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Perspectives on Local Economic Development in Kosovo's Decentralised Municipalities

Working Towards a
Stable Multi-Ethnic Kosovo



Contributors

Ross Wain, M. Alejandra Morena, Artan Çollaku

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ECMI Kosovo

ECMI Kosovo is the principal non-government organisation engaged with minority issues in Kosovo, with the overarching aim to develop inclusive, representative, community-sensitive institutions that support a stable multi-ethnic Kosovo.

ECMI Kosovo contributes to the developing, strengthening and implementation of relevant legislation, supports the institutionalisation of communities-related governmental bodies, and enhances the capacity of civil society actors and the government to engage with one another in a constructive and sustainable way.

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Executive Summary

In the five new municipalities of Gračanica/Graçanicë, Klokot/Klllokot, Novo Brdo/Novobërdë,¹ Parteš-Pasjane/Partesh-Pasjan and Ranilug/Ranillug, established as a result of Kosovo's decentralisation process, municipal leadership has been elected through a relatively satisfactory voter turnout in the November 2009 municipal elections, and the June 2010 municipal election in Parteš-Pasjane/Partesh-Pasjan. Furthermore, the main institutional structures are in place and delivering to the extent that a framework for sustainable integration of communities has been created in these municipalities.

Beyond these political issues, the socioeconomic situation is also crucial to sustainable integration among communities. A strong local economy serves to strengthen relations between local government structures and communities, increases the capacity and opportunity for local actors to take part in socio-economic planning, and improves the integration of local businesses into Kosovo-wide networks and markets.

Economic development is an important element of the Constitution of the Republic of Kosovo and the related central level laws. In addition, article 17 of the Law on Local Self-Government grants municipalities full and exclusive powers over local economic development policy. However, several challenges remain for the new municipalities to be able to manage the local economy and promote economic development effectively.

In order to assess the way local economic development policy is implemented in these newly-established municipalities, to identify the gaps and to draw conclusions about how to strengthen the institutional framework, ECMI Kosovo has carried out a comprehensive study, focusing on Small and Medium Enterprises (SMEs) and local economic development. This study addresses the legal framework affecting local economic development (primary legislation and municipal regulations), the institutional structures in place and their functioning (municipalities' capacities, procedures, and practices) but also issues directly related to business operations in these locations (business environment, SMEs' perceptions of the existing mechanisms).

The methodology of this study consists of two structured questionnaires, one for municipal administrations and one for the local business community. The data collection was implemented through direct interviews with relevant municipal staff and selected businesses, and is analysed and presented in this report in narrative and statistical format. The data and information with regard to municipalities reflects the situation as of late 2011, and that on local businesses reflects the situation as of February 2012.

This report is designed in a way that municipalities can benefit from the key findings mentioned below in order to (1) build a more robust legal framework on local economic development, (2) enhance their

¹ The municipality of Novo Brdo/Novobërdë has been *enlarged* as a result of the decentralisation process.

capacity for effective implementation of this legal framework, and (3) better seize the perceptions and expectations from the local business community.

The key findings of this study are:

Business environment:

- The business environment in the five new municipalities is characterised by small and micro enterprises that face various challenges but do aspire to achieve growth.

Legal framework:

- At the municipal level, there is a lack of understanding of the purpose and scope of central-level laws related to SMEs and local economic development, and the institutional structures through which they are to be implemented. As a result, many areas still need to be regulated, while shortcomings have been identified in adopted regulations.

Institutional organisation and capacities:

- There is a lack of clarity on specific functional duties and responsibilities of municipal institutions relevant to SMEs and local economic development, as well as a lack of adequate capacities within these institutions.

Information collection and dissemination:

- Comprehensive and disaggregated information on the local economy and other socio-economic affairs is not available, as municipalities lack adequate and systematic data collection mechanisms. This limits their capacities to design effective policies to promote local economic development.

Relations with the local business community:

- Consultation mechanisms between municipalities and the local business community have not been established.

SMEs' perceptions:

- SMEs lack information on and understanding of the legislation, regulations, and policies relevant to their operations and local economic development.
- SMEs perceive their relationship with municipal structures involved in managing the local economy to be a positive one, which represents a foundation for change.
- There is very little membership or knowledge of business associations, and over fifty per cent of SMEs are not aware of their value.

Based on these findings, a set of recommendations to the newly-established municipalities has been formulated, so that a business-friendly environment can be built up in cooperation with the local business community. This would result in a more dynamic, easy to access and integrated market, for the joint benefit of SMEs and municipal institutions.

The recommendations first address legal clarification, recommending the need for municipalities to increase their understanding of the central-level legal framework and translate this understanding into sound municipal regulations. Recommendations are also made with regard to institutional organisation, specifically the need to define duties and responsibilities of municipal institutions relevant to SMEs and local economic development and improve the capacity of those working within them. In order to address the lack of information it is recommended that municipalities improve their own data collection mechanisms and provide more information for SMEs. Further addressing municipalities relations with the business community it is recommended that consultation mechanisms for dialogue are developed, and that municipalities encourage the creation of local business associations with the potential for national integration and synergy.

Introduction

This report analyses the local economic situation in the five newly-established municipalities of Gračanica/Gračanicë, Klokot/Klllokot, Novo Brdo/Novobërdë, Parteš-Pasjane/Partesh-Pasjan, and Ranilug /Ranillug, and seeks to provide the municipalities with some operational recommendations to boost local economic development and subsequently enhance the quality of life in these locations.

The report is divided into four sections. The first section provides an overview of the business environment in these municipalities, addressing the types of businesses in operation and their size, turnover, growth, market reach and main challenges in the current economic environment.

Section two addresses the legal framework directly and indirectly related to SMEs and local economic development in Kosovo. It begins by locating economic development in the context of the Constitution of the Republic of Kosovo, and then addresses the laws that are directly and indirectly related to economic development.

The third section assesses the municipalities' role in managing the local economy through the implementation of this legal framework. It analyses the organisation and capacities of the municipal structures charged with managing and developing the local economy in the five municipalities. Further analysis addresses the operations of these municipal structures, focussing upon their information levels and the design and implementation of municipal regulations.

Section four analyses the responses to a business survey conducted with 247 SMEs throughout the five municipalities. Particular attention is given to SMEs' perceptions of the municipalities' capacity to manage the local economy efficiently, their impact on SMEs' operations, the quality of relations with municipal structures, and the type of support that SMEs' feel they should receive from municipalities. Additionally, the analysis addresses SMEs' potential to contribute to local economic growth through the formation of business associations, analysing SMEs' participation, knowledge, and perceptions of local and national business associations.

The report concludes with a summary of the key findings and the elaboration of substantive recommendations to the municipalities based upon these findings.

1. SMEs in the Newly Decentralised Municipalities

This section will outline the current business environment in the five newly established municipalities, focussing upon the scale and characteristics of the economy and the SMEs that operate within it. This report defines SMEs in the context of Kosovo, with a micro-enterprise having up to 9 employees, a small enterprise between 10 and 49 employees, and a medium enterprise between 50 and 249 employees.

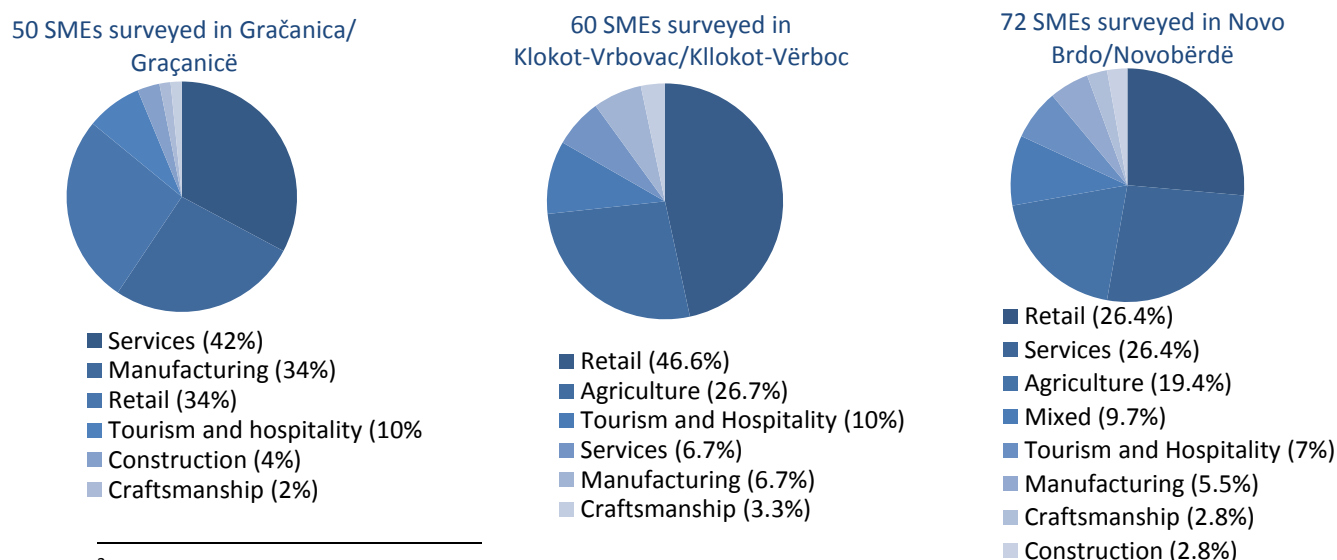
The newly established municipalities are characterised by small populations, with Gračanica/Gračanicë at around twenty thousand, Novo Brdo/Novobërdë around ten thousand, and the other three municipalities at around five thousand inhabitants. The nature of the local economy in these municipalities is reflected in the size of the SMEs that operate within them, with the majority being small-scale shops, service providers, and agricultural enterprises, a large proportion of which are family owned and located in or close to family homes.

Municipality	Gračanica /Graçanicë	Klokot/Klllokot	Novo Brdo/Novobërdë	Parteš/Partesh	Ranilug/Ranillug
Total Population	23,050	5,050	9,670	5,217	5,800

Table 1: Population figures for each municipality²

In order to contextualise the business environment discussed in this report it is important to delineate the nature of the businesses in question. The majority of businesses categorised as Small and Medium Enterprises (SMEs) are small enterprises and some can be considered to be micro enterprises. The chart below (Chart 1) illustrates the sectors of the economy which SMEs in the newly decentralised municipalities operate within. The sectors of services, retail, agriculture, and tourism and hospitality are the most prominent, with Gračanica/Gračanicë being the exception as it features a larger manufacturing sector, mostly due to the geographical proximity with the Prishtinë/Priština region.

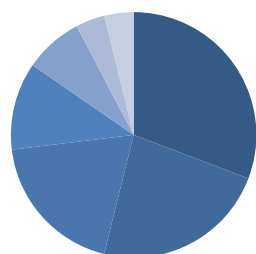
Chart 1: Sectors in which SMEs operate in the five newly decentralised municipalities.



² OSCE Municipal Profiles, November 2011, available at <http://www.osce.org/kosovo/43753>

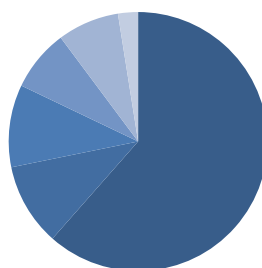
Chart 1 (Continued): Sectors in which SMEs operate in the five newly decentralised municipalities

26 SMEs surveyed in Parteš-Pasjane/Partesh-Pasjan



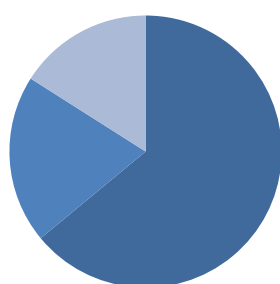
- Services (30.77%)
- Retail (23.1%)
- Tourism and Hospitality (19.2%)
- Manufacturing (11.54%)
- Agriculture (7.7%)
- Construction (3.85%)
- Craftsmanship (3.84%)

39 SMEs surveyed in Ranilug/Ranillug



- Retail (61.5%)
- Tourism and Hospitality (10.3%)
- Craftsmanship (10.3%)
- Services (7.7%)
- Mixed (7.7%)
- Agriculture (2.5%)

In terms of size of annual turnover, the business survey could only acquire substantive data on those SMEs operating in Gračanica/Gračanicë. The majority of businesses in this municipality have an annual turnover of between 1,000 and 3,000 Euros, and it is clear that this finding of businesses with low annual turnovers is representative of SMEs operating throughout the newly decentralised municipalities, as a consequence of the small-scale nature of business operations and limited market access.



- €1,000 - €3,000 (64%)
- €5,000 - €10,000 (20%)
- >€30,000 (16%)

Chart 2: Estimated annual financial turnover of SMEs Gračanica/Gračanicë

As the majority of SMEs in the newly decentralised municipalities are small-scale family businesses operating in a small local economy, they only employ between one and five people, with a small minority employing up to fifty people. Table 1 illustrates the size of SMEs in terms of their employees in Gračanica/Gračanicë and Klokot/Klllokot and these figures are representative of SMEs staff levels throughout the five municipalities.

Table 2: Number of employees in SMEs in Gračanica/Graçanicë (left) and Klokot/Klllokot (right)

Number of employees	1 – 5	6 – 10	11 – 50	Number of employees	1 – 5	11 – 50	>150
% of SMEs	68%	16%	16%	% of SMEs	76.7%	5%	3.3%

Tables 2 and 3 demonstrate data on creating new positions in Gračanica/Graçanicë and Klokot/Klllokot and the trends seen here are representative of all five municipalities. The data shows that in the previous twelve months the majority of businesses employed between one and four new employees, and a significant number of SMEs did not make any new appointments in this period. This suggests that while the SMEs in question are not demonstrating strong signs of growth in absolute terms, there is some growth in relative terms for the SMEs that employ between one and five people in total and created between one and four additional positions in the previous twelve months.

Table 3: Number of employees hired by SMEs in Gračanica/Graçanicë over the last 12 months

Number of employees hired	0	1 – 4	5 – 8	9 – 12	> 12
% of SMEs	24%	66%	2%	6%	2%

Table 4: Number of employees hired by SMEs in Klokot/Klllokot over the last 12 months

Number of employees hired	0	1 – 4	5 – 8	9 – 12	> 12	No data
% of SMEs	28.3%	28.3%	6.7%	3.3%	3.3%	30.1%

In addition to operating in a small local economy, another significant factor for the SMEs' low annual turnover and low number of employees is a limited market reach beyond the municipality in which they are based. Table 4 illustrates where SMEs based in Gračanica/Graçanicë trade their goods and services, and is representative of the situation throughout all five municipalities. The data shows that the majority of SMEs are restricted to highly localised markets. Moreover, of the few SMEs which access markets outside of their own municipality, this business takes place in the Prishtinë/Priština region, which is the closest neighbouring area. An insignificant amount of SMEs operate Kosovo-wide and none currently operate outside of Kosovo.

Table 5: Sample of overview of market reach of SMEs surveyed in Gračanica/Graçanicë

% of SMEs	% of products and services sold:			
	In Gračanica/Graçanicë	In Prishtinë/Priština region	Elsewhere in Kosovo	Outside Kosovo
68%	100%	0%	0%	0%
2%	95%	5%	0%	0%
2%	90%	10%	0%	0%
2%	75%	20%	5%	0%
2%	50%	50%	0%	0%
2%	50%	30%	20%	0%
2%	30%	70%	0%	0%

Despite the current business environment not being conducive to growth, the overwhelming majority (96%) of the SMEs surveyed stated that they wish to expand their business. The following table (Table 6) lists the factors which SME operators in Gračanica/Gračanicë perceive as the strongest obstacles to achieving this growth, and is representative of SMEs throughout the newly decentralised municipalities. In response to each factor, a ranking of zero signifies a factor which SMEs feel not to be an obstacle to growth, and a ranking of five represents a factor they believe to be a strong obstacle to growth. The results show that the four issues most frequently ranked as a strong obstacle to growth are the general economic situation, domestic competition, high interest rates, and high labour costs. A shortage of skilled labour divided opinion as one quarter ranked this issue at three, one quarter at five, and another quarter at zero. The majority of SMEs ranked all of the other issues at one or two, with no issue achieving a majority of zero, suggesting that all of the issues listed are considered to have a negative impact on growth to some extent.

Table 6: Ranking by SMEs in Gračanica/Gračanicë of main factors hindering expansion of their business activities

Ranking	General economic situation	Small market	Distance to market space	Foreign competition	Domestic competition	Unfavourable taxation policies	High interest rates	Unavailability of funds	High labour costs	Shortage of skilled labour	Unavailability of land and facilities	Utility costs	Government bureaucracy and legislation	Attitude of local administration
5	54%	12%	12%	6%	54%	12%	62%	24%	54%	24%	2%	2%	0%	4%
4	24%	6%	6%	2%	10%	8%	10%	2%	10%	4%	2%	2%	2%	4%
3	2%	20%	6%	2%	8%	16%	2%	14%	4%	26%	0%	14%	18%	4%
2	6%	10%	16%	0%	2%	30%	2%	6%	4%	10%	10%	30%	40%	38%
1	8%	26%	34%	76%	10%	24%	12%	40%	6%	12%	58%	28%	20%	22%
0	6%	26%	26%	14%	16%	10%	12%	14%	22%	24%	28%	24%	20%	28%

Aside from the factors that are perceived to be the most significant in hindering growth, an important finding from this table is the SMEs' responses with regard to the attitude of the local administration. The majority of SMEs ranked this at between 0 and 2 in terms of significance, however as this report will demonstrate there are significant shortcomings in the way in which municipalities manage the local economy. It is important to make the distinction between the attitude and the capacity of the local administration. This positive response the local administration's attitude reflects good relations between municipal officials and SMEs, however this is not a comment on the capacity of the municipalities to manage the local economy in an efficient way and foster growth through policy implementation.

2. Central-Level Legal Framework

This section provides an overview of the legal framework directly and indirectly related to SMEs and local economic development in Kosovo. It begins with the economic principles defined by the Constitution of the Republic of Kosovo and continues with the relevant primary legislation, identifying shortcomings and assessing the level of understanding and implementation of this framework at the municipal level.

2.1 Constitution of the Republic of Kosovo

The Constitution of the Republic of Kosovo defines the market economy as one of the core values of the State, operating within the framework of a market economy with free competition as the basis of the economic order.³ Article 119 of the Constitution establishes the general principles of economic relations in the country, binding Kosovo to ensure a favourable legal environment for the functioning of a market economy and freedom of economic activity, safeguard private and public property, guarantee equal rights for all domestic and foreign investors, encourage competition, guarantee consumer protection, and ensure tax obligations are met. Moreover, the State must ensure that fundamental principles of the free market and public interest are respected through independent market regulators and by exercising a public ownership function over any enterprise that operates in the public interest, with the view to maximizing their long-term value.⁴ Fiscal policies at all levels of government should be compatible with conditions for sustainable economic growth and employment creation, and allow the people of the Republic of Kosovo to enjoy natural resources in accordance with the law, international agreements, and economic standards. The Constitution also allows foreign natural persons and organisations to own immovable property within reasonable conditions set out by the law, including through concession and other similar rights to exploit publically-owned resources.⁵ As there is a significantly decentralised governance system in Kosovo, the relevant central-level institutions must provide guidance so that local authorities may execute economic policy that meets these constitutional requirements.

2.2 Laws relevant to local economic development

In order to ensure compliance with, and implementation and enforcement of these constitutional principles of market economy, the Republic of Kosovo has promulgated a number of laws, three of which are of greatest significance to the municipalities' role in local economic development: the Law on Support to Small and Medium Enterprises; the Law on Local Self Government; and the Law on Taxes on Immovable Property.

³ *Constitution of the Republic of Kosovo*, Art 7(1) and 10(1), available at <http://www.kuvendikosoves.org/common/docs/Constitution1%20of%20the%20Republic%20of%20Kosovo.pdf>

⁴ *Ibid*, Article 119

⁵ *Ibid*, Article 121(1) and 121(2)

2.2.1 Law on Support to Small and Medium Enterprises

The latest amendment to the Law on Support to Small and Medium Enterprises adopted in 2008⁶ delineates three categories of enterprises:

- **Micro-enterprise:** Employs up to 9 workers;
- **Small enterprise:** Employs between 10 and 49 workers;
- **Medium enterprise:** Employs from 50 to 249 workers.

There are shortcomings with regard to this law, primarily that the definition of an SME is based only on the number of employees and not on the total financial turnover of the enterprise. Such a difference between micro, small, and medium enterprises needs to be reflected in the relevant municipal legislation, and needs to be based on fair and transparent criteria.

The original law establishes the Agency for Support to Small and Medium Enterprises, within the Ministry of Trade and Industry, to support SMEs through various mechanisms: access to loans and credits; compiling, analysing and disseminating statistics and other useful information on the economic and commercial environment; private sector investment; preventing and reducing barriers to business; opening trading opportunities outside of the country; creating policies and legislative instruments to provide SMEs with more flexible employee legislation; facilitating communication between SMEs, larger enterprises, and other relevant private professionals to enhance capacities and expertise⁷; developing entrepreneur training and consultation schemes; developing business incubators; and developing SME support programmes and schemes.⁸

Notwithstanding, the article of the Law on Support to Small and Medium Enterprises in which these provisions are set states that they are only to be executed depending on the resources available⁹. There is no clear definition of what this means and it is therefore open to interpretation. Although resources may be an issue for the Agency to carry out such extensive tasks systematically, it needs to be granted the legal responsibility to at least initiate and provide for the overall coordination of the process to establish consultation mechanisms involving the relevant municipal structures, local civil society organisations, SMEs, and the establishment of local business associations in order to develop the types of programmes prescribed by the law.

⁶ Law No. 03/L-031 on Amendment and Supplementation of the Law No. 02/L-5 on Supporting the Small and Medium Enterprises, Article 3, available at http://www.kuvendikosoves.org/common/docs/ligjet/2008_03-L-031_en.pdf

⁷ Law No. 02/L-5 on Supporting the Small and Medium Enterprises, Article 5, available at http://www.kuvendikosoves.org/common/docs/ligjet/2005_02-L5_en.pdf

⁸ Law No. 03/L-031 on Amendment and Supplementation of the Law No. 02/L-5 on Supporting the Small and Medium Enterprises, Article 5, available at http://www.kuvendikosoves.org/common/docs/ligjet/2008_03-L-031_en.pdf

⁹ Law No. 02/L-5 on Supporting the Small and Medium Enterprises, Article 5, available at http://www.kuvendikosoves.org/common/docs/ligjet/2005_02-L5_en.pdf

2.2.2 Law on Local Self Government

Both the Municipal Assembly and Mayor have the right to endorse and implement measures that can influence local economic development.¹⁰ The municipality regulates private and public enterprises and may own and manage any company that is of interest to the municipality. The municipality can exercise three types of competencies:

- i) **Own competencies:** The municipality has full and executive powers and finances for local economic development policy, in addition to policy areas that have an indirect impact on local economic development.
- ii) **Delegated competencies:** Central government may delegate additional competencies and provide relevant funding to the municipalities for other economic policy processes.¹¹
- iii) **Enhanced competencies:** Some municipalities have enhanced competences in the areas of health, education, and cultural affairs,¹² such as registration and licensing, recruitment, payment of salaries, and training of personnel¹³. All municipalities in which the Kosovo Serb community constitutes the majority can exercise responsibility for their cultural affairs.

Finally, this law obliges municipalities to establish effective public information and consultation mechanisms,¹⁴ with a view to both improve transparency of local governance and enable citizens' participation in decision-making at this level. When it comes to the areas of SMEs and local economic development, the relevant municipal legislation needs to establish mechanisms to ensure continuous and systematic consultations with local business communities.

2.2.3 Law on Taxes on Immovable Property

The municipality sets the tax rate for SMEs depending on the type of property that the SME is using, and the rate of tax for commercial and industrial property can be double that of inhabited property¹⁵. The municipality must maintain a municipal property tax database, and SMEs are obliged to register onto this database. Using this data the municipalities will determine the market value of a property according to the Ministry of Finance uniform valuation standard¹⁶, and update this every three to five years, or immediately if there is significant refurbishment¹⁷ or damage¹⁸. The Ministry of Finance authorises

¹⁰ Law No. 03/L-040 on Local Self Government, Article 11, available at http://www.kuvendikosoves.org/common/docs/ligjet/2008_03-L040_en.pdf

¹¹ Ibid, Article 18

¹² Ibid, Article 19

¹³ Ibid, Article 20

¹⁴ Ibid, Article 68

¹⁵ Law No. 03/L-204 on Taxes of Immovable Property, Article 8.1, available at <http://www.kuvendikosoves.org/common/docs/ligjet/2010-204-eng.pdf>

¹⁶ Ibid, Article 13.1

¹⁷ Ibid, Article 13.5

¹⁸ Ibid, Article 13.6

municipalities to issue property tax bills for each fiscal year and the Municipal Directors of Finance and Economy appoint municipal tax collectors to enforce the collection of the property tax. The business may request a review of the tax bill by the Municipal Board for Tax Complaints on Immovable Property within thirty days of its receipt if it claims that errors were made.¹⁹

2.2.4 Additional laws

There are several other laws which legislate the way in which municipalities interact with the business environment and manage the local economy:

- **Law on Local Government Finance:** Provides for autonomous regulation and management of revenues from licenses and fines, and from rent paid by organisations that use municipal property.
- **Law on Business Organisations:** SMEs are responsible for identifying, applying, and obtaining a license or permit from the Municipality²⁰, and Municipalities must ensure that SMEs fulfil all of the legal criteria for obtaining the licence and are registered with the Kosovo Business Registration Agency (KBRA) within the Ministry of Trade and Industry²¹.
- **Law on Market Inspectorate and Inspective Supervision:** The Market Inspectorate has the competence to inspect the quality and standards of SMEs' goods and services.
- **Law on Consumer Protection:** Municipal and central inspectors are mandated to ensure the protection of health, environmental and economic interests of consumers.²²
- **Law on Internal Trade:** If the municipal authority has not issued a licence to an SME despite fulfilling the conditions, the Inspector of the Ministry of Trade and Industry has the right to order the Municipality to issue the licence²³, and the power to itself issue a valid working licence²⁴.

Several shortcomings have been identified with regard to these central-level legal acts. It is not explicitly clear to the five new municipalities the exact objectives of each law, and there is also a lack of clarity as to the scope of their application by the municipalities. There is also a deficit of understanding in terms of the municipal structures' responsibilities within this legal framework, as there is no explicit delineation of what each structure must do to implement the legal framework. Dialogue with municipal officials found that the municipalities are unable to enumerate the specific measures they have undertaken to implement, enforce, and comply with each of these centrally prescribed laws.

¹⁹ Ibid, Article 22.1 and 22.2

²⁰ Law No. 02/L-123 on Business Organizations, Article 5.4, available at http://www.kuvendikosoves.org/common/docs/ligjet/2007_02-L123_en.pdf

²¹ Ibid, Article 5.5

²² Law on Consumer Protection, Article 37, available at: http://www.assembly-kosova.org/common/docs/ligjet/2004_17_en.pdf

²³ Law No. 2004/18 on Internal Trade, Article 38.6, available at: http://www.assembly-kosova.org/common/docs/ligjet/2004_18_en.pdf

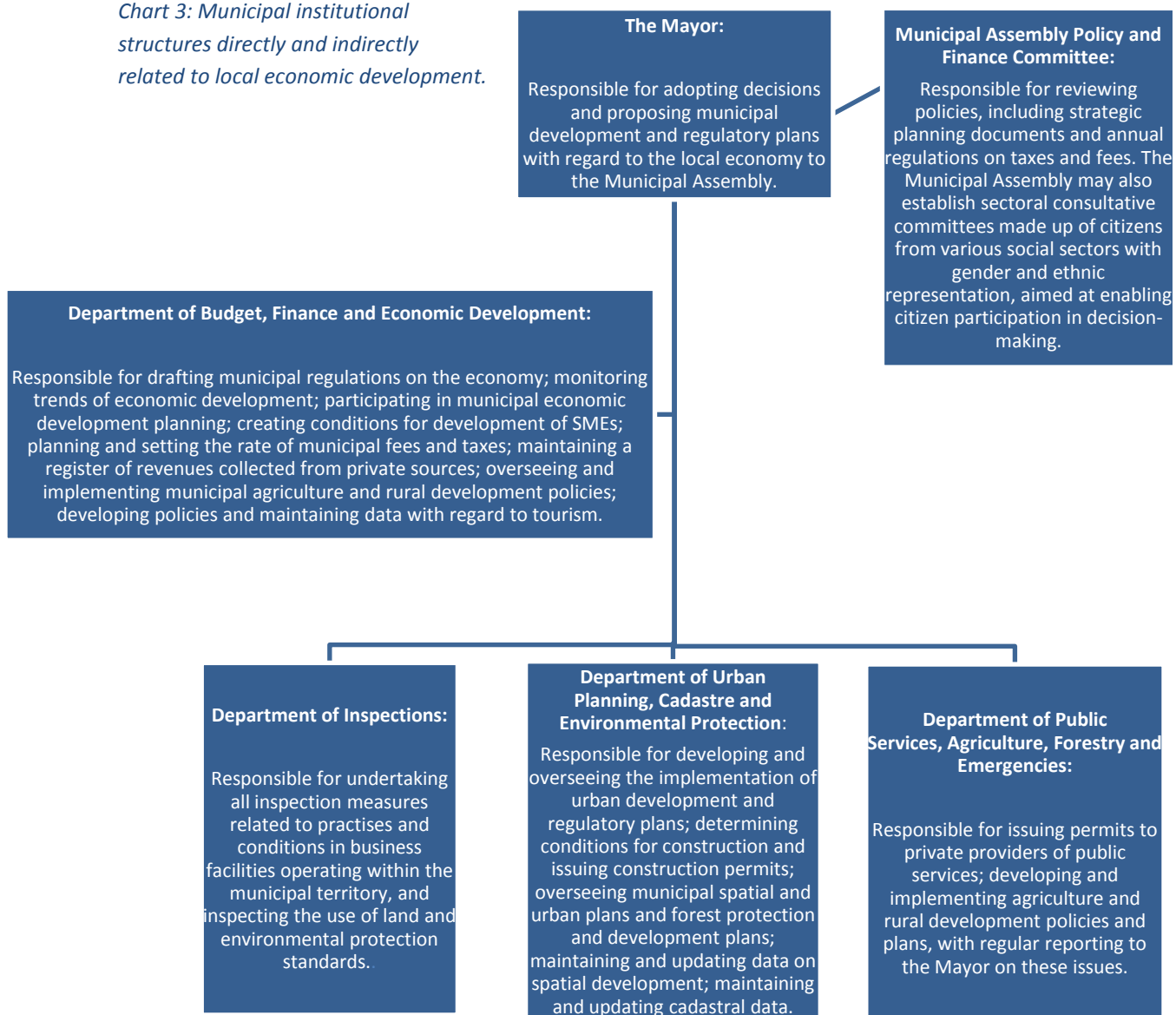
²⁴ Ibid, Article 38.7

3. Municipalities' Role in the Local Economy

Municipalities possess legal responsibility for managing and developing the local economy as part of their *own competencies*, and must implement central level legislation and design and implement regulation and policies to support SMEs. This section outlines the various municipal structures directly and indirectly related to the local economy and their respective responsibilities, and issues with regard to each structure. This is followed by a discussion on how municipalities manage the economy through the design and implementation of regulations, and finally addressing the lack of information available to municipalities in order to manage and develop the local economy.

3.1 Relevant municipal structures

Chart 3: Municipal institutional structures directly and indirectly related to local economic development.



As can be seen, there is a relatively broad institutional framework related to the areas of SMEs and local economic development. However, several challenges to their effective functioning remain in all new municipalities. First, the responsibilities of the Policy and Finance Committee are formulated in general terms and are very limited in scope. The article of the statute that defines the Committee's terms of reference does not establish any responsibility when it comes to developing and implementing consultation mechanisms with local stakeholders, communities, and individual citizens with regard to SMEs and local economic development. This means that the primary mechanism for consultation between the municipality and the business community is extremely limited.

Each municipal structure's role in monitoring trends in the local economy and developing municipal economic regulations and policy is not clear. This lack of clarity is reflected at the level of local regulations, policy planning documents, and monitoring and evaluation mechanisms, and is most evident in the significant overlap of responsibilities between the departments of Budget, Finance and Economic Development and those of Agriculture and Rural Development in relation to local agriculture and rural development plans.

In Gračanica/Gračanicë, Klokot/Kllokot, and Novo Brdo/Novobërdë, where a Department of Budget, Finance and Economic Development has been established, its duties and responsibilities are not set out in standardised and detailed terms of reference, therefore the department has no clear legal basis. The municipalities of Parteš-Pasjane/Partesh-Pasjan and Ranilug/Ranillug have not yet established a Department of Budget, Finance and Economic Development and in lieu of this there is just one official within the broader Department of Finance responsible for local economic policy, and this role does not have specific terms of reference.

Within the Department of Budget, Finance and Economic Development in the three municipalities that have established one, there are not standardised and detailed job descriptions for each staff member, with employees' duties, reporting responsibilities, accountability benchmarks, and performance evaluation procedures not set out in detail. This is also the case with regard to the officials responsible for the entire process of managing the local economy in the municipalities that have not yet established a Department of Budget, Finance and Economic Development.

In municipalities which have established a Department of Inspection, the terms of reference are very brief, with no job descriptions and standardised reporting responsibilities in place. In municipalities which have not established a Department of Inspection, inspection services consist of market inspectors who do not have terms of reference or job descriptions, and do not have the capacity to implement inspection services due to a lack of resources.

Finally, with regard to synergistic operations between municipalities, the provision on inter-municipal cooperation and partnership of the statute of each municipality does not identify specific areas related to SMEs and local economic development. Furthermore, there are no mechanisms and tools to identify opportunities for synergy at the level of both local policy planning and implementation.

3.2 Municipal regulatory policy

Each municipality implements municipal regulations directly related to local economic development and SMEs. The design and implementation is instructive as to the will and capacity of municipalities with regard to local economic development as these are not centrally dictated but the municipalities have decentralised control of the systems of regulation. While Parteš-Pasjane/Partesh-Pasjan and Ranilug/Ranillug have not yet implemented any local economic regulation, there is regulation present in Gračanica/Gračanicë, Klokot/Kllokot, and Novo Brdo/Novobërdë, and these regulations can be categorised as follows:

Regulation on municipal taxes, tariffs and fines: Sets out the amount of municipal taxes to physical and legal entities, the methods of calculating them, timelines of payment, inspections, records, as well as provisions related to appeals and other related services.

Regulation on permits for business activities: Establishes the obligation of business entities to possess business permits, conditions and procedures for issuing such permits, responsibilities for their enforcement, inspection and penalties for businesses not complying with its requirements, and complaints procedures.

Regulation on minimal hygienic, technical and sanitary conditions in working premises, facilities, equipment, safety at work, and environmental protection: Establishes minimal hygienic, technical and sanitary conditions, as well as those related to occupational safety and environmental protection that must be met by all business entities operating within the municipal territory. It also sets out administrative and monitoring measures and penalties against entities not complying with the respective provisions.

Regulation on setting the working hours of economic entities performing business activities: Sets daily working hours for business entities operating within the municipal territory, variables include the type of business, type of products or services provided, and noise levels. An extension to working hours may be requested in exchange for an additional tax.

When analysing these regulations, there are general issues of clarity with regard to procedures. First, on taxes, tariffs and fines there are no uniform and transparent criteria for determining the level of tax an SME must pay, nor are there clear guidelines as to how tax violations are detected by the municipality, or how an SME may appeal against a tax decision. With regard to inspections there are no specific obligations set out for the municipal bodies to carry out inspections, nor are there standardised procedures for inspections when they take place. Finally, regulations on working hours granted to different types of business entities lack clear and transparent criteria.

There are also issues of equity in regulations as tax rates are based upon the presumed market value of each category of business and do not take into account the business in question's financial turnover.

Moreover, the cost of obtaining business licences and additional payments to extend opening hours are set at a flat rate which is detrimental to smaller businesses and does not promote competition in the local economy.

3.3 Information collection and dissemination

In order to manage the local economy and implement both central-level laws and municipal regulations, the municipality must execute various mechanisms dependent on a strong informational capacity. There are however numerous shortcomings in municipalities' information levels which means these mechanisms for managing the local economy are extremely limited.

In terms of managing the local economy through implementing municipal regulations on taxation, licences and permits, and inspection, municipalities have limited functions due to a lack of information. With regard to tax collection SMEs are obliged to pay both central-level and municipal level taxes yet municipalities do not possess complete data on the types or rates of these two taxes. Furthermore municipalities possess little data on the level of tax compliance (in absolute or relative terms) or the overall amount of financial means they receive from SME taxes annually. Municipalities also possess little information in relation to the procedures of issuing municipal permits and licences, with a lack of information on the procedure of issuance, the duration of the permit or license, the cost of the permit or license, or the number of SMEs that have acquired them. Finally in terms of inspections municipalities have little information on the types of inspections that are required to be carried out and the prescribed procedures and frequency of such inspections.

In addition to these procedural shortcomings, the municipalities do not have the capacity to fulfil their legal obligation to support SMEs and develop the local economy through strategic multiannual policy documents delineating objectives and activities for economic growth. Municipalities do not currently possess complete and detailed information on the local economy as they lack information on the number, size, turnover, and economic activity of SMEs operating within their territory. They also lack important demographic data such as the geographic distribution, age, gender, and ethnic structure of the population living in their territory, and information on the number and structure (age, gender, community, sector of economy, educational profile) of both the employed and unemployed sections of the local population. Moreover the municipalities lack more holistic information related to the wider economy such as that on utilities and infrastructure, state-owned enterprises, natural resources, cultural heritage resources, and external capital investments.

A lack of understanding and information is one of the key findings with regard to the municipalities, and this issue persists throughout the legislative, regulatory, and policy framework. This is manifested in a lack of clarity as to which institutional structures are responsible for implementing legislation and the way in which this is achieved, and in some cases the required institutions are not yet established. This lack of information also reduces the capacity of municipal institutions to design and implement effective regulation, and develop policy on the local economy, therefore it is clear that municipal institutions

need to develop a comprehensive informational infrastructure and efficiently functioning tools to collect information in order to manage and develop the local economy.

4. SMEs' Perceptions on Economic Development

This section analyses the results of the business survey in which a total of 247 SMEs (50 in Gračanica/Gračanicë; 60 in Klokot/Kllokot; 72 in Novo Brdo/Novobërdë; 26 in Parteš-Pasjane/Partesh-Pasjan; 39 in Ranilug/Ranillug) were questioned as to their perceptions on local economic development. The analysis begins with SMEs' perceptions on the business environment in which they operate, focusing on their perceptions of the way in which the municipality manages the local economy. The analysis interrogates the challenges and opportunities this presents in terms of SMEs' perceptions of the municipalities' capacity to manage the local economy and their relations with those municipal structures. The section goes on to examine the potential for multilateral local economic development in terms of SMEs' potential to contribute to the process through local and national business associations.

4.1 SMEs' perceptions of the municipalities

When analysing the needs of SMEs in newly decentralised municipalities, the survey sought to establish the main factors that SME operators feel are challenges to the operation of their businesses and hinder their potential growth.

Table 7: Assessment of SMEs in Novo Brdo/Novobërdë on challenges, related to other factors, to their operation and growth

Factors	Completely Insignificant	Quite insignificant	Somewhat significant	Significant	Very significant	No opinion
Customs and trade regulations	8%	3%	14%	36%	26%	13%
Availability of efficient business support services	0%	2%	0%	22%	65%	11%
Access to and costs of obtaining business support funding	0%	1%	2%	19%	68%	10%
Attitude of local and central administration	0%	1%	6%	21%	61%	11%
Corruption	6%	0%	0%	18%	64%	12%

Table 7 illustrates results from SMEs in Novo Brdo/Novobërdë, and these results are the most extreme representation of the trend apparent across all five municipalities. This trend shows that each factor related to the municipalities' management of the local economy is seen as a significant factor impacting upon SMEs operation and growth. This is an important issue when addressing local economic development as it is clear that through improvements in the municipalities' management of the local economy, several factors which SMEs consider to be significant challenges to their operation and growth can be ameliorated.

Exploring this relationship between SMEs and the municipalities, the business survey questioned the main factors through which the local government administration could potentially become burdensome

to businesses. The following table (Table 8) illustrates these findings and is representative of all five municipalities.

Table 8: Sample of assessment of SMEs in Novo Brdo/Novobërdë on how burdensome the influence of local government administration can be to their businesses

Factors	Assessment					
	Not burdensome	Quite burdensome	Somewhat burdensome	Very burdensome	Extremely burdensome	No opinion
Rules and regulations change too often	27%	1%	26%	10%	8%	28%
Rules are complex and too hard to comply with	26%	3%	13%	13%	15%	30%
Lack of clear regulations in some areas	25%	1%	8%	28%	8%	30%
Requirements are unpredictable and depend on individual officials	28%	3%	10%	21%	11%	27%
Too much time is spend in dealing with authorities	31%	3%	21%	10%	8%	27%
Costs are too high and unpredictable	21%	7%	0%	27%	22%	23%
Use of Municipal power in unfair competition	19%	4%	21%	13%	13%	30%

The results show that the around a quarter of SMEs rated the municipality as very burdensome or extremely burdensome with regard to almost every factor in their relationship with SMEs, however a similar amount responded that the municipality was not burdensome at all. This can be cautiously interpreted as a bifurcation between the SMEs operating within the institutional framework and those operating outside of this framework. The results suggest that those within the framework find the municipality burdensome due to its deficiencies, and those operating without the framework do not find the municipality burdensome as they have no contact with these structures. It is also striking that around thirty per cent of respondents claim to have no opinion, and this clear lack of information among SMEs adds further caution to drawing strong conclusion from this data. This theme of SMEs operating within and without the institutional structure represents two areas for development; first the municipalities need to work to include those SMEs operating outside of the institutional framework through integration into the system of taxation and licensing, and second the municipality must improve the way in which it manages the local economy in order to address the concerns of those SMEs that already operate within the institutional framework.

In addition to engaging SMEs in dialogue with regard to the municipalities' capacity to manage the local economy, the survey questioned SMEs as to the current state of their relations with municipal officials. Table 9 demonstrates the results from Gračanica/Graçanicë, with a strong trend towards good and very good relations with the various municipal authorities listed in the survey. The results from Gračanica/Graçanicë represent the most positive results in terms of these relations, however they are representative of a trend that is common throughout all five municipalities.

Table 9: Assessment of SMEs in Gračanica/Gračaničë on their relations with relevant municipal authorities in relation to their business operation and development

Municipal structures	Assessment				
	Poor	Somewhat good	Good	Very good	No opinion
Mayor	0%	2%	34%	48%	16%
Municipal Assembly	2%	2%	36%	52%	8%
Municipal department responsible for finance and economy	0%	10%	56%	24%	10%
Municipal department responsible for inspection	0%	12%	60%	16%	12%
Municipal department responsible for cadastre and urbanism	2%	6%	62%	18%	12%

The results demonstrate that although one quarter of SMEs feel that the municipality is burdensome to their business and one quarter have little contact with the municipal authorities on an official basis, the majority feel that relations are good. This is not to be confused with SMEs' opinions toward municipal officials' capacities and the efficiency with which they manage the economy, which is more negative. These results are positive in that they represent a platform for dialogue between SMEs and the municipalities, however the SMEs' perceptions of municipalities' capacity is of greater significance than the state of their relations.

Addressing the process of achieving economic growth, SMEs were questioned as to how they feel the municipality may best assist them to strengthen their business and the business environment in which they operate. Table 10 demonstrates results from Novo Brdo/Novobërdë and is representative of results from all five municipalities in which financial assistance and greater access to capital are the most common response to the question of economic growth.

Table 10: Opinions of SMEs in Novo Brdo/Novobërdë on how Municipal authorities could support them in business development

Provision of training and expertise	Improvement of implementation of procedures	Provision of information	Improvement of infrastructure	Provision of Incentives through local tax policies	Subsidies or a local SME development fund
10%	8%	23%	9%	18%	32%

SMEs throughout the five municipalities believe the municipality can best assist them through loans at zero-interest and other direct financial support from the municipal budget. However municipal budgets will not allow for this type of financial assistance foreseen by the SMEs, and furthermore it is not within municipalities capacities or mandates to provide this type of assistance. Municipalities do not have the capacity to implement means testing procedures for business loans and credit, and there are not provisions for direct financial assistance in the legislative framework, as providing SMEs with access to loans and credit falls under the mandate of the central Agency for Support to Small and Medium Enterprise within the Ministry of Trade and Industry²⁵. These unrealistic expectations with regard to

²⁵ Law No. 02/L-5 on Supporting the Small and Medium Enterprises, Article 5, available at http://www.kuvendikosoves.org/common/docs/ligjet/2005_02-L5_en.pdf

access to capital demonstrate the lack of clarity within municipal structures, and the lack of information on these structures available to SMEs. It is clear that there is a need to work with SMEs to elucidate the potential benefits of other methods of cooperation with the municipality beyond the provision of capital. Municipalities can contribute to SMEs' growth through improving regulatory mechanisms such as tax collection and licensing, and by providing SMEs with a greater level of information on these processes and information on the wider economy, such as opportunities for greater market access and channels through which they may acquire credits and loans.

4.2 Business associations

As part of a multilateral approach to local economic development, the implementation of business associations is an important channel through which SMEs can themselves contribute to local economic development. When questioned on their knowledge and perceptions of business associations, the survey found a significant lack of awareness of business associations. Table 11 demonstrates results from Klokot/Kllokot and these are representative of the situation in all five municipalities in which very few SMEs are currently members of a national business association, and the overwhelming majority are unaware of the existence of local or national business associations.

In addition to SMEs' knowledge of business associations, SMEs were questioned as to their perceptions of the benefits membership of a business association could offer. Forty-five per cent of SMEs in Klokot/Kllokot responded that membership of a business association would bring benefits to their business, citing opportunities for networking, sharing experience to solve problems in partnership, facilitating greater access to information on the market, the provision of goods, and access to capital as potential benefits. However fifty-five per cent responded that they feel membership of a business association would not be beneficial to their operations. This pattern of around only half of SMEs perceiving business associations to be beneficial is common throughout all five municipalities.

Table 11: SMEs' knowledge and perceptions of business associations (Klokot/Kllokot)

Member of a business association	Not aware of any business association	Aware they exist, but not of their names	Aware they exist and know their names	Business associations are beneficial	Business associations are not beneficial
5%	92%	2%	5%	45%	55%

Moreover when questioned with regard to national level organisations offering business support and a platform for association, SMEs answered that they had no opinion due to a complete lack of information and awareness of their existence, or those that that were aware of these organisations responded that relations with them were poor. Table 12 illustrates this trend with responses from SMEs in Klokot/Kllokot, and is representative of responses from SMEs in all five municipalities.

Table 12: Assessment of SMEs in Klokot/Kllokot on their relations with Kosovo-wide business associations

Business associations	Assessment				
	Poor	Somewhat good	Good	Very good	No opinion
Kosovo Chamber of Commerce	30%	7%	12%	0%	52%
Kosovo Business Alliance	25%	10%	10%	0%	55%

As the majority of SMEs are small or micro businesses and operate with very little assistance from the municipality, the formation of local business associations is an important channel for their development. In forming associations SMEs can go some way to substitute for the lack of municipal capacity to develop the local economy and ameliorate the low levels of information on the economy currently possessed by SMEs throughout all five municipalities. Although around half of the SMEs questioned do not see the benefits of joining a business association, if the forty per cent in favour were to join and received highly visible benefits this would serve to change the opinions of the more sceptical SMEs. The development of business associations at the local level would then facilitate SMEs' access to national level institutions such as the Kosovo Chamber of Commerce. Benefits of this process would be twofold for the local business communities, first this would offer SMEs throughout Kosovo a forum to network, sharing information and increasing market reach, and second if these local associations achieved representation within the Kosovo Chamber of Commerce they would act as a voice for SMEs in decision-making processes on economic issues at the national level. Moreover, it would also benefit to the municipalities by setting-up a unique comprehensive interlocutor to consult when adopting or implementing business relevant measures.

When questioned on local economic processes managed by the municipality, the majority of SMEs responded that these processes presented significant challenges to their operations. This uniformity of opinion changed when SMEs were surveyed directly on the municipalities, with a more equalised set of responses perceiving the municipality to be burdensome, not burdensome, or having no opinion. These results can however be cautiously interpreted as a negative comment on SMEs' capacity to manage the local economy. In terms of relations, the survey found they were good, however SMEs have unrealistic expectations of the ways in which the municipality can assist their business and there needs to be awareness-raising on the range of ways in which the municipality can assist SMEs. In terms of SMEs contributing to local economic development through business associations, these are at an incipient stage with very little membership or awareness of their existence, and a high level of scepticism as to their benefits.

5. Concluding Remarks

The business environment in the five new municipalities of Gračanica/Gračanicë, Klokot/Klllokot, Novo Brdo/Novobërdë, Parteš-Pasjane/Partesh-Pasjan and Ranilug/ Ranillug consists mainly of small and micro enterprises characterised by a low annual turnover, small number of employees, limited market reach, but a desire to expand their operations. There is opportunity for this expansion as economic development is established as a core principle in the Constitution of Kosovo and related central level laws, as well as part of the municipalities' *own competencies* outlined in article 17 of the Law on Local Self-Government. However, several challenges remain for the new municipalities to be able to manage the local economy and promote economic development effectively.

To begin with, there is a lack of awareness on and understanding of the central-level legal framework related to SMEs and local economic development. Several obligations and duties that should be carried out by municipal level institutions have not yet been translated into municipal regulations. Where regulations have been adopted, shortcomings have been frequently identified. As a result, the legal framework related to SMEs and local economic development is still incomplete and deficient at the municipal level.

There is also a lack of clarity on specific functional duties and responsibilities of municipal institutions relevant to SMEs and local economic development, as detailed and standardised terms of reference, job descriptions, and organisational charts are mostly not in place. Municipal institutions also lack adequate capacities to fulfil their assigned duties and responsibilities effectively.

Among others, a key challenge limiting the capacities of the municipalities to design policies aimed at managing the economy and promoting local economic development is the lack of comprehensive and disaggregated data on the local economy and other socio-economic affairs, for example on the number and characteristics of SMEs operating within their jurisdiction. There is also no systematic and effective dialogue between the local business community and the municipal authorities, despite the municipalities' obligation to encourage and ensure citizen participation in local-level decision-making.

With regard to SMEs in the new municipalities, one of the key findings has been their lack of awareness on and understanding of the legal, regulatory, and policy framework of local economic development and the municipal procedures in managing the local economy. This is reflected in their unrealistic expectations of what the municipalities can offer them in terms of assistance, both with regard to their mandated responsibilities and capacities for implementation. However, SMEs' perceptions of their relationship with relevant municipal institutions are mostly positive, which represents a robust foundation for achieving change through greater dialogue and assistance.

Despite the challenges presented by the business environment in the newly decentralised municipalities, SMEs have proved to have ambitions of achieving growth. The establishment of business associations is a potential channel through which this goal could be achieved. However, there is currently very little participation in business associations and a significant lack of awareness of the potential benefits that membership of a business association may bring.

6. Recommendations to the Municipalities

Legal framework:

1. Take active steps to increase the relevant municipal institutions' understanding of the purpose, scope and responsibilities established by the central-level legal framework related to SMEs and economic development.
2. Ensure that duties and responsibilities granted to municipalities by central-level legislation in the areas of SMEs and local economic development are translated into sound municipal regulations.
3. Consider amending current municipal regulations related to SMEs and local economic development to address gaps and deficiencies identified.

Institutional organisation and capacities:

4. Clearly define the duties and responsibilities of municipal institutions relevant to SMEs and local economic development, *inter alia* by developing and adopting detailed and standardised organisational charts, terms of reference and job descriptions for the staff working within these institutions.
5. Conduct a capacity and needs assessment within the relevant institutions and develop annual training plans based upon the findings of such assessment.

Information collection and dissemination:

6. Develop mechanisms and templates for data collection and systematically gather socio-economic information.
7. Provide clear and user-friendly information to SMEs on municipal regulations and other relevant areas.

Relations with the business community:

8. Encourage a systematic and constructive dialogue with the local business community and aim to establish a systematic consultation mechanism.
9. Encourage and facilitate the establishment of multi-ethnic local business associations, and later promote their integration into the Kosovo Chamber of Commerce.