euros has been collected, out of which 14.5 million euros were distributed to the four northernmost municipalities for development projects.<sup>52</sup>

Many international development agencies and organizations supported the development of the private sector in North Kosovo. Among them, the most important was the role of the European Union Office in Kosovo, United States Agency for International Development (USAID), Swiss Agency for Development and Cooperation (SDC), International Organisation for Migration (IOM), as well as several embassies of western countries (primarily Great Britain, Norway, and Finland). Support to enterprises has most often been provided through financial and non-financial grants, and to a smaller extent, support is provided through business development training. Only through the two grant schemes for North Kosovo announced by the EU, between 2013 and 2016, there were 2 million euros allocated for private sector development and around 2.8 million euros for agriculture development<sup>53</sup>. The provided grant schemes also served as an incentive to North Kosovo businesses to register in Kosovo Business Registry.

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<sup>50</sup> InTER, "Freakonomics of Northern Kosovo", 2018

<sup>51</sup> Ibid

<sup>52</sup> <http://crnobelisvet.com/o-fondu-za-razvoj-severa-kosova/>

<sup>53</sup> Ibid

More information on the different contexts for inter-ethnic cooperation between North Kosovo and Gračanica will be elaborated in the chapter, which deals with the current status and obstacles in collaboration.

## Challenging investment climate

According to the interviews conducted with Serb-run businesses, despite having development potentials in its geographic location, tourism development, agriculture, and forestry, the investment climate remains unsatisfactory in North Kosovo and Gračanica.

The underdeveloped businesses and lack of investment affect these companies' competitiveness and their positioning in the wider Kosovo market. In addition to the fact that economic dependency on the public sector causes the community to lack motivation to engage and start a business, the key reasons for the underdeveloped private sector in Serbian populated areas are caused by political instability, poor interethnic relations, and distrust towards the institutional system.

Unresolved political relations between Serbia and Kosovo bring uncertainty to private sector investors in Kosovo's Serb-majority areas. Most of the interviewed companies from North Kosovo stated that unforeseeable political situation and, in particular, announcements of border correction prevent them from making long-term business plans.

Serb-run companies are unanimous and stated that political instability in Kosovo affects their desire to further invest and develop their business. One Serbian entrepreneur stated that he would wish for the political situation to stabilize so that he could develop a business plan, get a loan, invest in modernization.

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*"Honestly speaking, I presume that other fellow entrepreneurs have the same problem because no one wants to invest big money in something unpredictable in the near future, not to mention some distant future. We cannot talk about short-term, let alone long-term plans", said an entrepreneur from Leposavic in the interview.*

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The most common answer regarding this issue among the interviewed businesses is that a permanent solution for the relations between Kosovo and Serbia should be reached, refusing however to specify on what exactly that solution should be - achieving a mutually acceptable solution, reducing inter-ethnic tensions and hatred, were some of the vague the suggestions.

Moreover, the rule of law and level of trust towards the institutional system are essential preconditions for economic investment. The trust towards Kosovo's judicial system remains low<sup>54</sup>, and Kosovo's institutional system is not sending enough positive messages regarding institutional protection. For example, the former Kosovo Property Agency, which has now been renamed the Agency for Comparison and Verification of Property, AKKVP, had registered 42,749 seized

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<sup>54</sup> According to ADRC poll conducted in four northernmost municipalities in 2019, only 9% of Serb respondents have trust in Kosovo judicial system after the integration of judiciary in Mitrovica region. Reference: [Alternative Dispute Resolution Center, "Justice in Mitrovica Region: A Public Perception Poll" 2020](#)

properties in Kosovo. According to Arian Krasniqi, the spokesperson of AKKVP, 96.84 percent or 41,399 of usurped properties belonged to Serbs.<sup>55</sup>

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<sup>55</sup> <https://balkaninsight.com/2018/05/29/stolen-homes-kosovo-struggles-with-wartime-property-seizures-05-22-2018/>

## Section 2.

### Current status of cooperation and its key obstacles

The limited economic interconnection between Serbian and Albanian-run businesses is conditioned by multilayer problems: social, economic and political.

Unlike economic cooperation between Kosovo and Serbia, where the degree of cooperation can be measured, the level of economic cooperation between Serb and Albanian-run businesses within Kosovo is difficult to quantify as there are no data and statistics on business cooperation at the inter-municipal level.

However, the level of collaboration can be assumed based on some of the available research. Namely, according to the study of NGO Aktiv from 2013<sup>56</sup>, out of 331 surveyed companies from North Kosovo, only 18% of them were economically active in Albanian-majority areas. On the other hand, the study of the United Nations Development Program from 2016, within which they interviewed 800 SMEs and Farmers, shows that the economic interaction between the Albanian-majority and Serb-majority municipalities of the Mitrovica region is very limited. Less than 10% of SMEs and farmers from both sides claimed to do business with the other sub-region often or very often. Sixty-four percent of the SMEs in Albanian-majority areas stated that they never do business with Serb-run companies from Mitrovica region compared to 37% of SMEs in Serb-majority areas who stated the same when asked about cooperation with Albanian-run businesses from the region. The same is the case for farmers in both sub-regions.<sup>57</sup>

Moreover, according to this research findings, out of 14 interviewed Albanian-run businesses, 7 of them stated that they do cooperate with Serbian-run businesses. On the other hand, out of 17 interviewed Serb-run businesses from four northernmost municipalities, 14 of them reported that they cooperated with Albanian-run businesses, and 16 of them expressed interest in the establishment and an increase of cooperation.

According to the interviews conducted, there is an indicator that interethnic cooperation is growing.

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*"Political tensions are sometimes affecting the market, but the cooperation with Serbian businesses is growing. We cannot say that it is excellent, but it is good. It is a process", said an owner of an Albanian-run construction company from South Mitrovica.*

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The majority of Serbian respondents who cooperate with companies from other communities state that the proportions of that cooperation are below 35%, while in some cases (3)<sup>58</sup> there is an extremely high degree of cooperation with these companies as they stated that out of all their economic exchange, from 80 to 90% is being conducted with Albanian-run businesses. It is important to mention that 2 out of 3 interviewed Serb-run companies with a high degree of

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<sup>56</sup>NGO Aktiv, "An inquiry into the economic situation of north Kosovo businesses", 2013

<sup>57</sup>UNDP, "Mitrovica Region Baseline Assessment", 2016

<sup>58</sup>Two companies from Gracanica and one company from Zubin Potok

cooperation are from Gracanica. This again indicates the different context in comparison with the Serb businesses from northernmost municipalities.

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*"Serbian companies in Gracanica face issues with the import of Serbian goods and the payment of customs duties. If the border was open, I guess that, like myself, it would be more profitable for them to import everything from Serbia."*

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Participants of the round table were not surprised to learn that one of the results of the research showed that, among the corpus of the Serb-run businesses, more businesses from Gracanica, than those from North Kosovo were engaged in cooperating with Albanian-run businesses. They agreed that the primary reason for this was the geographic location - further from the border with Serbia and closer to Albanian-majority urban centers.

To support the claim, this woodshop owner stated that he recently searched for a particular type of floor wood that cost 18 euros per square meter in Babin Most, compared to 13 euros in Novi Pazar.

Other interlocutors pointed out that businesses in the Gracanica area have been establishing business ties with the majority population for much longer than the North Kosovo community, which was almost completely segregated from the rest of Kosovo until 2013.

An Albanian NGO representative from South Mitrovica also underlined the importance of political pressure before 2013 in North Kosovo not to cooperate with Albanians.

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*"Serbian business from the North have found it more difficult to cooperate with businesses from the South since they have been intimidated by the Serbian government not to cooperate. In 2008, when it was most dangerous to do business, there were pamphlets in the North directed to the Serbs and sending them a message that if they cooperate with Albanian organizations or businesses, they will be labeled a traitor," said this interlocutor stressing that international funds have done much to remedy this.*

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Type and the size of the business is one of the factors contributing to the readiness for the cooperation between Serbian-run and Albanian-run businesses, participants of the round table say. For example, Serbian trading and production businesses are more open for establishing cooperation with larger retail chains in Albanian-majority areas because they can access a market that is bigger than the one in the North Kosovo and all Serb-majority areas together, said a round table participant from a Serbian NGO in North Mitrovica.

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*"They (Serb producers from North Kosovo) are probably aware of how difficult it is to place their goods on the Serbian market, which is much larger. It all comes down to the fact that Serbian businesses from the North have products that they can place on the Kosovo market because there are no such products on that market. On the other hand, it makes little sense for them to try and export those products back to Serbia as they are likely already imported from Serbia as semi-finished products and are widely available on the Serbian market. They cannot make a profit in this way".*

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The interest in cooperation is also high with interviewed Albanian-run businesses. However, larger companies are not to that extent interested in involving Serbian-run businesses in their supply chain, not necessarily due to their ethnic belonging but rather because these businesses are small and cannot commit to a stable supply.

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*"Larger companies are simply not interested in cooperating with small companies, be that company run by an Albanian or a Serb. There is distrust towards small companies that they cannot commit to a steady and continuous supply of a certain good to the large companies engaged either in production or trade. They rather choose bigger and more stable suppliers.", explained an Albanian businessperson from Pristina.*

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Another factor that resulted in the apparent lesser interest of Albanian-run business to cooperate with Serbian-run business likely lies in the fact that Serb-run businesses in North Kosovo largely operate outside of the legal framework, meaning that the goods they have to offer are often imported illegally or that they are reluctant to always issue fiscal receipts which make it impossible to establish fully legal cooperation with the Serbian-run businesses in North Kosovo, says an entrepreneur from the North Mitrovica.

The same issue is seen as a possible additional incentive for the cooperation of Serb businesses that are operating legally with Albanian-run businesses by an interlocutor from South Mitrovica.

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*"Apart from the bigger and cheaper market, Serbian businesses are more interested in receiving goods in the southern part because they need to get invoices. Southern businesses usually operate legally and do not get smuggled goods because of the inspection," said this Albanian businessman.*

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In addition to legal issues with the Serbian goods, Albanians too might face difficulties placing their products on the micro-market in North Kosovo, the respondents stated. A point made by a jewelry store owner who tried to explain the fact that the Albanian-run businesses showed somewhat higher reluctance for cooperation was, as he put it, related to the quality of the products. He claims that because the products from Serbia that are present on the market of

North Kosovo are either of better quality or, at least, more trusted by the citizens, some products from the wider Kosovo market would not be competitive were they to be offered in North Kosovo.

However, participants in the second round table agreed partially, claiming that some products, like sweets, would not be competitive. Other types of products, like cleaning products, are already widely present and used by the consumers in the Serb-majority areas.

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*"North Kosovo is accustomed to a different type of products. Realistically speaking, these products are of better quality. My father has a shop, and I know what kind of products Albanians offer; my children will not eat those products. These are sweets from Turkey that are nicely packaged but tasteless. The quality is at a lower level than Pionir, Stark ... We are picky...," said an agricultural producer from Zubin Potok.*

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This situation was mirrored in Gracanica until recently, an interviewee from this town stated. It changed after the introduction of the 100% tariff policy when the consumers were forced to buy products that were not from Serbia.

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*"Unlike in North Kosovo, 100% tariff eliminated the option of buying Serbian products in Gracanica. Although our consumption habits were previously oriented towards Serbian products, once these products were cut off, we realized that there are many Kosovo products of good quality", said an entrepreneur from Gracanica, testifying to yet another difference in the context of Serb-majority areas in the Region of Mitrovica and Gracanica discussed at length in the previous chapter.*

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That Kosovo market struggles with a diversity of offers on the market is also the impression of the jewelry store owner who particularly underlined the medicines market's issues. Older generations of Albanians are frequent customers of pharmacies in the Serb-majority areas as they offer medicines that are either cheaper or not available in the Albanian-majority areas.

Local producers in the north face another obstacle, their products are not as competitive as the goods from Serbia or the wider Kosovo market. This is particularly true of agricultural products, stated one of the producers complaining that the import tax for such products in Kosovo is only

3%. At the same time, the standards for quality are low, making it difficult for local producers to find their place in the market.

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*"When it comes to agricultural products, they enter the market from all over. Everyone is looking to find goods at the lowest possible price, and quality is totally irrelevant. People eat and drink agricultural products of the lowest quality. And our geographical position is bad for agriculture. Everything ripens later when compared to the region," said a producer from Zvecan.*

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Rare exceptions are the producers who managed to obtain considerable EU funds and now export to France and Germany, like the Agricultural Household from Zubin Potok and etheric oil producer from Leposavic.

Finally, distribution is also not a lucrative option for North Kosovo located businesses. As one of the participants pointed out, those businesses in Kosovo who want to trade with Serbia can do it directly, without using contacts in North Kosovo as intermediary.

Regardless of the obstacles mentioned, some of the interviewed businesses from the Region of Mitrovica, from both Serbian and Albanian communities, stated that cooperation positively impacted their personal perception towards the other community.

The participants in a round table stated that solely making profit is the interest of larger businesses such as retail chains, while other, smaller businesses inevitably experience other positive effects of cooperation, not related to only increasing profit.

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*"It is inversely proportional to the size of the business. I think big businesses base their relationship on interest, but those that are small, on whose behalf the owner speaks and often invest everything they have... which speaks to the level of trust that both parties invest in the business. That trust can then lead to friendship, certainly before the same can happen between the two supermarkets and their management," said an NGO representative from North Mitrovica.*

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This was confirmed by one Albanian interlocutor who manages a business and lives in a multiethnic neighborhood in North Mitrovica, Bosniak Mahalla, who stated that following the war, his neighborhood was like a ghost town. However, with the passage of years, tensions relaxed, and first businesses opened in this area. Constant and growing businesses cooperated primarily in the trade of goods with the rest of the northern part, leading to improved inter-ethnic relations in this part of the city. Today, Bosniak Mahalla is one of the busiest neighborhoods in North Mitrovica.

An agricultural worker in the discussion of another round table was involved with organizing Serbian producers' presentations on fairs in urban Albanian-majority areas. He testified to very positive experiences from such events stating that he himself and other producers had the opportunity to learn a lot about packaging and project placement.

The NGO representative implemented a similar program. They were connecting Serbian homemade products producers and the restaurants and other hospitality business owners from the Albanian majority areas. Unfortunately, despite the great initial interest, due to the Covid-19 pandemic, introductions were made online instead of in-person, and the buyers were left without the opportunity to try the products and were thus less willing to enter cooperation in the end.

The exchange of services is also the field where cooperation is stymied. According to interviewees, the most visible type of services Serb-run businesses and individuals get from Albanian counterparts is related to resolving their obligations and problems before Kosovo institutions, such as hiring a lawyer or hiring a bookkeeping or audit company. Namely, the fact that North Kosovo functioned completely outside of the Kosovo institutional system led to a situation in which both individuals and business community in North Kosovo lacks knowledge on functioning of the institutional system.

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*"I know for a fact that one large bakery from the North hired a bookkeeping company from South Mitrovica. Bookkeeping and financial management companies from Albanian-majority areas are more experienced because they understand the system better, procedures and obligations towards the Tax Administration and inspections", explained the entrepreneur from Zubin Potok.*

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The language barrier and poor implementation of Law on use of languages also contribute to their decision to hire an Albanian service provider. They rather choose an Albanian lawyer as they believe that he/she understands the system better, knows the language, and that their cases would, as a result, have better treatment before institutions if they have Albanian lawyers to represent them.<sup>59</sup>

Furthermore, an Albanian entrepreneur stressed that service exchange is also very present in the sector of construction:

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*"Our (Albanian-run) construction companies are more developed than those in North Kosovo. We have more experienced labor and better machinery, and therefore our prices are very competitive. The cooperation is going very well, and we are very satisfied."*

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On the other hand, round table participants pointed out that specialist medical services by private practices in North Kosovo are widely used by Albanian consumers as well.

It is important to note that poor interethnic relations are affecting service exchange on the individual level. According to the elaborations from the round table participants, although improved since 2013, this exchange remains low.

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<sup>59</sup> [Alternative Dispute Resolution Center, "Justice in Mitrovica Region: A Public Perception Poll" 2020](#)

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*"Very few Albanians would go to North Mitrovica for a coffee or to get a haircut or to a gaming club; the same stands for Serbs coming in the South. This remains limited predominantly to those people who are mobile on the other side of the city because their jobs are located there," said an Albanian participant of a round table.*

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Finally, it is important to point out that Covid-19 had grave negative impact on Kosovo's economy overall, the interethnic cooperation not being an exception. The International Monetary Fund estimates Kosovo's GDP contracted by 7.5% in 2020 due to Covid-19. The lockdown and curfews even further decreased mobility and overall economic activity.

Both Albanian and Serbian entrepreneurs elaborated negative economic effects on their businesses as well as on interethnic cooperation.

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*"My turnover decreased by 50%, and I had to fire three employees. Of course, decreased economic activity impacted our level of economic cooperation overall, let alone this small-scale cooperation we had with Serbian businesses", stressed Albanian entrepreneur.*

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On the other hand, Serbian entrepreneur stressed a similar experience:

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*"My business operated in the sector of education. A month after a lockdown, I had to shut down that business and fire twelve employees. I started working on expanding that business in Pristina with my Albanian partner, but we had to put that project on hold temporarily."*

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An additional bizarre example of how COVID-19 related disinformation affected his business was conveyed by a farmer who was interviewed for this research:

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*"Last June, we produced 10 tons of cabbage, and we managed to sell five tons before my father contracted the virus. The remaining five tons of cabbage went to waste because the local community and market sellers were afraid to buy it from us, fearing that they will be infected through the cabbage we produced."*

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## How language, perception of safety, and politics affect cooperation

### Language gap increasing

According to the research, one of the biggest obstacles to higher cooperation is the language barrier. The divisions that prevailed after the conflict, along with the fact that the language learning in Albanian and Serbian schools was discontinued 30 years ago, has led to the point where the majority of Serbs and Albanians do not speak the language of one another, thus creating a language barrier. According to another research conducted by the Alternative Dispute Resolution Center in North and South Mitrovica in 2018<sup>60</sup>, out of 1.000 questioned citizens, only 13.9% spoke each other's language. In addition to this, 60% of the respondents stated that they do not feel safe speaking their language in the areas where their community is in the minority. This corresponds with most of the responses obtained through this research as most of the interviewed businesses reported that lack of language skills is the main problem that hinders cooperation, followed by political situation/tensions and lack of mobility which also prevents them from exploring possible business opportunities.

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*"Personally, the biggest problem for me is not knowing the language, and I would certainly cooperate more if I would know the language. When I go to the South or when Albanians come to me, I rely on English, but if he or she does not speak English, then I'm in trouble," said in the interview one of the Serb respondents.*

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The same was identified as an issue by other non-governmental actors who have made attempts to remedy this. In our interview with the Kosovo Chamber of Commerce, they stated that they had been engaged in promoting initiatives that provide services and tools related to language learning. IOM has created the digital dictionary, which is the first online Albanian-Serbian-Albanian dictionary with 20,000 words created through UNMIK support.

A more sustainable solution for the problem would be the introduction of both official languages (Albanian and Serbian) in the curricula of Albanian and Serbian schools. This, however, remains a sensitive and emotional issue for the communities as learning the language of the "other side" is to some extent perceived as an act of subordination. According to the research conducted both in North and South of Mitrovica, 65% of Albanian and Serb respondents are against introducing the other community's language in schools.<sup>61</sup>

### Safety perception affects mobility

Poor inter-ethnic relations and a language barrier also affect the perception of safety for many Albanians and Serbs who do not feel comfortable moving freely in the areas where their community is not in the majority.<sup>62</sup>

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<sup>60</sup> [Alternative Dispute Resolution Center, "Can we understand one another", 2019](#)

<sup>61</sup> [Alternative Dispute Resolution Center, "Can we understand one another", 2019](#)

<sup>62</sup> Ibid

This obstacle in establishing cooperation has more nuances as there are Serb-majority areas perceived as safe by Albanians (Gracanica) and those which are perceived as less safe (four northernmost municipalities). The same stands for the Serbian community; Pristina is perceived safer than South Mitrovica, Vushtri, and Skenderaj.

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*"Interethnic relations are much more relaxed when you pass Vushtri and reach Pristina," said an entrepreneur from Leposavic also adding that the situation greatly improved over the years.*

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Safety perception also affects Albanian-run businesses and individuals to move in North Kosovo freely. Consequently, it decreases their mobility in the region and chances for exploring business possibilities.

Participants at the round table were not surprised with this finding and explained this difference in safety perception between the Mitrovica region and Pristina and Gracanica as a result of the 1998-1999 conflict, which was more intense in the Mitrovica region than in Pristina as well as due to the consequence of decades-long political tensions which predominantly had the epicenter in northernmost municipalities. They described North Kosovo as the area where two nationalisms meet.

The institutional unclarity in North Kosovo combined with safety perception further demotivates Albanian-run businesses to engage in cooperation with companies from North Kosovo.

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*"The institutions just started operating in the North, and they are not fully functional. In addition to that, the political tensions happen too often, and until recently, people were removing Kosovo plates when entering North Mitrovica because of safety. How can I send my truck to buy or sell certain goods in Zvecan? Who can guarantee the safety either to my truck or the driver?", said the Albanian entrepreneur.*

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## Is business cooperation resilient to political interferences?

Some of the round table participants denied that political tensions represent a big obstacle to cooperation. They pointed out that even though Belgrade and Pristina's political relations have significant effects on the trading relations between the two, this does not translate to the relations between individual businesses within Kosovo.

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*"I think that if you want to be nationalist, you can be that but, at your home. If you want to be a businessman, you have to act globally and forget about nationalism. This is a well-proven recipe, and I think all businesses, Albanian and Serbs, know this rule. It is a bit different with the consumers, but I can still say that there is a high frequency of Albanians in the green market in Gracanica, and they buy products from the market. The same thing happens in Gjilan and other areas such as Strpce. While in Pristina, it is difficult to sell the goods from Serbian villages unless the seller speaks the Albanian language and can present the goods to the Pristina market."*

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The majority of the political crises between Belgrade and Pristina are perceived as orchestrated, the interlocutors stated, adding that they "fool" almost no one on the ground and have minimum effect on the willingness of business entities to enter into inter-ethnic cooperation.

What can pose an issue are local developments and policies, but even such effects are minimal and can strain relations for a couple of days, not longer. While local policies do not systemically discourage the interethnic business cooperation, they do nothing to advance it either. On rare occasions, they also manage to stop it for a short while, remembered an interlocutor at a round table.

The cooperation between Serb and Albanians is the easiest to observe in the multiethnic neighborhood of Bosniak mahala in North Mitrovica, and it was the economic exchange in this area that was a target of political pressure in mid-2019, among allegations of a pending humanitarian catastrophe in the North of Kosovo when entrepreneurs ceased to illegally import goods from Serbia which were taxed by 100% by Kosovo government due to announced arrests and seizure of goods. On top of the Association of Entrepreneurs' requests to close the trading stores, Serbs were also invited not to go and buy products in Bosniak mahala where most shop owners refused to close down stores. The situation returned to normal after a few days of tensions.

An NGO representative likewise added that, on top of such examples, occasional physical incidents in the vicinity of larger trading centers in South Mitrovica and rare shaming campaigns by Serbs on social media can also decrease economic exchange for a few days.

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*"Businesses are resilient to these things. A temporary cessation of cooperation can last two or three days; people do not go to ETC, but then ETC posts a discount, and everyone goes there. No one sees a problem with it. Nothing that politicians say at some point can do more harm than what already exists - that people simply do not want to buy Serbian products, except for what they have to and those products they are accustomed to or which they cannot find a substitute for," said an NGO representative from North Mitrovica.*

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An Albanian interlocutor from another round table discussion shared a similar opinion.

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*"We sell our products to all communities, and we have no problem with that. Serb consumers do not hesitate to buy our products, which shows that economic interests go beyond nationalist sentiments."*

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## Shortcomings of the integration process

Apart from the fact that it affects economic cooperation between North and South of Kosovo, the integration process also uncovered obstacles to administrative integration of the Serb community from North Kosovo.

Namely, the non-implementation of some agreements hinders the level of economic integration. For example, poor implementation of the Civil registry agreement, or rather Kosovo's refusal to accept as valid Serbian-issued civil registry certificates dating after 10 June 1999 (of birth, marriage, and death), causes problems for the Serb community in obtaining Kosovo identification documents.

This further restricts the freedom of movement of the citizens affected and, consequently, their economic integration.

Although the situation with obtaining Kosovo identification documents greatly improved over the years, the Serbian issued marriage certificate validation process (the most challenging one as unlike proving birth or death, no alternative documentation or hospital records can be used to prove that the legal bond of civil matrimony was made) is still reliant on regular re-adoption of government administrative instruction and thus dependant on the political will of the party in power and it mostly affects marriages concluded between Kosovo born citizen and a non-resident with Serbian citizenship. Furthermore, even if the marriage gets validated by the Kosovo authorities, due to the reciprocity measure on non-recognition of Serbian passports<sup>63</sup>, non-resident spouses with Serbian citizenship and residency in Kosovo cannot apply for residence permit and late on, naturalization process. This practically means that if a Kosovo Serb married a wife from central Serbia after 10 June 1999 - she and their children cannot obtain Kosovo citizenship and identification documents in some cases. In addition, it is important to mention that marriages made in the Serbian system after

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<sup>63</sup> Except for crossing IBMs with Serbia where exceptions for ID cards and birth certificates are made, Kosovo does not recognize Serbian documents issues to Serbian citizens residing in towns located in Kosovo by Serbian system Secretariat of internal affairs offices relocated after the war.

14 September 2016 (the date of the last Freedom of movement agreement) cannot be verified at all, thus preventing spouses who were not born in Kosovo to go through the process of naturalization.

Although not an example of a registration issue due to the non-recognition of a marriage certificate, an entrepreneur in a focus group gave the example of his worker, who cannot obtain the Kosovo ID card until his father gets one too. On the other hand, his father, not having been registered with UNMIK, is requested to provide an old document issued before June 1999 that proves his identity (an old ID card or a passport, or a similar civil registry document). Until his worker resolves the issue, he cannot open a bank account in Kosovo, pass driver's exam, be legally employed and registered with the Tax Administration, or travel outside the northern municipalities to other Kosovo regions.

Furthermore, although recognition of diplomas was discussed several times and agreed upon with both the facilitation of the EU and the US, this issue remains unresolved and continues to prevent free movement of labor. The practice in the implementation of these agreements when it comes to the verification of diplomas of the Serbian language University in Kosovo showed that the process is too slow and burdened with long administrative procedures.<sup>64</sup> On the other hand, the nostrification of the diplomas from Universities in Serbia is still not possible.

Furthermore, the stalled dialogue process also halted the implementation of some of the other important agreements the business community could benefit from - such as the previously elaborated established cooperation between the Chamber of Commerce of Serbia and the Chamber of Commerce in Kosovo.

## Emotional economy

Although most of the interviewed Serb and Albanian entrepreneur expressed willingness for potential cooperation, 15 respondents (both representatives of Albanians and Serbs) also expressed concerns about possible "emotional economy" or "economic nationalism" as a practice, where economic decisions of buyers and consumers are affected by the interethnic relations rather than their economic interest.<sup>65 66</sup>

The phenomenon of "emotional economy" or "economic nationalism" is typical for post-conflict areas just as it is for any other inter-group, identity-driven violent conflict between countries, regions or classes.<sup>67</sup>

Besides expressed concerns and examples from interviewees and round table participants, there are several examples of these indications. Some of Kosovo's political parties were very vocal in advocating a boycott of products from Serbia<sup>68</sup>, and there is an example of a hypermarket in Ferizaj/Uroševac where the owner decided to ban all Serbian products from his market. This hypermarket also introduced a policy of labeling all the products with a country of origin flag. All of this resulted in an increase of the company's annual turnover to 3 million euros.<sup>69</sup>

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<sup>64</sup> InTER, "Education in the process of normalization of relations between Belgrade and Pristina", 2019

<sup>65</sup> <https://kossev.info/srpski-proizvodjaci-na-kosovu-u-nemoj-borbi-za-trziste/>

<sup>66</sup> Interviews with Serbian and Albanian entrepreneurs and round table discussions

<sup>67</sup> International Alert, "Regulation of Trade Across Contested Borders", 2015

<sup>68</sup> <https://balkaneu.com/determination-urges-boycott-products-serbia/>

<sup>69</sup> <https://kossev.info/plus-center-the-only-market-in-kosovo-that-does-not-sell-goods-from-serbia/>

This practice of labeling products with a flag of the product's country of origin would later be institutionalized on the Kosovo level upon the introduction of 100% tariffs.<sup>70</sup> Although this campaign was directed against companies from Serbia, it also had a spill-over effect on businesses owned by the Kosovo Serbs, said the round table participants.

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*"The previous government worked on targeting particular products, so now we have a situation where every product must have the flag of the country of origin, in this way politicians address their electorate with the message - we do not want goods from Serbia, we do not want to strengthen Serbia that way. This has an impact on the ordinary population and the less educated part of the population. Politicians do it for their own interest in order to get the support of a part of the constituency," commented agricultural producer from Zubin Potok.*

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In addition, a representative from a Serb-run development organization expressed opinion that the phenomenon of "emotional economy" was more present in the first years after the conflict than now:

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*"People nowadays do not care much about the ethnic belonging of the seller, they care about the quality of the product and getting it at the lowest possible price".*

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On the other hand, An Albanian economist explained this phenomenon a bit differently:

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*"I do not think this is present among businesses; they are all profit-oriented. On the other hand, this phenomenon may be present among the consumers, and businesses just follow the market demand. If the consumers do not want these products, the businesses will follow their demand."*

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Yet, we have interviewed two businesses who feel reluctant to enter interethnic cooperation due to ethnic-based distrust. A representative of the marketing association explained that examples, where businesses are driven with emotions rather than financial interest are rare:

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*"Business owners who were affected during the war do not even want to do business with Serbian businesses, while for someone who has not had consequences, there is no problem."*

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<sup>70</sup> <https://kossev.info/u-svako-j-prodavnic-i-na-kosovu-pored-cene-proizvoda-obavezna-i-zastava-zemlje-porekla/>

Some examples of how the emotional economy still affects the business environment were mentioned by the respondents in this research.

An entrepreneur from North Mitrovica testified that there is a level of economic nationalism but pointed out that this is predominantly present with the consumers, rarely with business people. He gave a personal example where he managed to establish cooperation with an Albanian from Pristina to expand his patented business in Pristina, but was asked by his business partner to remove any mention of the patent being from the Serb area and asked him to present himself to the public as belonging to another Slav nation.

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*"My and his (business partner from the Albanian community) cooperation is great - he sees profit there, he sees that the business is profitable and can make money, while the presentation to the citizens in Pristina had to go in a completely different way. We had to delete all the data that it was a Serbian patent, that it existed in Serbian communities because they would not accept it."*

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An Albanian entrepreneur from Bosniak Mahalla explained that the stimulation of economic nationalism between Kosovo and Serbia temporarily had affected his business as well.

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*"When 100% tariff was introduced back in 2019, it created a crisis where many Serbs stopped buying goods in Albanian stores out of spite. In addition to that, Serbian politicians also threatened the local Serbs not to buy anything in Albanian stores. Luckily, the situation returned to normal after few days."*

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An agricultural producer in another round table mentioned the example of another Serb producer of homemade pies who packed his product in packages that indicated that the product originated from an Albanian-run firm. A similar, personal example, of having to scrape any mention of Serb origin of the expansion of his business in Pristina was mentioned by a participant in the first round table.

Furthermore, a producer from Gracanica explained that he too is facing continuous obstacles when trying to sell his products to distributors in Albanian-majority areas. He says that he eventually managed to establish fruitful cooperation with Albanian-run business under the condition to use the packaging and the label of his partner's company. He also stressed that he used to raise the issue of economic nationalism but eventually decided not to speak about it publicly as he found that it attracts attention which further negatively affected his business.

Apart from posing as Albanian companies, some Serb-run businesses are asked by Albanian business partners to have the goods produced in Gracanica or Serbian enclaves labeled as being produced outside of Kosovo.

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*"There is a guy in Gracanica who sells "rahat llokum" and he labeled the goods as being produced in Novi Pazar although it was produced in Gracanica. I don't know whether this is some sort of rejection of the goods coming from Gracanica, but Serb businesses were asked to do that in order to have their goods presented in Albanian markets," said an ex-employee of International Development Agency.*

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Finally, a media company manager gave an example of big companies that operate in Kosovo market who are afraid to promote their services in Serb-majority municipalities as they are concerned that this would have a negative impact on their profit which is primarily dependent on Albanian clients and consumers.

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*"A Serbian TV Network signed a one-month contract with a prominent commercial bank in Kosovo to run a promotional campaign on bank's financial products. Two days after the campaign was initiated, the TV Network's responsible person received a call from the bank requesting to stop the campaign. Another personal example is my offering a big shopping center near Gracanica to promote their company at the media where I work. They honestly told me that, although having Serbian customers, they would rather not be the first to advertise in Serbian media as it may negatively affect their business. This makes you wonder, if the big ones are afraid to break the ice, how can we expect that smaller Albanian businesses would dare to promote their products and services in Serbian media?", said this participant at a round table.*

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The phenomenon of economic nationalism is also present in the Serbian community. As previously noted in this paper, an interviewee from Gracanica stressed that consumers in Serb-majority areas had prejudices towards the quality of goods produced by Albanian companies in Kosovo, but upon the imposition of the 100% tariff, they started buying Kosovo products and, as he testified, the consumers realized that there are products of outstanding quality.

## **Lack of institutional support for economic cooperation**

The majority of business owners from both communities consider that relevant authorities neither facilitate nor encourage interethnic business cooperation.

Albanian participant at the round table stated central authorities have ultimate powers to stimulate interethnic cooperation, but they are lacking ideas and are not introducing such policies. On the other hand, he said that local authorities do not advocate such policies before central authorities either.

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*"So far, I have not seen anyone from the local government insist on encouraging inter-ethnic business cooperation."*

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An Albanian entrepreneur claimed in the interview that he knows the North and the South's political situation very well and can say with certainty that the local authorities are not making efforts to encourage interethnic economic cooperation.

Round table participants agreed, stating that municipal budgets focus on capital and infrastructural projects, which only benefit the businesses from the construction sector. At the same time, no programs are developed to support other businesses - producers, agricultural workers, or traders.

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*"Local politics does not support businesses in the North, especially Serbian businesses, in an adequate way. This approach is one-sided, all the money flows to one source, and that's it", said an entrepreneur from North Mitrovica.*

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The agricultural producers from Zvecan pointed out that the administration in Serb-majority areas is also inefficient or not functional at all due to only a partial integration process. They listed several documents they were not able to obtain in the municipality of Zvecan as no official was tasked with performing the service; among those was the payment and issuance of confirmation of paid municipal property taxes. Consequently, they were not able to obtain a construction permit for an object of temporary type.

The northernmost municipalities were also criticized for what was described as a lack of local authorities' readiness to consider local Albanian residents and Albanian-majority neighboring municipalities.

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*"Our policy in the North is based on the premise that no Albanians live here; as if they do not exist; as if we are alone here in Kosovo. If someone does not exist, how do you establish cooperation with them? That is our policy for everything", a jewelry owner pointed out to what can be interpreted as the insular mentality of local institutions in Serb-majority areas.*

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Local institutions<sup>71</sup> also report that there are no local policies in regard to enhancing inter-ethnic business cooperation, where a representative of South Mitrovica municipality even complained that northernmost municipalities had shown no interest in cooperation. Furthermore, the representative of South Mitrovica municipality also stated that he believes that cooperation on the community level mirrors the relationship between Kosovo and Serbia on the governmental level, saying:

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*"Politics is the main factor which affects cooperation. When relations on the national level between Kosovo and Serbia governments are good, cooperation grows and vice versa."*

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When it comes to what the institutions can do to further inter-ethnic cooperation, the participants stated that they should incentivize production and trade. They called for local authorities to offer businesses land parcels, grants, and networking opportunities<sup>72</sup> to support inter-ethnic cooperation.

The round table participants agreed that politics on high levels play a major role and explained that Serbian local authorities occasionally avoid cooperation with neighboring Albanian-majority municipalities as they want to control the integration process.

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*"It is a poker game. There is a push from the international community to make northernmost municipalities cooperate with neighboring Albanian majority municipalities. The Mayor of South Mitrovica wants that cooperation in order to use it for his own political gain and present it as he is the one bridging the division and integrating North Mitrovica. On the other hand, the Serbian side is obstructing it as they want something in return", explained the participant at the round table.*

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On the other hand, interviewed representatives of central level institutions, Ministry of Economy and Environment and Ministry of Agriculture, also said that they have no specific programs that target the interethnic cooperation but claimed that their institutions have inclusive policies when it comes to grants disbursement. A particular problem for the registration of agricultural businesses arises from improper implementation of the agreement on cadaster where stalled property verification process prevents some of the agricultural products from registering, which is an eligibility requirement for application for agricultural projects.

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<sup>71</sup> Interviews with Municipality of South Mitrovica and Pristina

<sup>72</sup> When it comes to networking opportunities, 11 Albanian business owners stated that they are interested to attend business-to-business events with other communities to assess areas of cooperation and establish business collaborations. On the Serbian side, 2 respondents said they might attend it, 11 would attend it, 2 would attend it only if time allows, and 2 stated that their answer would depend on who organizes them, what would be presented and what would be the ultimate goal of such event.

The Ministry of Economic and Environment representative said that the main obstacle to inter-ethnic cooperation is the fact that municipalities are mostly homogenous. Simultaneously, although they have no specific programs to encourage it, they are fully aware that interethnic cooperation is in Kosovo's best interest as such cooperation would affect economic growth and would have a positive impact on other macroeconomic indicators.

## Kosovo Chamber of Commerce - fear of the unknown

Kosovo Chamber of Commerce (KCC) representative who spoke to ADRC stated that KCC has more than 16,000 members and 30 sectorial associations, represented through its regional offices in Peja/Peć, Gjakova/Đakovica, Prizren, Ferizaj/Uroševac, Gjilan/Gnjilane, Mitrovica, and Pristina (headquarters). The service packages offered to their member companies include but are not limited to: Networking events and luncheons, advocating and lobbying, various trade fairs, promotion and marketing, trade missions with EU countries, B2B meetings, barcodes, certificates of origin, annual business conferences, internal Permanent Tribunal of Arbitration, business clubs, and readily available studies, data, economic analyses, and trade statistics for use.

The representative of KCC says that there is a Focal Point/Coordinator appointed for minority businesses within the Kosovo Chamber of Commerce and that there has been a presentation of services to many Serbian companies. KCC also said that they are working towards the membership of the "Association of Serb Entrepreneurs Gracanica" in the Kosovo Chamber of Commerce.

KCC also offers information in Serbian on their website so the Serbian business companies can be informed regarding the changes in the economic and legal framework.

However, a smaller number of businesses interviewed for this research stated that they would not join a business chamber compiled of businesses from different communities, and among these, there were more Serb-run businesses.<sup>73</sup> Round table participants believe this is due to the lack of understanding of what business chambers do. Many fear that joining a business chamber would mean taking on more (mostly) financial responsibilities, in particular when it comes to the businesses in the North who, for the most part, operate outside of the system in the grey economy.

They also criticised the existing Kosovo Chamber of Commerce for not being too active in approaching Serb-run businesses, looking only, as they described it, for *pro forma* membership from this community as evident by the fact that most memberships were ensured by the engagement of other NGO and B2B focused project activities.

Participants in a different round table also underlined the lack of understanding as a primary obstacle for Serb-run businesses to join the chamber of commerce. But one of the interlocutors had a different experience when it came to the engagement of KCC in Serb-majority areas. He pointed out that their activities are immensely important for the development of businesses but that this is not recognized as an opportunity by Serb-run businesses.

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<sup>73</sup> 7 Albanian business owners stated they would join an inter-ethnic business chamber, 2 were against the idea stating that there already exists a Kosovo Chamber of Commerce and that there is no reason to establish another one. On the other hand, 11 Serbian businesses would be interested to join such a body while 5 were against it.

All participants of the round table discussions pointed out that they personally would join a multiethnic chamber of commerce, in particular, because of the need for information.

The round table participants were also very critical of the existing Association of Entrepreneurs' performance and leadership in the North. As they explained, the leadership is highly politicized and in close connection with local authorities, making them an inadequate choice for criticizing the authorities on local policies. In addition, it is dominated by construction businesses who do not have the interest to see the local budgets transform from infrastructure-focused to business development-focused.

Asked if there are, among the business community in the North, voices calling for creation of a more authentic association of entrepreneurs, the three who took part in this discussion stated that there are none as no one would volunteer to take on such a responsibility as, how they put it, everything is devalued and subject to higher political games.

## Other non-governmental actors' support

Many local and international organizations are engaged in supporting economic development and economic integration through grants, capacity building training, organizing interethnic fairs, and interethnic economic projects.

Non-governmental actors who are engaged with the business and start-up community interviewed for the purpose of this research, such as Innovation Center Kosovo (ICK) and Bonevet, stated that they have inclusive policies in this regard and that the Serb community, in particular from southern Kosovo has been engaged in their projects and events before. Bonevet is even planning to open their branch office in Mitrovica in 2021 for the purpose of making their services accessible for citizens from the Mitrovica Region. On the other hand, ICK organizes various activities that could stimulate interethnic cooperation, such as start-up competitions, training, and scholarships. ICK also has a virtual incubator for youngsters who do not live in Pristina or cities nearby.

On the other hand, the Regional Development Agency Northrepresentative also stated that they have been extensively engaged in cooperation with municipal authorities to support economic development. At the moment, the Agency is implementing two big projects - one where they organize training on implementation of labor law and safety and health at work and another with the Ministry of Culture where 150 young people are trained to develop professional skills in the field of graphic design and web development. The representative also stated that they have provided grants scheme support for businesses and that 60% or 300 applications were applications from Serb companies from the region.

Many other non-governmental actors implement projects pertaining to the development of interethnic relations in Kosovo. In fact, according to the database available at the Kosovo Trust Building platform<sup>74</sup>, there are 137 recently implemented or ongoing projects of international and local organizations tackling this topic.

Finally, a framework for municipal economic development will be provided for the municipalities in the Region of Mitrovica this year through the "Inclusive Development Programme" implemented by UN Habitat, PAX and Community Building Mitrovica. The program aims to support municipalities in creating Municipal Development Plans, Municipal Zoning Maps, and draft Citizen Participation

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<sup>74</sup> <https://kosovotrustbuilding.com/>

Plans, which would streamline local democracy procedures and provide a framework for municipal urban and economic development.

## Conclusion:

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The EU-led dialogue for normalization of relations between Kosovo and Serbia initiated in 2011 laid the groundwork for, among other things, increasing of business cooperation within Kosovo communities. However, this intent fell short of the expectations as the parties were unwilling to implement the agreements. To increase economic ties, the two sides need to commit to implementing agreements that, among other things, regulate economic exchange. But seriousness in implementing all other agreements would also create a sense of predictability and stability that can signal to the wider population that political intrigue would not bring into question the safety of their business investments.

One such example is the positive cooperation of the Serbian and Kosovo Chamber of Commerce that is now frozen. Instead of looking into ways to target Kosovo Serb businesses' further economic integration, it is burdened by what is identified as apprehension of the Kosovo Serb business to join KCC. Kosovo Serb businesses need development opportunities if they are to exit the grey economy, and KCC could take the supporting role in this endeavor.

However, truly transformative processes in Belgrade and Pristina's relations cannot happen among the constant production of conflict. Instead, more robust production of peace must take place. As things stand now, external and internal non-governmental actors' considerable efforts to push reconciliation processes get put down by ethno-nationalist policies and statements that inevitably affect all forms of cooperation, including between businesses.

## Recommendations:

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In line with the key findings presented in this research, the ADRC team provides the following recommendations:

- As the dialogue and economic cooperation between Serbia and Kosovo affect inter-ethnic cooperation on the community level in Kosovo:
  - Chambers of Commerce of Serbia and Kosovo should resume, intensify, and expand their cooperation. Their cooperation should be prioritized and encouraged from the political level;
  - Kosovo and Serbia should abandon the practice of introducing anti-competitive policies and stimulating "emotional economy"/ethnic-based economic behavior;
  - Kosovo and Serbia should map all the bureaucratic obstacles in trade exchange and resolve them in good faith;
  - The parties should stay committed to the implementation of the Washington agreement;
  - Kosovo should resolve the problem related to identification documents;
  - Parties should work on finding a sustainable module for overcoming the language barrier on the community level through the political agreement on introducing language curricula in Serbian and Albanian schools in Kosovo;
  - Negotiating parties should work on identifying the causes of institutional insecurity of the K-Serb minority and incorporate their resolutions in the Comprehensive agreement;

- Municipalities should draft an economic strategy that aims to develop the private sector based on Municipal Development Plans;
- Kosovo Serb Business Association should be established and provide support to the Kosovo Serb business, whether in legal matters, capacity building, market integration or establishing economic clusters of small producers. This body's establishment should be supported K-Serb political representatives, Kosovo's and Serbian Chambers of Commerce;
- A transitional solution for overcoming the language barrier should be looked through Kosovo's Chamber of Commerce and K-Serb Business Association, which should seek funds for a standing language learning project;
- Kosovo should consider stimulating local economic growth by introducing fiscal decentralization policy Kosovo wide, where municipalities would materialize part of VAT collected on their municipality territory. This would support economic integration, and it would stimulate municipalities to engage more in economic development, interethnic cooperation, and in combating informal economy on their territories.

