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How to join EU while there are many differences of doing business in the same city?

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Abstract

Everything in the world is compound from small pieces; I am starting with this sentence because if our country wants to join the European Union, our leaders should start by solving small problems in our country. This study explores the differences of doing business in Mitrovica city, Republic of Kosova. Mitrovica is a small city which is located in the north part of the Republic of Kosovo and it is a divided city where in the north part of the city lives the Serbians and in the south part of the city lives Albanians. It is very important to study more deeply this issue because the situation of Mitrovica is unique in Europe and also there are no other studies about this issue. The methodology of research is compound by qualitative and quantitative data. This study is an exploratory research that starts from small parts to explain a new problem. To accomplish the research objectives, the study was divided in four parts: first, the theoretical part, second part is a research in Mitrovica that contains primary data (a survey through a questionnaire in 40 SME-s, 20 SME-s in the south part of the city and 20 SME-s in the north part of the city) and secondary data (data from institutions of the RKS, World Bank), third part explains the repercussions from the security approach and finally some concluding remarks and recommendations. From the results obtained from research we argue that the differences on doing business between two parts of the city exist and the

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economy of the city is facing with informal economy. All these differences found and the informal economy has a negative impact in the economic development of our country.

Keywords: Differences, Informal Economy, Taxes, Economic Development, Security.

JEL Code Classification: A10, O10, O17, Z1, K22

1. Introduction

It is well known that there is a lot of literature about businesses activity, the way how they are doing business, business barriers etc, but, the scholars are continuing to make researches on these fields that's because they are trying continuously to improve the business operating way.

In the Republic of Kosovo there are a lot of studies regarding business barriers, entrepreneurship, business crime, etc, but there is no any study that explores the situation of doing business in the North part of Mitrovica and the South part of the city. Every day we are hearing the speeches of our leaders saying that our goal is to join the European Union and the we know that the European Union calls countries to fight against corruption, against informal economy, to respect law, etc, something that still has a lot of problems in our country, and, this is exactly the reason why we chose to do a research in this field because we want to prove that what is happening in our city is a special case in Europe on which our leaders and Europe needs to pay attention.

The main objective of this study was to confirm that the businesses in Mitrovica are doing business in the same city but completely in a different ways and that we are facing with informal economy.

The methodology of research is compound by qualitative and quantitative data. By objectives of the study we can see that this is an exploratory research that starts from small parts to identify a new problem.

2. Theoretical part

Business may be defined as an activity, in which different persons exchange something of value whether goods or services for mutual gain or profit. It may be called an organized and systematized activity for profit. It starts with the identification of opportunities. It starts with the identification of opportunities. According to *Peterson and Plowman*, 'a single isolated transaction of sale and

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purchase will not constitute business. Recurring or repeated transactions of sale and purchase alone means business'.⁵²

An organization that produces or distributes a good or service for profit is called a business. Profit is the difference between earned income and costs. Every business engages in at least three major activities. The first activity, **production**, involves making a product or providing a service. Manufacturing firms create products that customers purchase to satisfy needs, whereas service firms use the skills of employees to offer activities and assistance to satisfy customer needs. Today the number of service firms far exceeds the number of manufacturing firms. For this reason, it is sometimes said that we live in a service society. The second activity that businesses are involved in is marketing. **Marketing** includes the activities between business and customers involved in buying and selling goods and services. The third activity, **finance**, deals with all of the money matters involved in running a business. Whether a business has one worker or thousands of workers, it is involved with production, marketing and finance.⁵³

All industrialized nations of the world seek economic growth, full employment and price stability. The changes that result from either economic growth or economic downturn affect the amount of products and services that customers are willing to purchase and, as a result, the amount of products and services produced by business firms. Generally, the business cycle consists of four states: *the peak, recession, depression and recovery or expansion*. During the *peak* period, the economy is at the highest point and unemployment is low. Generally, economists define a *recession* as two or more consecutive three-month periods decline in a country's GDP. Because unemployment rises during a recession, total buying power declines. Economists define a *depression* as a severe recession that lasts longer than a typical recession. Depression is characterized by extremely high unemployment rates, low wages, reduced purchasing power, lack of confidence in the economy, lower stock values and a general decrease in business activity. *Recovery or expansion* is movement of the economy from recession or depression to prosperity. High unemployment rates decline, income increases, and both the ability and the willingness to buy rise.⁵⁴

All the businesses should respect the law of the country on which they operate because as we know laws have been used to achieve equality in those aspects of life in which equality is not a reality. For example: the social welfare programs of state and federal governments were created to further the cause of economic

⁵² R.P. Maheshwari (2004). *Principles of business studies*, Pg. 1.

⁵³ Burrow, Kleindl & Everard (2008). *Business Principles and Management*, Pg. 4, Thomson South Western.

⁵⁴ Pride, Hughes & Kapoor (2012). *Business*, Eleventh Edition, Pg. 20-21.

justice, the equal-right-to-employment acts were passed to bring greater equality to the job market, etc.⁵⁵

Business competition is essentially a rivalry among businesses for sales to potential customers. In a capitalistic economy, competition also ensures that a firm will survive only if it serves its customers well by providing products and services that meet needs.⁵⁶

The classification of businesses regarding the number of employees is:

- Micro businesses 1-9 employees,
- Small businesses 10-49 employees,
- Medium businesses 50-249 employees, and
- Big businesses 250-... employees.

It is very important to mention that the businesses have a key role in the economic development of one country, because if we have more successful businesses, we will have lower unemployment rate and we will have higher state budget.

3. Research part

3.1. Where the country stands (Economic performance and structure)

The Republic of Kosovo is a lower-middle-income country with solid economic growth performance since the end of the war. Kosovo's economic growth has averaged over 4 percent since the end of the conflict in 1999, and it has remained positive throughout the global economic crisis. Growth peaked at 6.9 percent in 2008, before declining to 3 percent in 2009 in the wake of the crisis. The overall impact of the crisis was smaller than in neighboring countries, largely because of Kosovo's limited integration into the global economy and increased public spending on reconstruction and private sector investment.⁵⁷ The Diaspora, especially to the German-speaking countries of Central Europe, remains an important source of remittances, although they have been affected by the international state of affairs.⁵⁸ The country continues to depend on both the Diaspora and the international community for financial and technical assistance. Largely reflecting historical legacies, Kosovo remains one of the poorest countries

⁵⁵ Marianne M. Jennings (2012). *Business: Its Legal, Ethical and Global Environment*, Ninth Edition, Pg. 7.

⁵⁶ Pride, Hughes & Kapoor (2012). *Business*, Eleventh Edition, Pg. 21.

⁵⁷ World Bank (2013)

⁵⁸ Remittances from Germany, Switzerland, Italy, and the Nordic countries (mainly Sweden) account for over 15 percent of GDP, while aid and donor-funded activities account for another 7.5 percent of the GDP. (USAID, 2010)

in Europe, with a per-capita gross domestic product (GDP) of about €2,700 and about one-third of the population living below the poverty line; roughly one-eighth are in extreme poverty. Unemployment in particular, estimated at about 40 percent, remains a central economic-policy challenge. However, in relatively little time, Kosovo has slowly transitioned to a market-based economy with macro-economic stability. Since the end of the conflict, Kosovo has privatized several state-owned enterprises, signed free trade agreements, embarked on economic projects with multilateral agencies, and managed a budget surplus until 2011.⁵⁹ International economic integration has yet to be fully accomplished. Kosovo does not have a competitive and export-friendly economy, and the external imbalances continue to be high.⁶⁰ The level of private investment is growing, but investment efficiency is a major concern. A number of serious obstacles need to be addressed. The 2010 BEEPS report for Kosovo points to five sets of obstacles to doing business. While in some areas the business climate in Kosovo has improved and filled the trade gap with neighboring countries, as reported in the recent Doing Business report⁶¹, some challenges remain, such as⁶²: severe infrastructure gaps, deficiencies in the rule of law, shortages of appropriately skilled labor, limited access to finance, and onerous regulatory procedures for business entry and operations.⁶³ The country's production capacity was substantially reduced during the 1990s. Currently, about 80 percent of business is in the service sector, which accounts for two-thirds of total GDP, whereas only 2 percent of all businesses are registered in the primary sector (agriculture/extraction) and 16 percent are in the secondary sector (manufacturing). Minerals and metals include a variety of construction materials that once formed the pillar of the national industry. Production has declined because of aging equipment and insufficient investment. A limited and unreliable electricity supply that suffers from technical and financial problems is a major impediment to economic development. The agriculture sector is characterized by low productivity. The informal sector remains an important challenge. Kosovo's enterprise sector remains dominated by small and micro-enterprises and are highly concentrated in trade and services (less than 10 percent

⁵⁹ World Bank technical assistance project (2013). *Western Balkans Regional R&D Strategy for Innovation: Kosovo*, Pg. 11.

⁶⁰ http://www.switzerland-ge.com/en/filefield-private/files/42915/field_blog_public_files/9804

⁶¹ Kosovo has improved its ranking in the 2013 report -from 126th to 98th out of 185 economies world-wide World Bank (2013).

⁶² *European Commission* (2011b).

⁶³ Starting a business is a particularly lengthy and costly procedure, requiring 52 days and 23 percent of income per capita, and is more complicated than the average for the southern European region World Bank (2012a).

of firms are in the manufacturing sector). About 99.7 percent of the enterprises employ fewer than 50 people, contributing to about 60 percent of the overall turnover in the economy.⁶⁴

Hence Kosovo faces significant challenges to leverage its growth potential. Some of these challenges are basic infrastructure – e.g., an outdated industry equipment and unreliable electricity supply – and, more generally, the need for strengthened business framework conditions. Kosovo's candidacy for EU membership was given an assessment,⁶⁵ following the European Commission's Feasibility Study in October 2012, which found no legal obstacles that would prevent the EU from opening negotiations for a Stabilization and Association Agreement.⁶⁶

3.1. Research results, North and South Mitrovica, Kosovo

SMEs (small and medium enterprises) are a vital part of Kosovo's economy and account for approximately 40% of GDP. SMEs employ around 60% of formal sector employees and account for 99% of all businesses. However, despite their immense importance, especially as job generators, SMEs in Kosovo continue to face institutional barriers and other obstacles in the business environment.⁶⁷

Through the results of the research that we have done we will explain how the businesses are operating in both parts of the city. The research was done through a questionnaire that contains 12 questions. Our sample is compound by 40 businesses in total: 20 from North part of Mitrovica and 20 from South part of the City. We will interpret all the questions results below.

3.1.1. Business Type

From the analyses we can see that the number of businesses that participated on this sample is 40 from which: 3 or 7.5 % are production oriented businesses, 17 or 42.5 % are services oriented businesses and 20 or 50.0 % of the businesses are trade oriented businesses.

Table 1&2 - Businesses Type for both parts of the Mitrovica city

⁶⁴ World Bank technical assistance project (2013), *Western Balkans Regional R&D Strategy for Innovation: Kosovo*, Pg. 12

⁶⁵ Republic of Kosovo declared independence in February 2008 and it was recognized from 108 countries. By early 2013, 98 of a total 193 UN member states (51 percent) have recognized Kosovo's independence, including 22 EU member states.

⁶⁶ World Bank (2012).

⁶⁷ Group for Legal and Political Studies (06/2012). *Business environment in Kosovo*, Pg. 5.

Business type, South part	Frequency	Percentage
Production oriented	2	10.0
Services oriented	8	40.0
Trade oriented	10	50.0
Total	20	100.0

Business type, North part	Frequency	Percentage
Production oriented	1	5.0
Services oriented	9	45.0
Trade oriented	10	50.0
Total	20	100.0

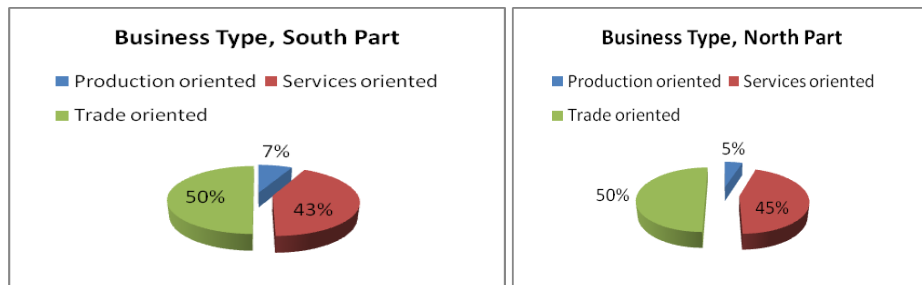


Fig. 1&2 - The percentage of businesses by type for both parts of the Mitrovica city

3.1.2. Businesses Classification regarding the number of employees

From the analyses we can see that the number of businesses classified by the number of employers is: 31 or 77.5 % are microbusinesses, 6 or 15.0 % are small businesses and 3 or 7.5 % are medium businesses.

Table 3&4 - Businesses Classification for both parts of the Mitrovica city

Number of employees	Frequency	Percentage
From 0 to 9	13	65
From 10 to 50	5	25
From 51 to 250	2	10
Total	20	100

Number of employees	Frequency	Percentage
From 0 to 9	18	90
From 10 to 50	1	5
From 51 to 250	1	5
Total	20	100

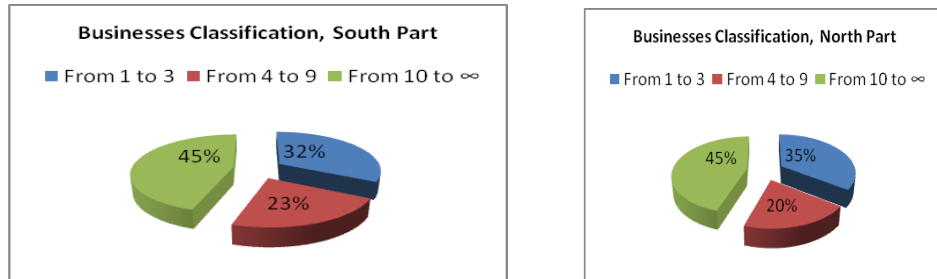


Fig. 3&4 - The percentage of businesses classification regarding the number of employees

3.1.3. Experience in the market

From the analyses of the results from both parts of the city we can see that in total we have: 13 or 32.5 % businesses that are in the market from 1-3 years, 9 or 22.5 % businesses that are in the market from 4-9 years and 18 or 45.0 % businesses that are in the market more than 10 years.

Table 5&6 – Businesses experience in the market for both parts of the Mitrovica city

Experience in market	Frequency	Percentage
From 1 to 3	6	30
From 4 to 9	5	25
From 10 to ∞	9	45
Total	20	100

Experience in market	Frequency	Percentage
From 1 to 3	7	35
From 4 to 9	4	20
From 10 to ∞	9	45
Total	20	100

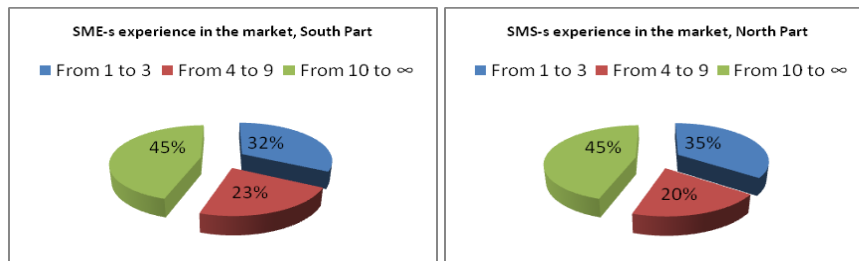


Fig. 5&6 - The percentage of businesses classification regarding the experience in the market

3.1.4. The main country of import

Through the questionnaire we have made a comparison between businesses in the South and North part of Mitrovica and from the results we can see that all the businesses from the North part of the city that import goods have chose as

the main country of import Serbia, and, the businesses in the South part have different import countries as listed in the tables below. In the table of the South Part we have greater number comparing with the table of South Part because some of the businesses from the South Part declared that they have more than one country from which they import.

Table 7&8 – The main country of import

Main Country of Import, South Part	Frequency	Percentage	Main Country of Import, North Part	Frequency	Percentage
Serbia	8	17.78	Serbia	10	50.00
Macedonia	7	15.56	Macedonia	0	0.00
Albania	10	22.22	Albania	0	0.00
Turkey	6	13.33	Turkey	0	0.00
Germany	2	4.44	Germany	0	0.00
China	5	11.11	China	0	0.00
Dubai	3	6.67	Dubai	0	0.00
No where	4	8.89	No where	10	50.00
Total	45	100.00	Total	20	100.00

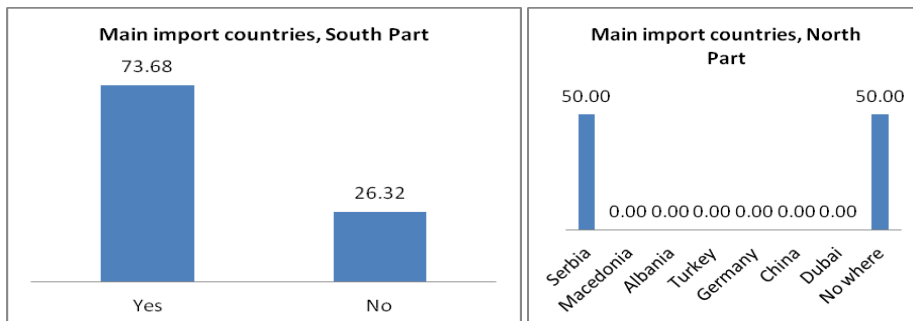


Fig. 7&8 – Main import countries percentage

3.1.5. The difficulty of importing

From the results obtained we can see that 70.0 % of the businesses in the South Part of the city responded that yes they have difficulties while importing, while, only 5.0 % of the businesses from the North Part of Mitrovica responded that they have difficulties while importing.

Table 9&10 – The difficulty of importing for SME-s from both parts of the city

Is it difficult	Frequency	Percentage	Is it difficult to	Frequency	Percentage
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to import? SP		
Yes	14	70
No	2	10
Don't know	4	20
Total	20	100

import? NP		
Yes	1	5
No	9	45
Don't know	10	50
Total	20	100

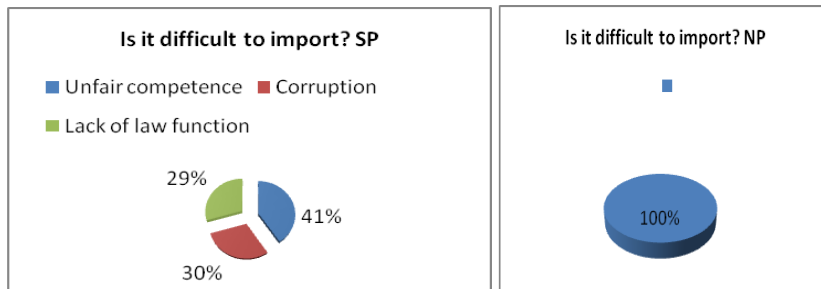


Fig. 9&10 –The difficulty of importing in percentage

3.1.6. Barriers of importing

The SME-s were asked about the barriers of importing, and, from the results we can see that the businesses from the South part of Mitrovica answered that: 37.5 % from the most important barriers of importing are taxes, 30.0 % are Customs Terminal Procedures, 22.5 % are transport barriers and 10.0 % answered that they don't know (this group is compound from the businesses that do not import). While, the businesses from the North part answered that 40.0 % of the biggest barriers of import is transport, 10.0 % answered for Customs Terminal Procedures and 50.0 % answered don't know.

Table 11&12 – Barriers of importing for SME-s from both parts of the city

Barriers of importing SP	Frequency	Percentage
Transport	9	22.5
Taxes	15	37.5
Customs Terminal Procedures	12	30
Don't know	4	10
Total	40	100

Barriers of importing NP	Frequency	Percentage
Transport	8	40
Taxes	0	0
Customs Terminal Procedures	2	10
Don't know	10	50
Total	20	100

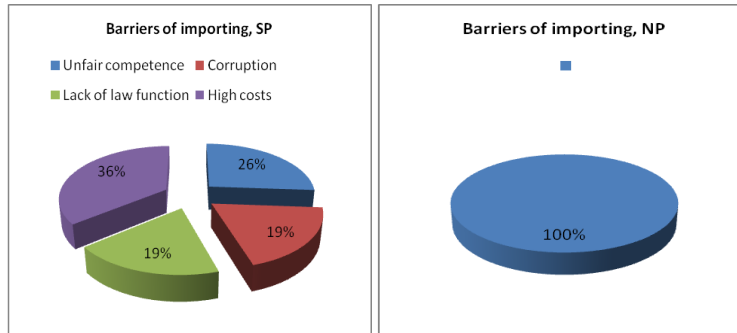


Fig. 11&12 – Barriers of importing in percentage

Barriers of doing business

The question which are the barriers of doing business, the SME-s have evaluated by number from 10-1 (from the most important till the least important). And from the results you can see that the most important barrier on doing business in the SP (South Part) of Mitrovica is high costs, while, for the businesses from the NP (North Part) of the city the most important barrier of doing business is unfair competence.

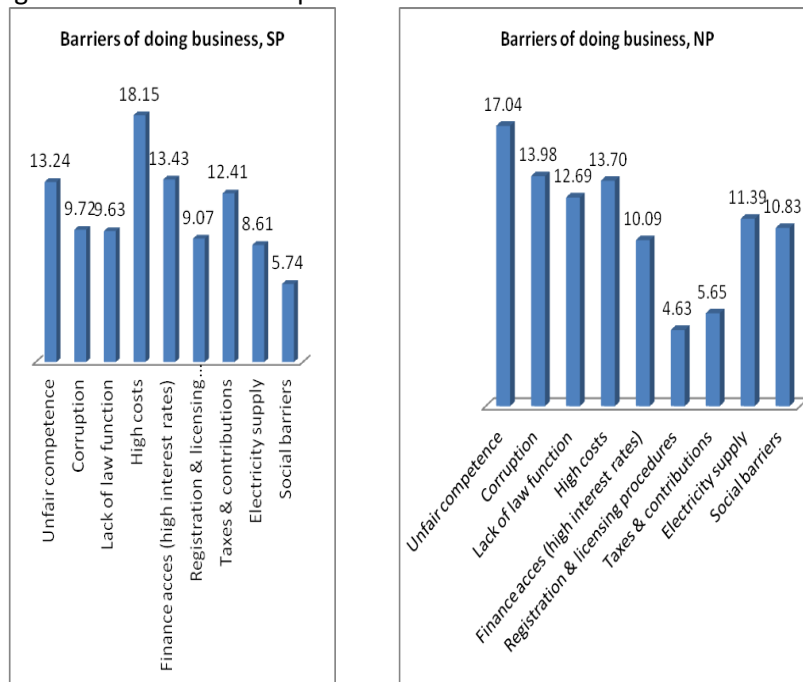


Fig. 13&14 – Barriers of doing business

Tax declare – period of time

From the results we can see that we have completely different results from both parts of the city. That's because the businesses in the South part always declare taxes, while, the businesses from the North part of Mitrovica do not declare taxes.

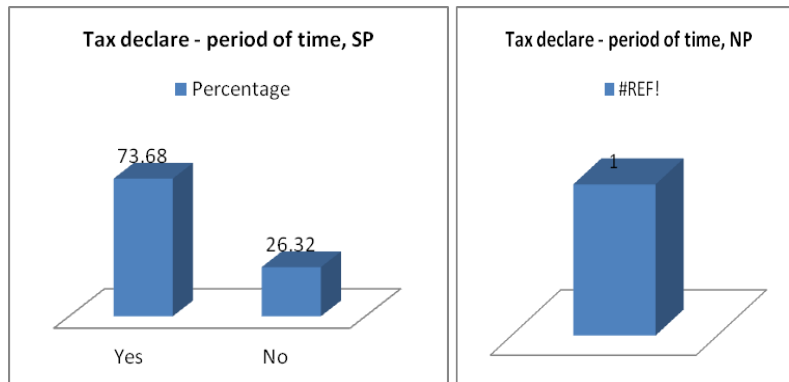


Fig. 14&15 – The percentage of tax declaration for businesses in SP&NP of Mitrovica

3.1.7. Taxes declare – to which authority?

From the results of the research you can see that the businesses that operates in the SP of the city declare taxes to the Tax Authority of Kosova, while, businesses from the NP do not declare taxes anywhere.

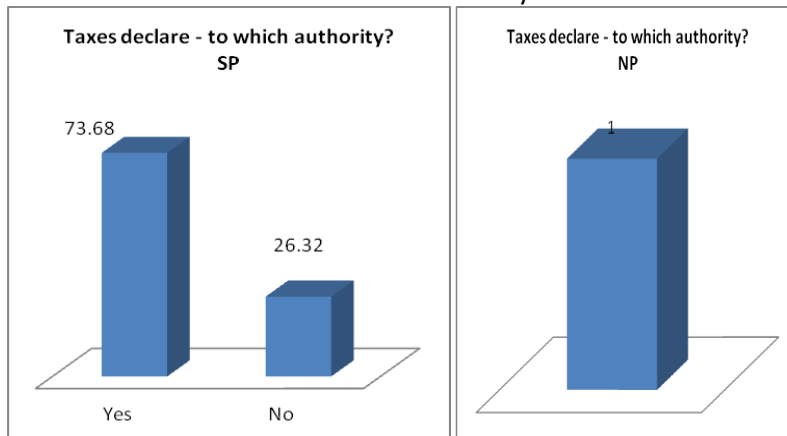


Fig. 15&16 – Taxes declare authority in percentage

3.1.8. Controls from Tax Authority

From the results we can see that in the North part of the city businesses there are no Tax Authority official's controls, while, in the South part of the city's businesses there are often controls from the Tax Authority officials.

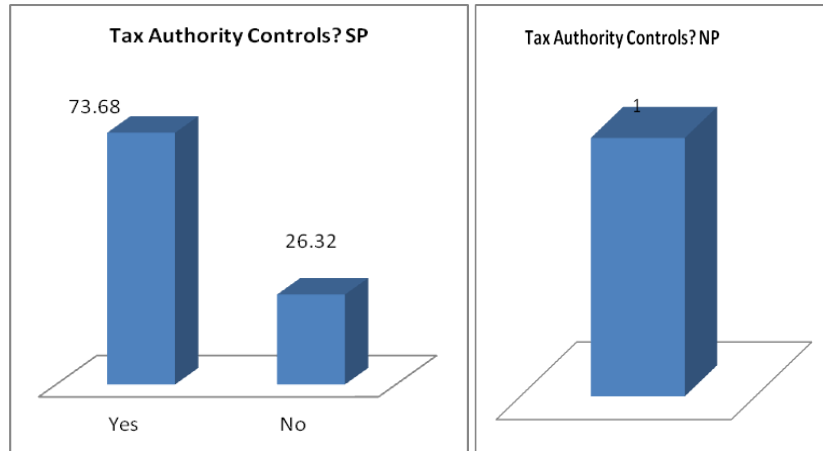


Fig. 17&18 – Tax Authority Controls in percentage

3.1.9. TAK last control

From the results of this question we can see when was the last control of the TAK on the businesses in the SP of the city, while, in the NP there had never TAK control.

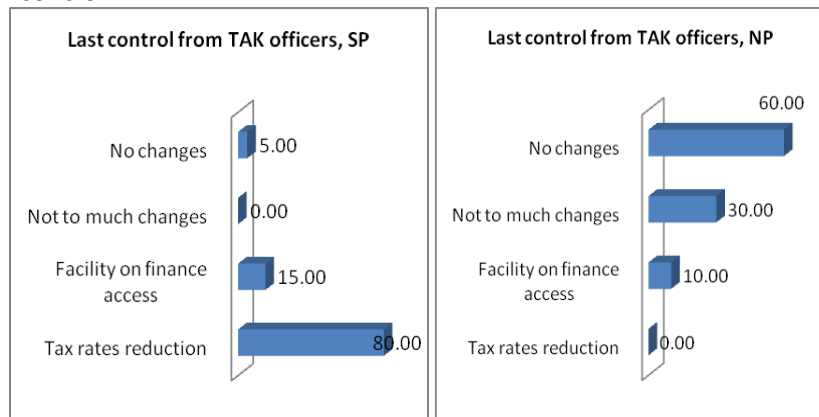


Fig. 19&20 – Last control from TAK officers in percentage

3.1.10. Changes expected

From the results of the research we can see that changes expected from the businesses that operate in the SP of Mitrovica are: 80.0 % expect tax rates reduction, 15.0 % expect facility on finance access and 5.0 % expect no changes. While, the changes expected from the businesses that operate in the NP of the city are different: 60.0 % expect no changes, 30.0 % expect not to much changes and 10.0 % expect facility on finance access.

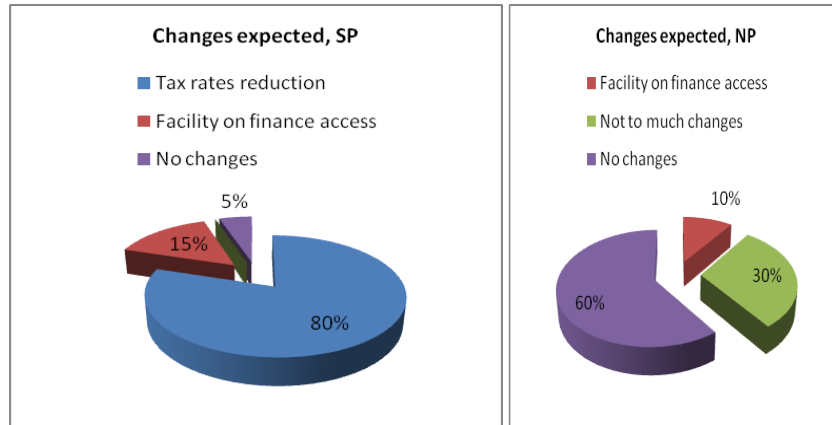


Fig. 21&22 – Changes expected from businesses in percentage

Conclusion

This study is a research on SME-s. We have done a study for SME-s because the private sector was and is indispensable in the achievement of important development results in the world. This sector constitutes the biggest part of the GDP on a big number of developing countries and it is also responsible for around 90 % of the work places in the world (World Bank, 2012).

It is very important for our country to develop the businesses because they will have a positive impact in the economic development of our countries by decreasing the unemployment rate of our country and by contributing in the state budget by paying taxes, because, from the last financial reports of the government of Kosovo it is known that the TAK incomes compounds the second biggest income of our state budget.

Through this study we described some definitions about businesses, also, we explained the importance of businesses in the economic development of one country.

By the results obtained we freely must say that we have fulfilled the objectives of our study, because, through the results of research we have proved that the businesses in our city are doing business in a completely different ways from each other, and, we also proved that in the North part of the city our state is facing with informal economy. Our findings should serve as a start of exploring and as a starting point to solve such a unique problem that without solving it I don't know how our state can join the European Union!

From this situation the budget of the Republic of Kosovo is damaging and it has negative impact in the economic development of our country.

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A recommendation for our policymakers is that they should start to put order in the North part of Mitrovica, because in front of the law everyone should be equal. In this case the businesses in the same city are treated in different ways from our policymakers.

New researchers and scholars should make a lot of researches regarding this issue because there is urgent need to pay more attention to such a delicate situation.

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