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OD AMERIČKOG NARODA

# Assessment of Economic Conditions and Possible Development Projects in Northern Kosovo

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## EXECUTIVE SUMMARY

**PURPOSE:** USAID/Kosovo requested this assessment to identify opportunities to support economic development and income generation through technical assistance in northern Kosovo with a focus on northern Mitrovica. A two-person team, Michael B. Dan and Lindsey Wellons, visited Kosovo September 10 - 24, 2006 to conduct the assessment. Its two main purposes are to analyze constraints to private sector development, and to identify broad conceptual ideas for USAID to consider as possible projects in the short, medium and long-term.

### FINDINGS

**The economy of northern Kosovo can be described as a “kiosk economy” with high unemployment, dependent on state subsidies, and supplemented by subsistence agriculture.** Unemployment in the four municipalities of northern Kosovo is between 70 to 80 percent. Most residents depend on social transfer payments from Serbia and/or PISG. The public sector accounts for 73 percent of all jobs in northern Mitrovica and Zvecan, while the private sector generates only about 1,600 jobs. In Leposavic, the job situation is similar. Zubin Potok is more agricultural, but the public sector remains the dominant employer. Estimated income per capita was EUR 102 per person in Mitrovica and Zvecan in 2003.

**Social and public enterprises are unlikely to add much to employment in the northern Municipalities in the short term.** The Kosovo Trust Agency has not completed privatization of any of its 43 enterprises, as municipalities are uncooperative. The Trepca mining complex, effectively closed since the late 1990s, still requires clarification of its legal status and would need to be extensively recapitalized, rebuilt and cleaned-up before it could be productive. Even if partly rehabilitated, as a modern complex it would have far fewer employees than previously. As rehabilitation is not likely to occur within the next 3 – 5 years, Trepca is relevant to this assessment mainly in providing opportunities for assisting in site clean up.

**The private sector comprises about 800 registered companies, with 85 percent engaged in trade only, about 10-13 percent in services, and only 1 – 2 percent in productive manufacturing.** Of total registered companies, an estimated 400 – 500 are operational, with many small family firms not actually functioning. Many firms are branches of Serbian companies serving the Kosovo market. Employment is often part time or seasonal especially for construction, road-building and agricultural companies. As such, many of the private companies listed by the OSCE and other authorities provide only minimal and sporadic employment.

**Government and donor support to private business is limited.** There is no significant and coordinated support to businesses by the Serbian Government or the PISG (Provisional Institutions of Self Government). Donor activities include the Danish Refugee Council's (now PISG) vocational training school; a World Relief microfinance institution, and USAID's KCBS project and new IOM and Mercy Corps public works projects. The EU plans a EUR 4 million job grant and TA project.

**Northern Kosovo ranks low in economic development and competitiveness, due mainly to a lack of basic economic foundations that are prerequisites for growth:** inadequate infrastructure; weak technology institutional structures; lack of skills and opportunities to acquire them; limited use of capital for productive investment; and regional insularity.

**Additional constraints to competitiveness specific to northern Kosovo include:** restricted market access to south Kosovo; widespread corruption; extensive smuggling, double taxation and delayed VAT reimbursements for registered companies following the

rules; lack of entrepreneurial initiative; economic distortions due to Serbian subsidies and the UNMIK presence; lack of skilled labor in productive age groups; wait and see attitude to productive investment; political uncertainty.

## **CONCLUSIONS**

**Northern Kosovo's limited economy is not likely to provide an adequate base at this time for firm-level assistance projects that can generate significant new jobs in the short-term.** Relatively few private companies are registered, many are not operational, the great majority engages only in trade, and only about 20 to 25 productive operational private companies actually exist. Improving basic economic foundations remains a pre-requisite for private sector development and attracting productive investment.

**Certain opportunities exist for supporting selected trade and investment initiatives,** despite the region's relatively low level of development and competitiveness, including:

- Retail trade within northern Mitrovica; trade among the four neighboring municipalities; expanded north-south linkages
- Investment in selected agribusiness (horticulture, fisheries, dairy); wood processing; metal working; scrap metal recycling; small-scale mining; car battery recycling plant.

**An appropriate strategy for providing technical assistance in northern Kosovo, given constraints, is to start with small-to-medium scale projects, phasing in assistance as conditions permit:**

- In the short-term, until status is defined, focus on job creation programs (public works infrastructure improvement, agricultural and environmental support) and facilitating north-south trade linkages
- In the medium-term, as political and economic conditions improve, consider more support to improving economic foundations (technical and management training, business development services, university linkages);
- In the longer-term, support industry cluster development in sectors with the strongest potential for growth and eventual export-readiness.

## **RECOMMENDATIONS FOR PROJECT OPTIONS**

**Assumptions and risks** include the assessment that major conflict seems unlikely without major provocation from extremists. Economic risks include a possible decline in subsidies from Belgrade following status, with a sudden drop likely to have an immediate and severe economic impact.

### **SHORT TERM OPTIONS**

1. **Public works / job creation projects:** Subsidized public works (roads, schools, hospitals, health clinics, utilities public transport); Agricultural support (land reclamation, improved irrigation); Environmental support (river pollution clean-up, Trepca tailings clean-up, other site clean ups; Trepca metal recycling)
2. **Provide more support in the short-term to SMEs:** Increase support through KCBS especially to expand north-south business contacts and sales in agribusiness (horticulture, processed foods, dairy, cattle, fish farming) and in construction (road building, building materials)
3. **Support a Multi-Ethnic Business Council and thus promote north-south trade and joint ventures:** Promote matchmaking deals between northern and southern Kosovo, building on the current UNMIK sponsored multi-ethnic group, encouraging sales and purchases of products and services between both northern and southern Mitrovica, and

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northern and southern Kosovo generally. Encourage joint multi-ethnic consortia to bid on donor projects.

#### **MEDIUM- TERM OPTIONS**

4. **Promote public – private outreach:** Inform the public about realistic political/ economic scenarios and instruct new enterprises on “how to do business.” Activities could include: An initial “Roundtable Conference” among private & public sector leaders; a second conference on drafting a private sector strategy; Cooperation with the proposed OSCE Regional Economic Development Agency; Study groups on experience in re-industrialization e.g., the Ruhr Valley, Russia; Overview conferences on strategies as conditions evolve.

5. **Micro-finance support:** With more stability, there should be more motivation to start productive businesses and higher demand for micro credit; USAID could focus on agro processing, and productive lending in general.

6. **Business start-up incubators:** As the environment improves, USAID could consider putting together a fully-fledged business incubator with start up services for new enterprises. Incubators work well to get business ideas off the ground & reduce costs and there is some experience in the region, e.g. Bulgaria.

7. **University linkages:** This is a very flexible project option in terms of costs: at one end, USAID can support student exchanges, support to selected departments of the local university or twinning with an American university; at the other end, USAID can help bring into being a new university, as was done in Tetovo, Macedonia.

8. **Business associations’ support:** Private sector associations are a relatively new phenomenon to northern Kosovo following socialism; recent start-ups have little understanding of appropriate association concepts. USAID should focus on assisting those that best demonstrate commitment to providing practical business services to members. Support might extend beyond current associations to the establishment of, e.g., a local Young Businesspersons’ Association and a local IT/software association. USAID can best support multi-ethnic cooperation through the “Multi-ethnic Business Council” described above

#### **LONGER - TERM OPTIONS**

9. **Additional, longer-term SME sector support:** As more private companies start operating and producing, support through KCBS or new projects should include:

- Business development services to SMEs, both directly through a project, and support for developing private sector BDS providers. BDS services should include business start-up procedures, accounting, credit, management training, marketing, advertising, and export readiness.
- Sectors with potential include: Wood processing / furniture; metalworking, scrap metal recycling; small-scale mining;

10. **Long-term industry cluster development:** Following status and stability, consider major projects on Cluster competitiveness in key sectors focusing on improving competitiveness in areas where N. Kosovo is not competitive at the firm and industry-levels. Also, consider comprehensive competitiveness projects to improve specific WEF rankings of the business environment, e.g., certification, taxation, customs, and standards and metrology projects that can help northern Kosovo businesses implement regional and EU standards.

## I. INTRODUCTION

USAID has been assisting the municipalities of northern Kosovo since 1999. Increasingly, these majority Serb municipalities are facing unique challenges particularly in view of the possibility that the status issues of Kosovo will be resolved by the end of 2006 or shortly thereafter. The economic climate in these municipalities is difficult, with widespread unemployment and low incomes. To better assess how to meet its strategic plan objectives SO1.2 Improved policy and institutional climate for productive investment and SO 1.3 Accelerated growth of the private sector, USAID has requested this review to assess opportunities for USAID to support accelerated economic development and income generation in northern Kosovo with a particular focus on northern Mitrovica.

To review the possibilities for accelerated economic development and income generation in northern Mitrovica, the consultants first reviewed available documents on Mitrovica (see literature listing in Attachment B) and secondly have interviewed a wide range of key public and private sector community leaders in Pristina, northern Mitrovica and the other three northern municipalities (see interview list in attachment A),

Following the scope of work, we have divided this report up into the following four sections:

- (i) Assessment of economic conditions in northern Kosovo.
- (ii) Competitiveness assessment.<sup>1</sup>
- (iii) Identification of possible economic development projects.
- (iv) Prioritization and timing of USAID interventions.

Michael B. Dan, Team Leader, and R. Lindsey Wellons, Private Sector Specialist, undertook this assessment during September 2006 under the direction of Jeff Wuorinen and Jorge Segura, Project Directors. Messrs. Dan and Wellons were in Kosovo from September 10 to 24, 2006.

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<sup>1</sup> In the SOW, the first two sections were combined. Following our interim discussions with the mission, we decided to break out the competitiveness discussion separately.

## II. ASSESSMENT OF ECONOMIC CONDITIONS IN NORTH KOSOVO

### II.1 POPULATION AND PHYSICAL CHARACTERISTICS OF THE FOUR NORTHERN MUNICIPALITIES

The four municipalities comprise 1,539 km<sup>2</sup> and 231 communities, and they all have a solid Serbian majority population, cf. table 1.

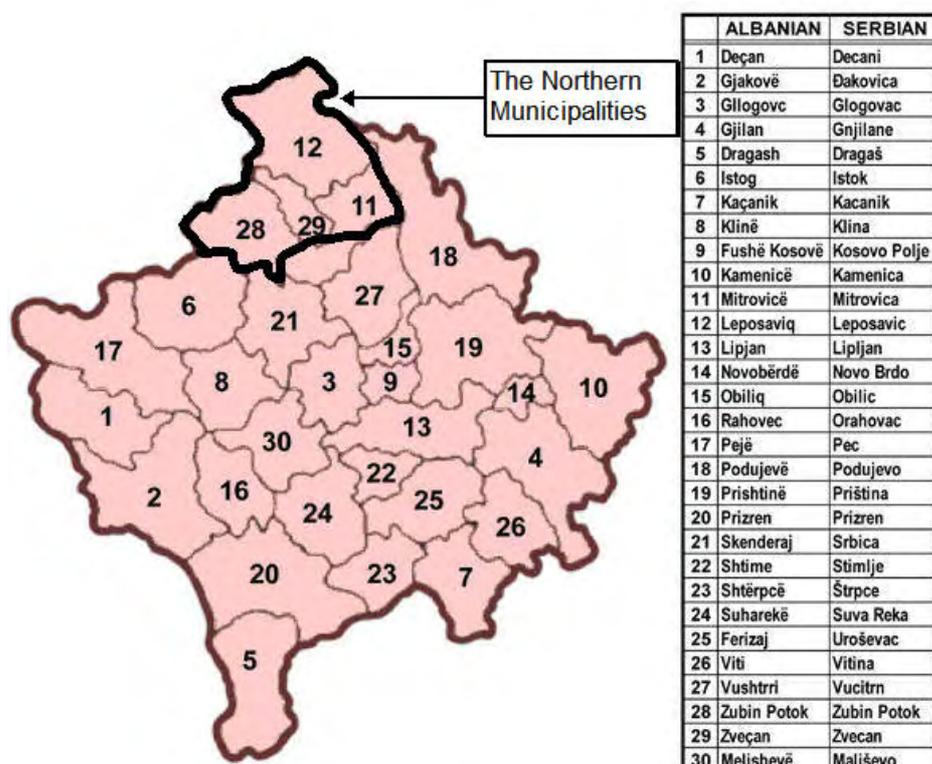
Table 1  
Physical Size, Settlements and Population in the Four Northern Municipalities

Municipality	Size (km <sup>2</sup> )	Villages/ Settlements	Serbs (Persons/Pct)	Others (Persons/Pct)	Total Population (Persons/Pct)
Leposavic	750	72	18,000/97	500/3	18,500/100
North Mitrovica	350	50	17,000/85	3000/15	20,000/100
Zubin Potok	335	64	14,000/94	900/6	14,900/100
Zvečan	104	45	12,050/73	4,550/27	16,600/100
Total	1539	231	61,050/87	8,950/13	70,000/100

Source: OSCE – Municipal Profiles, 2006

The geographical location of the four northern municipalities is shown in Figure 1. The municipalities border directly on Serbia.

Figure 2<sup>2</sup>  
The Northern Municipalities



<sup>2</sup> Tables and figures are numbered as one category.

Note: The Municipality of Mitrovica is divided between a de-facto northern (Serb-Kosovar) and de-facto southern (Albanian-Kosovar) part.

Source: UNMIK, Report Writers' Analysis

## II.2 POLITICAL STRUCTURE

UNMIK administers northern Kosovo including northern Mitrovica. In general, the PISG (the Provisional Institutions of Government) have little influence, and since June 2006, the municipalities north of the Ibar River have refused to cooperate with the PISG in Pristina. PISG has never had any significant influence on policies in the northern municipalities, including economic policy. In northern Mitrovica, UNMIK works with an appointed committee of citizens, which act principally as unelected caretakers. In the remaining municipalities, UNMIK interacts with an elected municipal body.

The so-called parallel institutions of the Serbian Government in Belgrade appear to provide most of the political guidance and the bulk of the funding for the municipalities of northern Kosovo. In terms of governance and most day-to-day matters, the four northern municipalities are de-facto separated from the rest of Kosovo and are de-facto in most matters integrated with Serbia. Moreover, mobility and communications between the northern municipalities and the remainder of Kosovo are limited.

Finally, the four northern municipalities are subject to minimum law enforcement from both the Serbian and PISG side. Taxes are routinely not paid. Moreover, smuggling, excise tax and VAT evasion (both Serb & PISG) are wide spread and commonplace.

## II.3 ECONOMIC BACKGROUND

### II.3.1 Employment

Today, unemployment in northern Kosovo is between 70 and 80 percent<sup>3</sup> and most of the population depends on social transfer payments from Serbia and/or PISG, see table 1 below. A high rate of unemployment is quite common throughout the region. Kosovo has an unemployment rate of 60 to 70 percent<sup>4</sup>, Serbia 30 to 35 percent and Macedonia 35 to 40 percent.<sup>5</sup>

Data from the European Stability Initiative suggest that private sector employment accounts for 1,600 jobs in north Mitrovica and Zvecan. While these numbers were collected in 2003, according to most people they have not changed much since then. The public sector accounts for the vast majority of jobs in north Mitrovica and Zvecan. Excluding recipients of pensions and social payments, public sector jobs account for 73 percent of all jobs.

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<sup>3</sup> OSCE Municipal Reports, Field Interviews.

<sup>4</sup> According to UNMIK, the official unemployment rate is 43 percent (UNMIK: Kosovo Economic Outlook, March 2006). Generally, most estimate actual unemployment to be considerably higher.

<sup>5</sup> Source: Economist intelligence Unit, IMF (IMF Executive Board Concludes 2006 Article IV Consultation with the former Yugoslav Republic of Macedonia)

Table 3

**Employment and Income Source in north Mitrovica and Zvecan – 2003**

Number of People

Income source	Individuals		Monthly Income in EUR	
	Number P	ercent	Total	Percent
<b>Non Public Sector Employment</b>				
Private sector employment	1,600	9%	208,000	8%
SOE employment	302	2%	36,240	1%
International community jobs	215	1%	111,585	4%
Sub Total	2,117	12%	355,825	14%
<b>Kosovo budget</b>				
Public employment	1,767	10%	276,075	11%
Pensions, social assistance & Trepca stipends	7,171	41%	267,232	11%
Subtotal	8,938	51%	543,307	22%
<b>Serbian budget</b>				
Public employment	4,105	23%	1,391,450	56%
Social transfers	2,396	14%	193,280	8%
Sub total	6,501	37%	1,584,730	64%
<b>Total</b>	<b>17,556</b>	<b>100%</b>	<b>2,483,862</b>	<b>100%</b>

Source: European Stability Initiative: A Post Industrial Future – Economy and Society in Mitrovica and Zvecan, 2004.

There is little data on Leposavic and Zubin Potok. However, anecdotal evidence and discussions with UNMIK and OSCE suggest that the overall employment situation in Leposavic is similar to Mitrovica and Zvecan. Zubin Potok is more agricultural, but public sector jobs remain the dominant form of employment.

### II.3.1.1 Social Enterprises, Including Trepca

The social and public enterprises are unlikely to add much to employment in the northern municipalities in the short term. The Kosovo Trust Agency (KTA) has 43 enterprises (excluding Trepca, which we will discuss below). KTA has not been able to proceed with privatization of any of the enterprises due to the uncooperative nature of the municipalities, and many bidders withdraw their bids in face of municipal resistance. KTA considers 19 of the 43 enterprises idle or non-functioning. Another 10 are utilities or other types of companies that traditionally require careful regulation before privatization. Anecdotal evidence from field interviews suggests that the public and social companies are not doing well. Those that are active are often only sporadically and intermittently so.

#### II.3.1.1.1 *Trepca*

All of northern Kosovo used to be dependent for employment on the Trepca mine and its nearly 100 subsidiaries. At its peak, Trepca employed more than 22,000. Currently Trepca provides only 1,000 jobs/stipends mainly for maintenance, etc. According to most observers in the region, these are really “make work” jobs.

Many Serb and Albanian Kosovars believe that following privatization, given sufficient investment, management could revive Trepca. However, we do not know of a comprehensive geological and industrial study to verify the existence of sufficient high-grade

ores and the economics of industrial facilities to process them. At this point, Trepca's potential for rehabilitation is unknown.

The KTA is in the process of appointing an administrator and hopes that this will take place before the end of 2006 and this may accelerate the process of privatization.

Nevertheless, Trepca is not directly relevant to this project. Its rehabilitation is unlikely to take place within the time horizon of potential USAID projects, say five years, for the following three reasons:

- (i) **Trepca must undergo extensive clean up and rebuilding before it can be productive.**
- (ii) **Trepca must restructure financially and recapitalize.**
- (iii) **The status of Trepca must be completely clear, and KTA or the selling agent must be able to sell the mine with a clear title.**

Even if it is possible to revive the parts of the Trepca companies, it is unlikely that they will generate as many jobs as previously. Trepca was a social enterprise and judged to be an inefficient one. A modern western complex with the same output would have far fewer employees, as it would be much more mechanized and computerized.

### II.3.2 Income

There are few reliable statistics on income in the northern municipalities. The European Stability Initiative estimated income per capita at EUR 102 per person in Mitrovica and Zvecan in 2003, and it is likely to have changed little since then. Social pensions, stipends and public sector jobs account for roughly 86 percent of work income in the municipality, cf. table 3 above.

The Serbian government accounts for 64 percent of the income from work in north Mitrovica. Again, while there may be some more subsistence agriculture in Zubin Potok, conversations with UNMIK, OSCE indicate that this picture is roughly representative of all four municipalities in northern Kosovo. Income is likely to be somewhat higher, as these income estimates do not account for income from other sources than work. However, it is not likely that such income is significant.

The extreme dependence on public sector jobs and transfer income suggests the social and economic risks if PISG and/or, in particular, the Serbian government reduces their commitment to northern Kosovo.

### II.4 PRIVATE SECTOR STRUCTURE

There is limited data on the private sector, as few collect data on the northern municipalities. Research from ESI<sup>6</sup> confirmed in discussions with UNMIK and private sector representatives suggests that there are 500 to 600 registered companies in Zvecan and Northern Mitrovica. Probably, there are an additional 200 to 300 companies in Leposavic and Zubin Potok.

However, 80 to 85 percent of these companies engage in trade only. An additional 10 to 15 percent engage in services, including restaurants, hotels, laundry, etc. Only 1 to 2 percent of the companies in northern Kosovo engage in production. Some of the social companies still

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<sup>6</sup> Source: ESI: A Post-Industrial Future: Economy and Society in Mitrovica & Zvecan, Brussels, 2004 and Mitrovica: Kosovo's Litmus Test, Brussels, 2006

have some limited production, but mostly they depended on Trepca and are virtually extinct. Moreover, many of the companies were branches of Serbian companies designed to serve the Kosovo market.

In attachment C, we provide a listing of the companies identified by OSCE as prominent employers. OSCE also provides an employment estimate for these companies, stressing that the work can be part time or seasonal. If you add all the private companies in the entire four northern municipalities, you arrive only at about 800 jobs.

During our interviews in the northern municipalities we repeatedly asked for names of productive companies, and usually each of our interviewees could identify only one or two – usually the same ones. Based on this, we believe that many of the companies on the OSCE's list provide only sporadic employment, and OSCE confirms this.

We can best describe the economy of northern Kosovo as a kiosk economy highly dependent on state subsidies and supplemented by subsistence agriculture.

## **II.5 GOVERNMENT AND DONOR SUPPORT TO BUSINESSES**

There does not appear to be any significant and coordinated policy support to businesses. The Serbian government has planned a series of initiatives, but no one really knows whether they will actually be implemented. One of the only ways that Government supports business is by not taxing the business sector at all. Moreover, all utilities except telephones are effectively free.

The Danish Refugee Council opened a vocational training school to support businesses. PISG has now taken over its funding and management. The school provides training in business management, carpentry, cooking, metalworking and IT. The school has an intake of 250 students per annum, consisting of students from the four northern municipalities and the enclaves. Currently, the school can accommodate all the qualified people who wish to enroll. In addition, there is a World Relief Micro Credit operating, cf. below. Moreover, the EU plans a EUR 4 million job grant and TA project to begin soon.

There is at present no comprehensive listing of TA projects in northern Kosovo. However, many donors and NGOs are operating in the area. Up to now, donor support has been minimal and without coordination. In view of the broad based interest at this time, it is worthwhile to have a broad meeting of donors and NGOs on the northern municipalities of Kosovo to ensure coordination and to get better information on the activities of other donors. For Kosovo wide projects, it is difficult to ascertain the proportion of the assistance given to northern Kosovo.

## **II.6 ACCESS TO CREDIT**

The two main commercial banks in Kosovo, Raiffeissen and Pro Credit are both present in the northern municipalities. Both banks seem to do quite well, having negligible losses and ample capacity to give more credit. In addition, there is the micro credit institution, Zavet. Zavet has been in operation for about a year and has given 200 loans, half of them being loans to consumers for travel and home improvement. Zavet currently has plenty of capacity to expand its lending, but cannot do so due to the lack of qualified applicants. Apart from agriculture, which accounts for about 50 loans, Zavet has only granted one loan to a production enterprise.

The Serbian banks, Bank for Kosovo and Metodija and Jugobanka, are also active, but according to interviews with OSCE they do not have licenses from Serbia or Kosovo. Farmers and farm related businesses reportedly have access to grants and interest free

loans from Serbia. Recently, the Banking and Payments Authority of Kosovo licensed Komercijalna Banka of Serbia to conduct business in Kosovo. Komercijalna Bank will focus on Mitrovica and the Serbian enclaves.

## **II.6 Comparisons with Comparable Economies and Lessons Learned**

Northern Kosovo is not a unique development challenge, but it is a demanding one. Several factors converge to make the environment for private sector development difficult, specifically the lack of market access in Kosovo, political uncertainty and its impact on investment. Although Kosovo is not ranked separately in the World Bank's Doing Business Indicators, a Business Conditions Index comparing Kosovo to other Central European countries was prepared by KCBS in 2005 which is based on the World Bank's Doing Business Methodology<sup>7</sup>.

The index shows, on the positive side, that Kosovo's ratings in hiring and firing workers were better than the averages for all of Central Europe, outperforming all nine countries rated except the Slovak Republic. In addition, Kosovo had relatively low barriers to business entry and exit, e.g., with the fewest number of procedures (five) and the least number of days (23) needed to open a business.

However, among more negative indicators, Kosovo had a very low rating for getting credit compared to other Southeastern European markets, and the cost of creating capital (as a percent of average per capita income) in Kosovo was three times higher than for the rest of the Balkans.

Institutionally, the Index found that the laws and tools for a transparent business-friendly environment are for the most part in place. Kosovo fell short overall in developing the institutions to support these laws such as the development of credit bureaus.

A summary review of comparable conflict and post-conflict economies, and current donor programs, indicates that no single, specific private sector assistance program exists that meets all needs. Rather, specific local conditions must dictate the content of aid programs. The choices depend on many factors, including geography, stage of development, resource constraints, special societal needs, cluster priorities, market imperfections, and local preferences.<sup>8</sup> Lessons learned from comparable economies and countries with post-conflict environments are also worth considering in designing possible Kosovo projects and are summarized below.

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<sup>7</sup> BUSINESS CONDITIONS INDEX IN KOSOVO, 2005, Prepared by KCBS (KOSOVO CLUSTER AND BUSINESS SUPPORT) PROJECT, and Integra Consulting, for USAID/Kosovo, 2005.

<sup>8</sup> Creating Smart Systems: A guide to cluster strategies in less favored regions, European Union-Regional Innovation Strategies, Stuart A. Rosenfeld, Regional Technology Strategies, April 2002.

Table 4

**Summary of Lessons Learned from Comparable Regional economies and Post-Conflict environments**

<b>Country/Region</b>	<b>Lessons Learned</b>
<b>Serbia, Bulgaria</b>	<ul style="list-style-type: none"> <li>• Extensive outward emigration is a risk, if a poor private sector environment persists. During the last 15 years, large numbers of young talented people have left for Australia, Canada and New Zealand.</li> </ul>
<b>Uzbekistan, Kyrgyzstan, Tajikistan</b>	<ul style="list-style-type: none"> <li>• Extensive outward emigration is a risk, if a poor private sector environment persists. Extensive temporary and permanent immigration to find jobs in Russia and Kazakhstan, even for rural agricultural workers.</li> </ul>
<b>Lebanon</b>	<ul style="list-style-type: none"> <li>• Multi-ethnic project stakeholders and cross- community beneficiaries are critical for project success; small USAID cluster development projects are working well in agribusiness, tourism, and IT</li> </ul>
<b>Palestinian Territories</b>	<ul style="list-style-type: none"> <li>• Expanding market access and promoting free movement of goods and people is essential for private sector development; various donor projects have failed due to lack of market access</li> </ul>
<b>East Timor</b>	<ul style="list-style-type: none"> <li>• Diversification beyond a single-commodity (specialty coffee) is critical for developing sustainable private enterprise; reliance by projects on a single buyer (Starbucks) is dangerous.</li> </ul>

### III COMPETITIVENESS ASSESSMENT

#### III.1 LEVEL OF ECONOMIC DEVELOPMENT AND COMPETITIVENESS

The major competitiveness indices have not yet ranked Kosovo separately, but it is likely to be ranked low, based on its recent economic performance compared to Serbia (1.5 % and 7 % average growth p.a., since 2003, respectively) and that of regional neighbors. North Kosovo, and within it the municipality of north Mitrovica, undoubtedly rank considerably lower due mainly to its dominant characteristics as a relatively small, isolated, de-industrialized and now increasingly rural economy, overwhelmingly dependent on government subsidies and lacking many of the basic economic foundations that are pre-requisites for growth and improved competitiveness

#### III.2 LACK OF BASIC ECONOMIC FOUNDATIONS

Basic foundations for development that are pre-requisites for private sector growth, as well as improved regional and global competitiveness are seriously lacking in northern Mitrovica. In summary, the lack of basic economic foundations in northern Mitrovica includes:

- **Deficits in physical infrastructure:** Inadequate roads, public transport, sewage systems, electricity and other utilities; school buildings and hospital and health care.
- **Weak technology institutional structures:** No technical educational institutions exist other than a single vocational school (Danish Refugee Aid).
- **Regional insularity and lock-in:** The lack of freedom of movement of persons and goods limits links and familiarity with Kosovo and much of the outside world.
- **Lack of skills and opportunities to acquire them** – aging workforce, with the average age of Trepca workers at 47, and many in the productive age groups of 25 – 45 having left.
- **Uncertain political structure / stability**
- **Lack of related support foundation factors** required to attract and retain private investment and company staff: a universal basic education from early childhood through secondary school; adequate infrastructure of roads, public transportation, utilities, water, waste disposal and sanitation; health care and a wholesome environment; and adequate housing.

#### III.3 SPECIFIC CONSTRAINTS TO PRIVATE SECTOR DEVELOPMENT IN MITROVICA

These include at least the following:

- **Restricted market access:** Limited northern Kosovo market of less than 80,000 consumers, difficult to sell in Kosovo without connections
- **Widespread corruption:** limited access to tenders without payoffs
- **Tax burden:** For those companies in northern Mitrovica that decide to register and follow the rules, taxation is a burden and specific problems include double taxation and delayed VAT reimbursement. However, most companies decide not to follow the rules or only follow them for part of their activities. For companies that decide not to follow the rules, the tax burden is negligible, as mentioned above.
- **Inadequate infrastructure,** utilities (electricity, water)
- **Unfair competition from donors**, in providing BDS services (but there really are few companies)
- **Lack of entrepreneurial initiative:** socialist mentality, one-company town
- **Serbian subsidies and UNMIK presence distorts local economy**, but also keeps it afloat for now

- **Lack of skilled labor in productive age groups**, skewed demographic structure
- **Political uncertainty** : wait and see attitude toward local investment in productive enterprises

### III.4 OPPORTUNITIES FOR TRADE AND INVESTMENT

Notwithstanding the area's relatively low level of development and competitiveness, a summary review of local economic characteristics suggests several areas where opportunities may exist in the medium to long-term for improved private sector development in both trade and investment.

#### III.4.1 Trade Opportunities

Opportunities for increased trade are likely to be limited to retail trade in goods and services, sourced outside of northern Kosovo, due to the near total lack of exports of goods produced in the area.<sup>9</sup> This reflects the large and unstable trade deficit of Kosovo as a whole, where export/ import coverage in 2005 was less than 4% of imports, an abysmally low level. Kosovo imports in 2005 amounted to 971 million Euro, while exports were only 37 million Euro. As is shown in the graph below, Kosovo exports low added-value products, mostly its unprocessed natural resources.

Kosovo, including the north, enjoys non-reciprocal, customs-free access to the EU market as stipulated by the EU Autonomous Trade Preference (ATP) Regime. However, the northern municipalities do not have any significant products that can compete in the EU.

Given the near total lack of local production of goods for export, trade opportunities in the short- and medium-term will be limited to:

- **Retail trade within northern Mitrovica, and neighboring municipalities**, of consumer goods produced almost entirely outside the area, mainly in Serbia.
- **Expanded north-south linkages.** Trade between north and south Kosovo has potential for expansion. In spite of political obstacles and restricted market access, trade is reportedly flourishing among private enterprises on both sides. With the finalization of status and increased political stability, the region might be a significant trade intermediary between Serbia and Kosovo. Currently, according to official statistics, Serbia is a close second to Macedonia as Kosovo's largest trade partner (13% and 14% of total trade, respectively). Mitrovica's proximity to markets in Pristina offers particular opportunities, where the price structure of many consumer goods is significantly higher than in Mitrovica.
- **Export development offers little potential in the short-term.** However, although exports generally from Kosovo are very low and with relatively low value added, certain exported product groups offer further growth potential, especially horticultural and basic processed foods, such as dairy and cheese products. Significantly, food products have a significant share in overall exports (20%), demonstrating a potential for further increases in the levels and variety of food products for both domestic and export markets. Also offering potential are products based on abundant natural resources, including metals and scrap, which account for 45% of total exports. Because production capacity is so limited, it is difficult to form an opinion as to what sectors have the greatest potential for expansion beyond agro processing and light consumer goods industries.<sup>10</sup>

<sup>9</sup> Trade Policy for Kosovo, Joint Paper by Ministry of Trade and Industry and UNMIK European Union Pillar, June 2004

<sup>10</sup> *Kosovo's trade: A policy note on trade policy and measures to expand exports*, The World Bank, May 2003

### III.4.2 Investment Opportunities

Although most former production is operating at a low level, and new productive enterprises, let alone export-oriented producers, are virtually non-existent, several areas appear to hold potential opportunities.

Opportunities in productive enterprise sectors include the following, which we will discuss further below:

- Agribusiness (horticulture, fish farms, cattle, dairy)
- Construction, building materials
- Wood processing / furniture
- Metal working
- Scrap metal recycling
- Small-scale mining

Additional productive investments and policies to consider supporting<sup>11</sup>:

- **Record world market prices for lead and zinc have made a limited resumption of mining feasible** but Trepca management cites very low productive capacity and morale among the Serb and Albanian work force as the main operational challenge.
- **Planning is also afoot to restart the Zvecan car battery recycling plant.** However, if the Special Chamber of the Kosovo Supreme Court upholds the claim of any of the foreign companies that worked with the Milosevic-era Serbian management in the 1990s, KTA will probably have to liquidate Trepca.
- **Donors could condition programs to support business enterprises and tenders for an array of infrastructure projects on compliance with cross-community hiring.**

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<sup>11</sup> Based on *Bridging Kosovo's Mitrovica Divide, Team interviews with KTA.*

## **IV. IDENTIFICATION OF POSSIBLE ECONOMIC DEVELOPMENT PROJECTS**

### **IV.1 POLITICAL / ECONOMIC SCENARIOS**

Based on field interviews, recent studies and available statistical data, we do not believe that the change in status will have a major impact on northern Kosovo. Most likely, the economic situation will be unchanged.

It is unlikely that the situation will change for the better, as north Kosovo is unlikely to be able to take advantage immediately of potential benefits of status, such as increased freedom of movement, less formal partition, and access to markets in south Kosovo, given the low level of current private sector development.

However, it is also unlikely that the situation will change for the worse. The key risk is that the subsidies from Belgrade and Pristina will cease. However, this is unlikely, since an EU administration will likely insist that current jobs and social payments continue, and Belgrade is unlikely to disengage immediately. As indicated in table 3, PISG and the Serbian Government account for about 86 percent of the income in northern Kosovo.

### **IV.2 RISKS**

Among political risks, significant conflict in the area appears unlikely without significant provocation from extremist elements. Among economic risks, there is a strong possibility that economic security could worsen. First, Pristina may have higher development priorities following status than boosting assistance to minority enclaves. Second, subsidies from the government of Serbia are likely to decline over the next 2 – 4 years, as budget constraints grow in Belgrade, and the Serbian government prefers to accommodate local political constituencies rather than the Serb Kosovars.

More positively, the phasing down of state subsidies may be the catalyst needed to generate more realistic expectations among Mitrovica residents. This could help contribute to a needed change in mentality, toward less reliance on the state, and toward recognition of the need to assume more responsibility locally for investment through more entrepreneurial approaches to economic development. At such time, donors are likely to be much more successful in their efforts to promulgate private sector development.

### IV.3 OPTIONS IN THE SHORT TERM

#### IV.3.1 Public works / job creation Projects

USAID has already started a public works campaign in the four northern municipalities by awarding Mercy Corps and IOM funds to finance small infrastructure projects, particularly school rebuilding and road rehabilitation. Given the poor state of the infrastructure in the northern municipalities, there are virtually unlimited opportunities for expanding such programs. The natural draw back to these programs is the lack of sustainability. Given funds for the purpose, USAID is able to implement this type of project relatively quickly, and likewise the time from decision to impact is generally short.

The key issue is to be clear of the objectives. From a strict employment point of view, naturally, we would design such projects to maximize the number of jobs. However, there may also be other objectives to consider. For example, USAID might want to follow community wishes and build closer cooperation with the municipalities, and the impact of projects varies. For example, traditionally, road-building projects traditionally have a strong impact, as they have the opportunity to improve trade both in the short and long term.

Some of the projects USAID might consider could be additional small infrastructure projects like the following:

- Subsidized public works.
  - Roads.
  - Schools.
  - Health clinics.
  - Higher education.
  - Utilities (sewers, water supply, electricity).
  - Public transport.
- Agricultural support.
  - Land reclamation.
  - Improved irrigation.
- Environmental support.
  - River pollution clean up.
  - Trepca tailings clean up.
  - Site clean ups.

We have requested lists of current and ongoing projects from other donors, and we will include those we receive as an attachment to our final report.

#### IV.3.2 Provide support in the short-term to SMEs

USAID should expand current USAID-supported assistance to SMEs in northern Kosovo in the short-term. USAID can do this relatively easily and rapidly by increasing support through USAID's ongoing Kosovo Cluster & Business Support (KCBS) project. Currently, KCBS serves 9 client companies in the region out of about 20 companies engaged in production. Of the 9 KCBS clients, 3 are in construction and road building, 3 in agribusiness, 2 in wood, and 1 in recycling. KCBS's major challenge in the area is to help expand sales from northern Kosovo that are now restricted from accessing other south Kosovo markets. Support should take the form of helping expand north-south business contacts, assisting on appropriate packaging, and exploring possible export prospects as market access improves in a manner

consistent with the recent agreement between USAID and KCBS. Focus on expanded north-south contacts and sales should be increased, in order to stimulate additional job creation.

Within KCBS' current scope of work, there are few opportunities for additional support. If KCBS could make further exceptions to work with smaller companies with less potential for growth, additional support might focus on the following sub-sectors:

- **Agribusiness**

- Horticulture: Expand assistance to smallholders producing cultivated and wild berries including blueberries and strawberries, along with other appropriate fresh fruit and vegetables (plums, apples, green and red peppers, grapes). In addition to fresh production, enterprises can add value through processing into products including jams, marmalades, pickled peppers, and dried fruits. Although job creation impact will be limited as employment is seasonal, certain products offer strong export potential, particularly wild berries.
- Dairy: Assist more dairy smallholders, mainly producers of milk, cheeses and yoghurts. Focus on north-south matchmaking and developing appropriate packaging for sales in south Kosovo
- Cattle: Consider supporting cattle raising - many interviewees mentioned this as a solid opportunity in many rural areas of northern Kosovo, where cattle production has been a strong sub-sector traditionally and has prospects for revival
- Fish farming: Currently, about four fish producers are active in all of northern Kosovo, and they do not receive any donor support. Consider assistance to areas with potential, such as Lake Gazivode near Zubin Potok, for trout and other fish production with good growth prospects.

- **Construction, building materials**

- Road building: Currently, KCBS assists 3 companies, including Kamillja and a few other relatively large firms. KCBS could consider additional firms for more assistance in the short-term following status if the public sector and donors will provide more assistance for new construction and maintenance, particularly if subsidies from the Serbian state decrease. Current USAID small-scale assistance for road improvement (IOM, Mercy Corps) is limited to municipal rather than regional roads with relatively limited funding (about \$ 1 million for each project).
- Building materials: Consider expanding assistance, to small local firms providing local construction materials, such as stone, gravel, asphalt, building blocks. As donor and state funded projects increase, assist local private firms to better compete for upcoming tenders.

#### IV.3.3 **Support a Multi-ethnic Business Council**

Promoting multi-ethnic cooperation must be a key goal of any project in the area aimed at encouraging both regional economic development and increased political stability. A key need identified is for a small and effective group of private sector leaders to meet regularly as a multi-ethnic "business council" to promote matchmaking deals between northern Kosovo Serbian and southern Kosovo Albanian companies.

USAID and other donors could support a multi-ethnic council of key business community leaders from both communities. This could build on and support the current UNMIK sponsored multi-ethnic luncheon group that has about 8 – 10 participants, and has met 4

times over the past four months. UNMIK leadership wants to phase out its sponsorship, and it has stated its expectation that the group itself take the responsibility to continue its activities. If the group demonstrates strong initiative, and local “champions” emerge with a strong interest in continuing it, USAID could consider a project providing matching support for administrative services, setting strategies and implementing activities.

The council could complement the new REBAM association, which is a multiethnic association of business associations, but has not demonstrated significant effectiveness at this point. This is due partly to its composition, an association of about 18 other associations, making it quite large and unwieldy, and partly to its relatively long gestation period, starting-up officially just recently after more than one year since efforts began to form it.

Council activities should focus on expanding north-south linkages by identifying and implementing matchmaking deals for sales and purchases of products and services by both communities to further promote trade. Additionally, they should focus on encouraging joint multi-ethnic consortia to bid on donor projects, and for related multi-ethnic joint ventures. The Council should be relatively small (20 members, half Serb, half Albanian) to promote efficiency. The council should open in Mitrovica on each side of the Ibar River and consider a presence in other communities in northern Kosovo. The council should consider forming sub councils by industry or other relevant dimension to keep gatherings relevant and small. It is important not to publicize these events and to focus on results, since the society at large in Kosovo and Mitrovica is not ready for extensive ethnic collaboration. USAID could consider substantial funding support over an extended period (3-4 years) reflecting the importance of promoting multi-ethnic cooperation, with the aim of increasing northern Kosovo market access to markets throughout Kosovo.

#### **IV.4 OPTIONS IN THE MEDIUM- AND LONG - TERM**

##### **IV.4.1 Promote Public – Private Outreach**

The team identified several needs in northern Kosovo for improved public and private understanding and cooperation. First, the public appears generally uninformed about realistic scenarios for the near-term activities of UNMIK, PISG, EU, KFOR, international donor agencies, or even for Serbian government support. The lack of accurate information available to the public on both sides undermines public confidence generally and restricts economic development specifically by making it difficult for private businesses to plan anything except short-term strategies, limiting trade and investment drastically.

Secondly, there appears to be little understanding on the part of the local community about basic concepts underlying open economies, free markets, private sector development and basic information generally on “how to do business.” This is largely due to the area’s long experience under a socialist command economy and the impact of Trepca’s long dominance in making Mitrovica into a “one-company” town. Many of those interviewed by the team expressed certainty that Trepca could and should re-open fully, a highly unrealistic view. Combined, the lack of basic familiarity with private sector operations, and the lack of reality toward future options, make for many highly ill-informed private as well as public sector workers who would benefit from a well-focused outreach program supporting public – private understanding and cooperation.

A public-private outreach project should be gradually phased-in, depending on political developments likely over the next 1 - 2 years. An initial activity might include a “Roundtable Conference” with private sector, public sector and donor agencies, to become acquainted with each other and prepare for likely developments over the near-term transition period. A second conference might address the theme of drafting a private sector strategy to achieve local development goals. The proposed Regional Economic Development Agency, under

consideration by the OSCE and UNMIK for possible start-up by mid 2007<sup>12</sup> would logically be instrumental in setting up these events. Various breakout groups could evolve into freestanding “cooperation” task forces in sectors most in need of change management. Task forces could also organize public relations and media campaigns and might involve university resources. Task forces could also study outside experience in re-industrialization e.g., the Ruhr Valley, or Russia. Finally, the organizers could arrange annual overview conferences with participants from all communities to formulate rolling strategies for adjustment as medium-long term economic conditions evolve.

#### **IV.4.2 Micro-Finance Support**

As mentioned previously, there is a micro finance institution in the northern municipalities called Zavets. However, there is limited demand as there is little market access and high uncertainty as to the future of the northern municipalities. Currently, the focus of businesses is trade. However, once the uncertainties and market access issues are no longer present, there will be a stronger motivation to start productive and larger trade businesses to improve living standard. Northern Mitrovica is naturally the nexus between Serbia and the rest of Kosovo, and there could be substantial trade opportunities as well as opportunities for productive enterprise.

While a certain minimum activity is necessary for this type of program to be cost effective, it is imminently scalable, and there are already financial institutions that can fund enterprises once they grow beyond microfinance. USAID could put special emphasis on agro processing, and there might be the potential for a micro finance project that provides advice on agro processing as well as credits that accommodate the agricultural payback cycle.

#### **IV.4.3 Business Start-Up Incubators**

Northern Kosovo currently has a business park. This park still has vacancies. However, as the environment improves, USAID could consider putting together a fully-fledged business incubator with start up services for new enterprises. Business incubators traditionally work well to get business ideas off the ground and reduce costs for business startups.

There is some experience in the region, e.g. from Bulgaria, with successful business incubators that accelerate growth.

#### **IV.4.4 University Linkages**

This is a project option with much flexibility in terms of costs. At the one end of the scale, USAID can intervene with traditional means like support to professor and student exchanges, support to selected departments of the local university or twinning with an American university. At the other end of the scale, together with other donors, USAID can help bring into being a new university, as was done in Tetovo, Macedonia.

From a private sector point of view, a strengthened university sector is of great importance as it can be the source of businesses and business ideas. The donor community must see a completely new university in the broader context of the ethnic issues in Kosovo, just as it was in Tetovo. If the idea is to create an institution that can promulgate more integration in the Mitrovica region, then a new multi lingual, multi ethnic university might be a good idea<sup>13</sup>. Better regional integration and ethnic harmony will, of course, also benefit business. However, this can be a very expensive proposition. According to the European Stability initiative, the founding of the Tetovo University alone cost EUR 40 million, and naturally, the

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<sup>12</sup> Based on Team interview with Peter Vanhouette, Sr. Political Officer, OSCE, UNMIK

<sup>13</sup> See the ESI Discussion Paper “Mitrovica: Kosovo’s Litmus Test” dated 28 April 2006

Donors have funded additional projects related to the Tetovo University since. Making a university initiative work may require a high profile individual to champion it as it did in Tetovo, where Max van der Stoel, then OSCE's High Commissioner for National Minorities, was instrumental in getting the appropriate funding.

#### **IV.4.5 Business Associations Support**

Private sector business associations, independent from government, are a relatively new phenomenon to northern Kosovo. Under Yugoslavia's socialist regimes, experience was limited to associations effectively controlled by the central government where membership was mandatory rather than voluntary, and with little independence from central political authorities. Only in the past 2 – 4 years, have modern private business associations been started-up, often with only limited understanding of appropriate association concepts, activities, services to members, and the importance of membership cost contributions to ensure "buy-in" and effectiveness.

There is a strong need for assistance to support familiarity with and implementation of basic concepts of business association development in northern Kosovo. To date, a host of small, disparate associations has sprung up, with little effective support by donors. Over 20 separate business associations exist, mainly representing local sub-sectors, but with mainly small family trading businesses, and relatively few members that are private sector companies with productive manufacturing activities that are fully operational. Also recently begun is the Women's Business Association, which has received donor support, but where activities appear to focus more on community development activities than on providing essential services to private businesses. Also established in mid-2006 is REBAM, the Regional Business Association with about 18 member associations (see above) which has received funding from UNOPS. One of its goals is to represent the multi-ethnic business community, but REBAM has not achieved significant results to date.

USAID should consider supporting the sound development of business associations, with a focus on assisting those that best demonstrate commitment to providing practical business services to members. Support might extend beyond current associations to the establishment, of, for example, a local Young Businesspersons' Association, if locals take the initiative for such an association. Young people are likely to be most open to adopting new, practical, business association concepts and to improving cooperation to compete. Another association to consider for direct support should be a local IT/software association. Most likely, USAID can best support for multi-ethnic cooperation through the "Multi-ethnic Business Council" described above

#### **IV.4.6 Additional, Longer-Term SME Sector Support**

USAID can consider additional support to SMEs over the longer – term (see above Section IV.3.2 for SME support in the short-term). The rationale for providing support later rather than sooner for some sub-sectors is that very few private enterprises currently exist that are actually operating and producing manufactured goods. Support could be provided through additional support to KCBS (if extended beyond 2008) or through new stand-alone projects. Specific activities should include providing business development services to SMEs, both directly through a project, and through support for developing a strong sector of private sector BDS providers. BDS services should include training in business start-up procedures, accounting, credit/financial mechanisms, management training, marketing, advertising, and support to achieve export readiness. Sectors with potential, but for which USAID will likely need further assessment studies, include:

- **Wood processing / furniture:** This sector has relatively strong potential based on the wide availability of local raw materials from regional forests, although suppliers still require meeting EU / US forest management standards. Additionally, several wood producing firms already exist, including Kress in Mitrovica, a long established wood processor in Leposavic, and Simco in Zubin Potok (an SOE). Currently, the feeling among some is that it is “easier” to simply cut and sell raw unprocessed wood to south Kosovo discourages wood processing. A key issue to address will be sustainable wood and forest management.
- **Metalworking:** Currently, there are a few public and private companies in metalworking, and their condition indicates that the sector has perhaps “medium” potential in the long-term. Metal working firms are active in Zubin Potok with forges producing metal products including spare parts for trucks and heavy industrial vehicles, as well as for drilling equipment. Producers export some products, mainly to Serbia.
- **Scrap metal recycling:** Base and scrap metals are currently the largest single export item of Kosovo as a whole, accounting for over 45% of total exports, and surpassing food exports. For northern Kosovo, particularly northern Mitrovica, a new sub-sector with good potential could be scrap metal recycling. A strong initial project could be the dismantling of the Trepca complex, once privatization and liquidation issues are settled.
- **Small-scale mining:** This sector could offer some potential, although further studies will be needed to evaluate current activities and future prospects. In northern Kosovo, areas with potential include Zubin Potok, with substantial granite deposits that can be processed into gravel and related construction materials, and several areas along the Serbian/Kosovo border. Marble and semi-precious stones may also offer some potential, to be identified in further evaluation studies.

#### IV.4.7 Long-Term: Industry Cluster Development to Improve Local Competitiveness in Regional and EU markets

Once northern Kosovo has become competitive within Kosovo, USAID can consider projects that will integrate northern Kosovo in the regional and EU markets. Such projects would include:

- **Cluster competitiveness in key sectors** with an emphasis on improving competitiveness in areas where northern Kosovo is not currently competitive.
- **Competitiveness projects using the World Economic Forum rankings and profiles**, targeting areas where northern Kosovo could improve its competitiveness in individual rankings such as certification, taxation, customs, etc.
- **Standards and metrology projects** that can help northern Kosovo businesses implement regional and EU standards. In all likelihood, such projects must be implemented on a pan Kosovo basis.

## V PRIORITIZATION AND TIMING OF USAID INTERVENTIONS

### V.1 Approach to Project Options

Prioritization and timing of proposed projects is based on an approach that matches proposed project start-ups to current and likely levels of private sector development and political stability. For example, projects that do not depend significantly on these factors, can be candidates for implementation in the near-term. However, projects that require stability and further private sector sophistication, such as a traditional, relatively large-scale enterprise development or cluster project, are good candidates for start-up only in the medium- to long- term.

### V.2 Common assumptions/risks

Most proposed projects are subject to a common set of base assumptions and risks, outlined above in Section 4. In summary, assumptions are that

- The change in status will not have a major impact on northern Kosovo. Most likely, the economic situation will be unchanged
- It is unlikely that the situation will change significantly for the better soon, given the low level of current private sector development, or for the worse
- Among economic risks, there is a strong possibility that economic security could worsen if subsidies from Belgrade are phased out suddenly rather than gradually

### V.3 Definitions of common criteria

We have defined costs within a range, i.e., low project costs are < \$ 1 m. p.a.; medium costs range from \$ 2 to 5 m.; and high cost projects are > \$ 5 m.

### V.4 Project contributions to SOs & IRs

We have selected project options that contribute directly or indirectly to achieving the following USAID Strategic Objectives and Intermediate Results (IRs):

- **Improved Policy and Institutional Climate for Productive Investment Program**  
**Title: Economic Policy and Institutions**  
1.2.4: Increased integration into regional trade
- **Accelerated Growth of the Private Sector; Program Title: Private Sector Growth**  
1.3.1: Increased competitiveness of targeted business clusters  
1.3.2: Improved business operating environment

Table 5  
Possible Project Priorities and Criteria  
For USAID Interventions in Northern Kosovo

Time Horizon/ Project type	Summary Description	Assumptions	Key Risks	General Cost Estimate	Interface with Other Donor Projects	Next Steps
<b>Short Term</b>						
<b>Public Works / Job Creation projects</b>	Fund small-scale public works to increase employment while undertaking worthwhile activities in public works, agricultural support and environmental clean up.	<ul style="list-style-type: none"> <li>Requires local political stability.</li> <li>Must focus on high labor content projects.</li> </ul>	Job creation is short-term, unsustainable & insufficient to meet demand.	Can be tailored to USAID requirements, but to be effective, it will be medium to high.	<ul style="list-style-type: none"> <li>EAR is undertaking a EUR 6 million infrastructure project.</li> <li>Build on and complement with current Mercy Corp and IOM effort.</li> </ul>	Develop inventory of needs & current planned donor projects and write SOW.
<b>Short-Term Support to SMEs</b>	Expand current KCBS effort to support agri business and construction/ building materials companies.*	<ul style="list-style-type: none"> <li>Requires local political stability.</li> <li>Requires development of contacts in south Kosovo &amp; multi ethnic cooperation.</li> </ul>	<ul style="list-style-type: none"> <li>Few companies ready for this type of assistance.</li> <li>High cost per beneficiary and per job.</li> </ul>	Can be tailored, but will be most effective if cost is in low range.	<ul style="list-style-type: none"> <li>Possibly some contact with future EU grants project.</li> <li>Pristina issues will be handled by KCBS anyway.</li> <li>Possibly interface with new Serbian projects in the region.</li> </ul>	Detailed plan and objectives for the KCBS activities in the northern municipalities.
<b>Multi-Ethnic Business Council Support</b>	Support multi ethnic council of business leaders from both communities and support other north south deal and match making activities building on recent UNMIK effort.	<ul style="list-style-type: none"> <li>Requires local political stability.</li> <li>Requires contacts in south Kosovo &amp; multi ethnic cooperation.</li> <li>Requires local champions.</li> </ul>	<ul style="list-style-type: none"> <li>Lack of local initiative.</li> <li>Resentment from local population on both sides in general.</li> </ul>	Low to medium.	<ul style="list-style-type: none"> <li>Some interface with UNMIK or its successor.</li> <li>Possibly interface with new Serbian projects in the region.</li> </ul>	Develop detailed project design and write SOW.

Time Horizon/ Project type	Summary Description	Assumptions	Key Risks	General Cost Estimate	Interface with Other Donor Projects	Next Steps
<b>Medium Term</b>						
<b>Public-Private Outreach</b>	Develop multi ethnic private sector strategies and help design supporting projects through a public private dialogue.	<ul style="list-style-type: none"> <li>Requires local political stability.</li> <li>Requires development of contacts in south Kosovo &amp; multi ethnic cooperation.</li> <li>Requires local champions.</li> </ul>	<ul style="list-style-type: none"> <li>Lack of understanding of the need for multi-ethnic cooperation.</li> <li>Lack of local initiative.</li> <li>Resentment from local population on both sides in general.</li> </ul>	Low to medium – costs could be reduced by sharing overheads with other projects.	Not known at this time. If possible, substantial cooperation with municipalities in north and south.	Following status, review feasibility and if positive, develop detailed design and SOW.
<b>Microfinance Support</b>	Set up and support additional micro finance institutions, possibly with a particular emphasis on loans to productive enterprises, e.g. agriculture and food processing. Could be combined with TA.	<ul style="list-style-type: none"> <li>Requires market access and demand.</li> <li>Requires local political stability.</li> </ul>	<ul style="list-style-type: none"> <li>Insufficient demand for loans supporting production (as of now).</li> <li>Repayment (but current data suggests good repayment record in north Kosovo).</li> </ul>	Low – could be started with low base and expanded driven by successful accomplishment.	Cooperate with World Relief, other financial institutions in the area and MFIs.	Following status, review feasibility and if positive, develop detailed design and SOW.
<b>Business Start-Up Incubators</b>	Set up business incubator with start up services for new enterprises, possibly in an existing business park, to attract more occupants.	<ul style="list-style-type: none"> <li>Requires market access and demand.</li> <li>Requires local political stability.</li> </ul>	<ul style="list-style-type: none"> <li>Principally known to work for IT companies.</li> <li>May require substantial subsidies to attract companies.</li> </ul>	Medium to high.	Not known at this time.	Following status, review feasibility and if positive, develop detailed design and SOW.

<b>Time Horizon/ Project type</b>	<b>Summary Description</b>	<b>Assumptions</b>	<b>Key Risks</b>	<b>General Cost Estimate</b>	<b>Interface with Other Donor Projects</b>	<b>Next Steps</b>
<b>University Linkages</b>	Twin or build new multi ethnic university in north Mitrovica on the successful Tetovo (Macedonia) model. Could focus on environmental engineering and business administration.	Requires high profile champion and support.	<ul style="list-style-type: none"> <li>• Low current educational achievement.</li> <li>• Lack of demand.</li> </ul>	Low for twinning, high for building.	Would require substantial contributions by other donors both at inception and for running costs.	Following status, review feasibility and if positive, develop detailed design and SOW.
<b>Business Association Support</b>	Support nascent business associations to promote modern association concepts, activities and services to members, with an emphasis on young entrepreneurs and high growth sectors such as IT & software.	Demand from growing numbers of businesses.	Sustainability.	Low to medium, would most likely include grant program.	Currently only UNOPS (REBAM) and Norwegian Church Council (Women's Business Association) and Serbian Government (Chamber of Commerce).	Following status, review feasibility and if positive, develop detailed design and SOW.
<b>Long Term</b>						
<b>Additional, Longer-term Support to SME Sectors</b>	An extended KCBS type project expanded to include more sectors such as wood, metal recycling, metal working and possibly small scale mining and emphasize building sustainable BDS (fee for service) activities.	<ul style="list-style-type: none"> <li>• Significant development in private sector activity in northern Kosovo to be able to benefit from the BDS activities.</li> <li>• Substantial development of the local BDS sector.</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of absorption capacity by firms for services.</li> <li>• Insufficient number of viable clients in northern Kosovo.</li> </ul>	Medium to high.	Not known at this time.	None at this time, requires substantial progress with medium-term projects.

<b>Time Horizon/ Project type</b>	<b>Summary Description</b>	<b>Assumptions</b>	<b>Key Risks</b>	<b>General Cost Estimate</b>	<b>Interface with Other Donor Projects</b>	<b>Next Steps</b>
<b>Long-Term Industry Cluster Development</b>	Support north Kosovo specific clusters with accepted cluster development methodologies.	<ul style="list-style-type: none"> <li>• Significant improvement in market access, not only in southern Kosovo, but region and probably EU wide.</li> <li>• Significant Progress towards EU accession.</li> </ul>	Lack of progress towards ethnic reconciliation and EU accession.	High	Not know at this time.	None at this time, requires substantial progress with medium projects.

\* USAID and KCBS have recently expanded the resources available in the northern municipalities and hopefully, this will soon result in a significant increase in the number of clients.

## Attachment A: Interview List

**Note: Persons Interviewed for the evaluation of KCBS in May/June (about 77) have not been included in this list, unless we specifically reinterviewed them in regard to the current scope of work)**

First Name	Last Name	Title	Organization	Address	Tel.	Fax	Cel	Email
Rustrem	Abiti	Director	Chamber of Commerce Mitrovica	Mitrovica			[REDACTED]	
Rexhep	Alidemaj	President	Mitrovica Producers Association	Mitrovica			[REDACTED]	
Livingston	Alistair	Director	OSCE Office	Mitrovica	+381 (028) 33-944, Ext. 107			
Mijanovic	Andrija	Director	Piramida	Mitrovica	+381 (28) 42-51-02	+381 (28) 42-51-02	[REDACTED]	piramikm@eunet.yu
Flora	Arifi	Development Program Specialist	USAID	Ismael Quemali St. No. 1, Pristina, Kosovo 10130	+381 (38) 24-36-73, ext. 143	+381 (38) 24-94-93	[REDACTED]	farifi@usaid.gov
Ornella	Benadelli	Head of Office	UNOPS	Mulla Asim Luzha 57, Pristina, Kosovo	+381 (38) 24-88-61/62	+381 (38) 24-88-64	[REDACTED]	ornellab@unops.org, ornellabenardelli@ticali.it
Elitsa	Beyska	Head of KTA RO Mitrovica	KTA	UNMIK HQ, Jugobanka Building, Mitrovica	+381 (38) 50-46-04, ext. 7366	+381 (38) 50-46-04, ext. 7292	[REDACTED]	Elitska.beyska@unmik.org
Goran	Blagojevic	Member	Eco Galic				[REDACTED]	
Znidarsic	Boban	Technical Director	Dynamic Trade	Bube Mihajloviaca b.b., 38227 Zvekan	+381 (28) 66-47-49, 66-67-00	+381 (28)66-47-34		dynamic@beotel.yu
Radomirovic	Bojan		IOM	Mitrovica			[REDACTED]	bradomirovic@iom.ipko.org
Afrim	Cejku	Local Governance & Development Adviser	UNOPS	Mulla Asim Luzha 57, Pristina, Kosovo	+381 (38) 24-88-61/62	+381 (38) 24-88-64	[REDACTED]	afrimC@unops.org, [REDACTED]
Ozturk	Cevat	Local Community Officer (Economics and Projects)	UNMIK	UAM Building # 1, Room 204, Mitrovica	+381 (38) 50-46-04, ext. 7444	+381 (38) 50-46-04, ext 7565	[REDACTED]	ozturk@un.org
Slavkovitch	Darko	Executive Director	Brest		+381 (28) 66-31-92	+381 (28)66-40-61	[REDACTED]	dslavkovi@sezampro.yu

First Name	Last Name	Title	Organization	Address	Tel.	Fax	Cel	Email
Jonavovic	Dejan	Branch Credit Coordinator	Procredit - Mitrovica North Branch	Mitrovica	+381 (28) 42-46-01	+381 (28) 42-2037	[REDACTED]	
Mitrovic	Dragoljub	Manager	Eco-Kim	Vjvode Koste Voinovica 12a, Zvekan	+381 (28) 66-47-57	+381 (28) 66-40-25	[REDACTED]	[REDACTED]
Michael	Farbman	Mission Director	USAID	Ismael Quemali St. No. 1, Pristina, Kosovo 10130	+381 (38) 24-36-73, ext. 101	+381 (38) 24-94-93	[REDACTED]	mfarbman@usaid.gov
Gerrard	Gallucci	Regional Representative	UNMIK	UNMIK, Jugobanka Building, Mitrovica		+361 (38) 504 604	[REDACTED]	
Massimo	Gambi	Transaction Officer	KTA	UNMIK HQ, Jugobanka Building, Mitrovica	+381 (28) 32-566, Ext. 7207	+381 (28) 32-566, Ext. 7292	[REDACTED]	massimo.gambi@eumik.org
Bilall	Hasani	President	Mitrometal	Mitrovica			[REDACTED]	
Annemarie	Jepsen	Manager Operations (Economic Development)	EAR	1 Kosova Street, P.O.Box 200, Kosovo, UNMIK	+381 (38) 51-31-322	+381 (38) 24-99-63	[REDACTED]	annemarie.jepsen@ear.eu.int
Mr.	Jovitsa	Manager	Water company	Mitrovica			[REDACTED]	
Dusan	Kolakovic	Accountant	Maja		+381 (28) 84-214, 83-157	+381 (28) 84-214	[REDACTED]	
Milic	Kristo	Director	Dynamic Trade	Bube Mihajloviaca b.b., 38227 Zvekan	+381 (28) 66-47-49, 66-67-00	+381 (28)66-47-34	[REDACTED]	dynamic@beotel.yu
Mirovslav	Lacetic	Chief of Economic Development - Mitrovica	UNMIK				[REDACTED]	
Ivana	Larezevic	Municipal Team Member	OSCE – Mitrovica		+381 (28) 33-942	+381 (28) 33-960	[REDACTED]	ivana.lazarevic@osce.org
Alastair James Butchart	Livingston	Director - Regional Center - Head of Mission	OSCE		+381 (28) 33-945, ext. 107	+381 (28) 33-960	[REDACTED]	alastair.butchart-livingston@osce.org
Petrovic	Ljubisa	Director General	Dijamant Distribution Center Kosovo Mitrovska	Mitrovica	+381 (28) 42-55-57	+381 (28) 42-55-57	[REDACTED]	[REDACTED]
Mike	Mann	Team Leader	Institutional Support to the Ministry of Trade and Industry	Ministry of Trade and Industry, New Economic Faculty Building, Room 10, Pristina,	+381 (38) 21-25-07	+381 (38) 21-25-05	[REDACTED]	mike.mann@ks-gov.net

First Name	Last Name	Title	Organization	Address	Tel.	Fax	Cel	Email
Goran	Milicevic	Director	Breza - Member of the Eco Galic Agricultural Cooperative		+381 (28) 86-285	+381 (28) 86-285	[REDACTED]	
Nabojsa	Minic	Member	UAM Advisory Board, Construction company	Mitrovica			[REDACTED]	
Jovavovic	Mirko	Manager	Zavets (Microcredit)	Mitrovica			[REDACTED]	[REDACTED]
Kalaba	Nenad	Manager	Eco-Kim	Vjvode Koste Voinovica 12a, Zvecan	+381 (28) 66-47-57	+381 (28) 66-40-25	[REDACTED]	[REDACTED]
Mina	Nesovic	Director	Maja		+381 (28) 84-214, 83-062	+381 (28) 84-214	[REDACTED]	[REDACTED]
Peter	Oldham	Senior Economic Policy Adviser	Economic Policy Office, Unmik Pillar IV/ EU	Room S-114, Government Building	+381 (38) 50-46-04, ext. 4327	381 (38) 404-604, ext 4290	[REDACTED]	oldham@unmikonline.org, [REDACTED]
Aleksandar	Olenik	Head of Office	Mercy Corps	UL Karadordeva br 5, Zvecan			[REDACTED]	aleksandar@ks.mercycorps.org
Milosovic	Oliviera	Executive Director	Women's Business Association				[REDACTED]	olja210269@yahoo.co.uk
Remzije	Potoku	Manager	NGO Mundesia	Mitrovica			[REDACTED]	
Rojevic	Radomir	General Manager	Minel Holding Corp	38220 Kosovska Mitrovica, 22 John Kennedy Street	+381 (28) 42-54-47, 42-54-45, 42-54-46		[REDACTED]	minelekm@eunet.yu
Kole	Rapi	CIP Manager	Mercy Corps	Bedri Shala 38/C, Sunni Hill Pristina	+381 (38) 54-97-04	+381 (38) 54-97-04	[REDACTED]	kole@ks.mercycorps.org
Milan	Savic	Director	Eco Galic				[REDACTED]	
Mirosljub	Sekulic	Director	SECOM company	Mitrovica			[REDACTED]	
Stanic	Slavisza	Secretary General	Chamber of Commerce - Kosovo and Metodii	Krala Petra 200/I, 38220 Kosovo Mitrovska	+381 (28) 42-45-11, 42-29-55		[REDACTED]	[REDACTED]
Bojan	Slavkovic	Manager	IT/Computer store	Mitrovica			[REDACTED]	
Kovacevic	Sredan	Training Manager	Danish Refugee Council vocational School	Zvecan	+381 (28) 66-26-01		[REDACTED]	[REDACTED]
Dragana	Stdanovic	Enterprise Development	KTA	UNMIK HQ, Jugobanka Building,	+381 (38) 50-46-04, ext. 7304	+381 (38) 50-46-04, ext. 7292	[REDACTED]	dragana.srdanovic@unmik.org

First Name	Last Name	Title	Organization	Address	Tel.	Fax	Cel	Email
		Officer		Mitrovica				
Hasime	Tahiri	Executive Director	Mundesia	Vellezerit Dragaj No. 4, Mitrovica, Kosovo	+381 (28) 30-360	+381 (28) 39-576		
Jennifer J.	Tikka	Private Enterprise Officer, Economic Growth Office	USAID	Ismael Quemali St. No. 1, Pristina, Kosovo 10130	+381 (38) 24-36-73, ext. 143	+381 (38) 24-94-93		jtikka@usaid.gov
Peter	Vanhoutte	Senior Political Officer - Democratisation	OSCE – Mitrovica		+381 (38) 50-01-62, ext. 1893	+381 (28) 33-960		peter.vanhoutte@osce.org
Golubovic	Vesna	Business Support Service Specialist	USAID KCBS	Arberia (Dragodan) Str. 24 Maji No. 116, Pristina, Kosovo	+381 (38) 24-36-64, 24-42-78	+381 (38) 24-33-65		
Aleksic	Vidosav	Director	Dren – Laposavic		+381 (28) 84-026			aleksicv@beotel.yu
Nedeljkovic	Vlasnik Sinisa	General Manager	Metal	Kosovskih Junaka b.b., 38227 Zvekan	+381 (28) 66-52-54, 66-45-78	+381 (28) 66-52-53		
Martin	Wood	COP	KCBS	Arberia (Dragodan) Str. 24 Maji No. 116, Pristina, Kosovo	+381 (38) 24-36-64, 24-42-78	+381 (38) 24-33-65		

## Attachment B: Bibliography

Author (Institution)	Title	Date
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Author (Institution)	Title	Date
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USAID KCBS with Integra Consulting	Business Conditions Index in Kosovo, 2005,	2005

Attachment C: Employment with Companies Identified by OSCE as Prominent Employers

<b>Employer</b>	<b>Service/Products</b>	<b>Production ongoing?</b>	<b>Size of Workforce</b>	<b>Location</b>	<b>Status</b>
Factory "Bar bilje" (private)	Products from mushrooms, forest fruits etc.	No (in transition)	20	Zubin Potok	Not Producing
Factory "Grade"	Screws	Not productive	50	Zubin Potok	Not Producing
Factory "VIK" (joint-stock)	Chocolates, wafers	Yes (occasionally)	60	Zubin Potok	Not Producing
Crystal	Crystal items	No	100	Leposavić	Not Producing
Trepça	Lead & Zinc products	Yes, low capacity of alloy production and battery recycling	0	Zvecan	Social Company
Zvečan Company	Public Utilities	Yes	53	Zvecan	Social Company
Jugobanka – Zvecan	Finance	Yes	7	Zvecan	Social Company
"Ibar – Zubin Potok"	Protection of forest and wood exploitation	Yes	30	Zubin Potok	Social Company
JPK "Ibar"	Public utility	Yes	120	Zubin Potok	Social Company
Public Enterprise "PTK"	Postal Services	Yes	97	Mitrovica	Social Company
Municipal Public Enterprise "Uniteti"	Public Services - Sewage and Refusal collection	Yes	190	Mitrovica	Social Company
Municipal Public Enterprise "Regional water – supply"	Public Utilities	Yes	213	Mitrovica	Social Company
Kosovatrans	Public Transport Service	Yes	300	Mitrovica	Social Company
Trepça mines	Metals	No	800	Leposavić	Social Company
Trepça clothing	Gloves	N/A	70	Leposavić	Social Company

<b>Employer</b>	<b>Service/Products</b>	<b>Production ongoing?</b>	<b>Size of Workforce</b>	<b>Location Status</b>	
Jugobanka – Leposavic	Financial	Yes	5	Leposavić	Social Company
Ibar - Serbian Forest	Environment protection	Yes	88	Leposavić	Social Company
Hrast	Furniture	Poorly productive	169	Leposavić	Social Company
Prva Petoletka	Machine parts	Poorly productive	93	Leposavić	Social Company
“Univerzal” Leposavic	Department store	Poorly productive	132	Leposavić	Social Company
Plant “Elektrodistribucija” (state-owned)	Distribution of electric power	Yes	20	Zubin Potok	Social Company
24 November- Public utilities	Public Service	Yes	64	Leposavić	Social Company
Zvecan Bread Factory	Bread	Yes	10	Zvecan	Social Company
Factory “Javor” (joint-stock)	Clothes, shirts	Yes (in transition)	120	Zubin Potok	Social Company
Furniture factory “Simpo” (state-owned)	Furniture	Yes	120	Zubin Potok	Social Company
Hydro-electric power plant “Gazivode” (state-owned)	Electric power	Yes	60	Zubin Potok	Social Company
Plant “Ivo Lola Ribar” (joint-stock)	Spare parts for machinery	Yes	50	Zubin Potok	Social Company
Ivo Lola Ribar	Machines parts	Yes	217	Leposavić	Social Company
Social Enterprise “LUX”-privatised	retailer - Shops	Yes	53	Mitrovica	Private Sector Company
Brest	Civil Works	Yes	15	Zvecan	Private Sector Company
DES Komerc	Civil Works	Yes	11	Zvecan	Private Sector Company
MID Kompanija	Civil Works	Yes	24	Zvecan	Private Sector Company

<b>Employer</b>	<b>Service/Products</b>	<b>Production ongoing?</b>	<b>Size of Workforce</b>	<b>Location Status</b>	
Ozring	Civil Works	Yes	21	Zvecan	Private Sector Company
PP MGMB "Cole"	Civil Works / Construction	Yes	15	Zvecan	Private Sector Company
Commercial Bank	Finance	Yes	2	Zvecan	Private Sector Company
Kosovo-Metohia Bank	Finance	Yes	23	Zvecan	Private Sector Company
Cooperative "Banjska"	Agriculture	Yes	28	Zvecan	Private Sector Company
Gradina	Charcoal production/Fuel sales	Yes	10	Zvecan	Private Sector Company
"Klub Soda"	Juice production/ Poultry	Yes	12	Zvecan	Private Sector Company
Markoni	Restaurant Management	Yes	18	Zvecan	Private Sector Company
P.G.P. "Mostkolor"	Recycling	Yes	30	Zvecan	Private Sector Company
Yugo Petrol	Gas Station	Yes	15	Zvecan	Private Sector Company
Zvecan Dairy	Dairy products	Yes	14	Zvecan	Private Sector Company
Agricultural co-operative "Zubin Potok" (joint-stock)	Fish, eggs, animal food	Yes	120	Zubin Potok	Private Sector Company
Handicraft co-operative "Kolasin"	Various handicraft products	Yes	80	Zubin Potok	Private Sector Company
"Ibar-Invest" (joint-stock)	Trade, tourism, printing	Yes	30	Zubin Potok	Private Sector Company
"Kolasin Prevoz"	Transportation of	Yes	40	Zubin Potok	Private Sector

<b>Employer</b>	<b>Service/Products</b>	<b>Production ongoing?</b>	<b>Size of Workforce</b>	<b>Location</b>	<b>Status</b>
(private)	people				Company
“Stari Kolasin”	Publishing/Culture	Yes	25	Zubin Potok	Private Sector Company
Flour – bread Industry-privatised	Production	Yes	160	Mitrovica	Private Sector Company
Kosovo-Metohia Bank	Financial	Yes	10	Leposavić	Private Sector Company
Commercial Bank	Financial	Yes	5	Leposavić	Private Sector Company
Zitoproduct	Bakery	Yes	47	Leposavić	Private Sector Company
Total Employees	4,066				
Total Employees in Private Sector	808				