Publisher
Institute for Territorial Economic Development (InTER)

For the publisher
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Cover Page Photo
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Year
2018
The publication was developed within the project financed from the grant of the Kosovo Foundation for Open Society. The contents of the publication are the sole responsibility of authors and can in no way be taken to reflect the views of the Kosovo Foundation for Open Society.
Freakonomics of Northern Kosovo

January 2018
CONTENTS

ABBREVIATIONS ................................................................................................................. 1

1. Introduction ...................................................................................................................... 2

2. Economic structure in North Kosovo municipalities ......................................................... 3
   2.1 Economic structure in North Kosovo municipalities ..................................................... 3
       2.1.1 Share of economic activities in the municipality of Mitrovica North ...................... 5
       2.1.2 Share of economic activities in the municipality of Zvecan ................................. 6
       2.1.3 Share of economic activities in the municipality of Leposavic ............................... 7
       2.1.4 Share of economic activities in the municipality of Zubin Potok ......................... 7
   2.2 Agricultural holdings as enterprises .............................................................................. 8
   2.3 Business entities from North Kosovo registered with the Business Registers Agency ...................................................................................................................... 9

3. Registration of business entities in the Kosovo system .................................................... 11
   3.1 Trend of North Kosovo business entities’ registration in ARPSK ................................. 11
   3.2 Reasons for registration of business entities in the Kosovo system ............................... 13

4. Challenges and obstacles in the operations of North Kosovo businesses ......................... 15

5. The role of donors in the economic development in North Kosovo ................................. 17

6. The role of chambers of commerce in North Kosovo ....................................................... 18

7. Employment in North Kosovo ........................................................................................... 20

8. Conclusion and recommendations .................................................................................. 23

ANNEXES: Structure of economic activities in North Kosovo .............................................. 26
   Annex 1: Most common economic activities in North Kosovo, according to the data from ARPSK ................................................................................................................. 26
   Annex 2: Structure of economic activities in North Kosovo, according to the data from the Serbian Business Registers Agency for 2015 ................................................................ 27
# ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>APR</td>
<td>Business Registers Agency of the Republic of Serbia</td>
</tr>
<tr>
<td>ASK</td>
<td>Kosovo Agency of Statistics</td>
</tr>
<tr>
<td>ARPSK</td>
<td>Agency for Registration of Business Entities in Kosovo</td>
</tr>
<tr>
<td>CEFTA</td>
<td>Central European Free Trade Agreement</td>
</tr>
<tr>
<td>Ltd</td>
<td>Limited liability company</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>InTER</td>
<td>Institute for Territorial Economic Development</td>
</tr>
<tr>
<td>IOM</td>
<td>International Organization for Migration</td>
</tr>
<tr>
<td>KFOS</td>
<td>Kosovo Foundation for Open Society</td>
</tr>
<tr>
<td>NACE</td>
<td>Statistical classification of economic activities in the European Community</td>
</tr>
<tr>
<td>NES</td>
<td>National Employment Service of the Republic of Serbia</td>
</tr>
<tr>
<td>OSCE</td>
<td>Organisation for Security and Cooperation in Europe</td>
</tr>
<tr>
<td>VAT</td>
<td>Value added tax</td>
</tr>
<tr>
<td>SDC</td>
<td>Swiss Agency for Development and Cooperation</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
</tbody>
</table>
1. Introduction

Business entities in the Serb-majority municipalities in North Kosovo: Mitrovica North, Leposavic, Zubin Potok and Zvecan have been operating for years in an unfavourable business environment characterized by security challenges, market limitation, complicated administrative procedures and problems in free movement of people, goods and services. Having in mind that businesses from Kosovo have mostly been operating in the Serbian legal system, the situation is additionally complicated with the signing of the Brussels Agreement, when Kosovo’s legal framework is established in the territory of the observed municipalities. This change has significantly influenced the operations of businesses from North Kosovo and their adaptation to the new circumstances.

The subject of this research is the state of the economy in the four municipalities in North Kosovo, especially in the circumstances that followed the signing of the Brussels Agreement. Due to (non)availability of data, the survey mainly refers to companies registered under Kosovo regulations. Data on the operations of businesses within the Serbian system are given at the basic level, in accordance with the data available to the research team.

The paper consists of eight parts. After the introduction, the second part gives an insight into the structure of the economy in North Kosovo. Parts three and four deal with the dynamics of registration of business entities and the changes that have occurred in business operations after the signing of the Brussels Agreement. Parts five and six explain the role of international donors and chambers of commerce in creating a more favourable business environment. A review of the scope of employment in enterprises registered with Kosovo institutions is given in the seventh part. The last part contains final observations and recommendations for the development of economy in North Kosovo.

The research was conducted within the project "Analysis of economy in North Kosovo after the Brussels Agreement – where are employment opportunities?", implemented by the Institute for Territorial Economic Development (InTER), in partnership with RTV Mir from Leposavic and with the financial support from the Kosovo Foundation for Open Society (KFOS). The project was implemented between April 2017 and January 2018. The content of the study is the sole responsibility of the authors and does not reflect the views of the Kosovo Foundation for Open Society or RTV Mir.

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1 Mitrovica North is only recognized as a separate municipality after the signing of the Brussels Agreement (2013). In the Serbian system, this municipality still uses the name "Kosovska Mitrovica".
2. Economic structure in North Kosovo municipalities

2.1 Economic structure in North Kosovo municipalities

North Kosovo includes four municipalities: Mitrovica North, Zvecan, Zubin Potok and Leposavic. Since Serbs have boycotted the census in Kosovo, there are no accurate data about the number of inhabitants in the observed municipalities. Based on the OSCE assessment, there are about 80,000 inhabitants in North Kosovo, of which 70,000 Kosovo Serbs. The largest demographic agglomeration is in Mitrovica North with the population of 2,678 per km², and the least densely populated municipality is Leposavic with only 25 people per km².

Statistics on business demographics have a somewhat different distribution by municipalities. According to the Agency for Registration of Business Entities in Kosovo (hereinafter ARPSK), in the period from 2000 to the end of 2017, an average of four business entities per 100 inhabitants were registered in the observed municipalities. The largest number of companies were registered in Leposavic municipality (6.9 enterprises per 100 inhabitants), most of which are registered for Wholesale and retail trade, repair of motor vehicles and motorcycles, and Agriculture, forestry and fishing. The largest number of agricultural business entities were registered in Leposavic (289 farmers, 49%), which is expected, as this area is among the largest in Kosovo. Data on the total population by municipalities, their size and the number of registered business entities from 2000 to the end of 2017 are given in the following table.

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Area (km²)</th>
<th>Population (estimation)</th>
<th>Population density per km²</th>
<th>Number of businesses</th>
<th>Business density per 100 inhabitants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitrovica North</td>
<td>11</td>
<td>29,460</td>
<td>2,678</td>
<td>554</td>
<td>1,9</td>
</tr>
<tr>
<td>Zvecan</td>
<td>104</td>
<td>16,650</td>
<td>160</td>
<td>737</td>
<td>4,4</td>
</tr>
<tr>
<td>Zubin Potok</td>
<td>335</td>
<td>15,200</td>
<td>45</td>
<td>598</td>
<td>3,9</td>
</tr>
<tr>
<td>Leposavic</td>
<td>750</td>
<td>18,600</td>
<td>25</td>
<td>1,291</td>
<td>6,9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,200</strong></td>
<td><strong>79,910</strong></td>
<td><strong>66</strong></td>
<td><strong>3,180</strong></td>
<td><strong>4,0</strong></td>
</tr>
</tbody>
</table>

Source: InTER, according to the data from Municipal profiles, OSCE Mission in Kosovo, September 2015 and the data from the Agency for Registration of Business Entities in Kosovo (ARPSK)

In the period from 2000 to the end of 2017, 3,180 enterprises were registered with the ARPSK in North Kosovo. If we look at the data from 2010, according to the structure of enterprises, the majority are micro enterprises, and according to the legal form there are most

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sole traders (85.4% of the total number of businesses) registered in the Kosovo legal system as individual businesses. Limited liability company (Ltd) is the second most common form of enterprise registration (14.1%), while agricultural cooperatives, general partnerships and foreign companies account for only 0.5% of registered companies.

Chart 1 Share of economic activities in North Kosovo, %

<table>
<thead>
<tr>
<th>Economic Activities</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activities of households as employers</td>
<td>0.03</td>
</tr>
<tr>
<td>Financial and insurance activities</td>
<td>0.06</td>
</tr>
<tr>
<td>Public administration and defence; compulsory social security</td>
<td>0.06</td>
</tr>
<tr>
<td>Real estate</td>
<td>0.09</td>
</tr>
<tr>
<td>Education</td>
<td>0.41</td>
</tr>
<tr>
<td>Arts, entertainment and recreation</td>
<td>0.69</td>
</tr>
<tr>
<td>Mining</td>
<td>0.69</td>
</tr>
<tr>
<td>Water supply, waste water management</td>
<td>0.82</td>
</tr>
<tr>
<td>Health and social work activities</td>
<td>1.35</td>
</tr>
<tr>
<td>Administrative and support service activities</td>
<td>1.64</td>
</tr>
<tr>
<td>Information and communication</td>
<td>1.79</td>
</tr>
<tr>
<td>Professional, scientific, innovation and technical activities</td>
<td>2.70</td>
</tr>
<tr>
<td>Other service activities</td>
<td>3.71</td>
</tr>
<tr>
<td>Accommodation and food service activities</td>
<td>4.37</td>
</tr>
<tr>
<td>Transporting and storage</td>
<td>4.56</td>
</tr>
<tr>
<td>Construction</td>
<td>6.35</td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>11.70</td>
</tr>
<tr>
<td>Wholesale and retail trade, repair of motor vehicles and motorcycles</td>
<td>18.58</td>
</tr>
</tbody>
</table>

Source: InTER, according to the data from ARPSK for the period 2000 - 2017

Companies registered in the period from 2000 to the end of 2017 perform various business activities. According to business statistics in Kosovo, which is in line with the statistical classification of economic activities in the European Union - NACE, registered business activities in municipalities in North Kosovo are grouped in 19 sectors. The most frequent activity is Wholesale and retail trade, repair of motor vehicles and motorcycles with 1,284 registered enterprises, accounting for 40.4% of total registered entities. The second is the Agriculture, forestry and fishing, with 591 enterprises and a share of 18.6% in the total

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

economic activity. They are followed by Manufacturing with 372 registered enterprises (11.7%) and Construction (202 companies, or 6.4%). Other identified economic activities are represented with a smaller share, as presented in Chart 1.

According to the place of registration, the largest number of companies was established in Leposavic and Zvecan (40.6% and 23.2%, respectively). The biggest share of economic activity Wholesale and retail trade, repair of motor vehicles and motorcycles is in the municipality of Leposavic, where 42% of the total number of enterprises in this activity is registered. Other dominant activities also have the biggest share in the Leposavic municipality: 49% of all enterprises in Agriculture, forestry and fishing; 39% of Manufacturing and 41% of enterprises working in Construction. Four biggest economic activities in North Kosovo by place of registration are presented in the Annex. One of the problems in identifying the economic activity is that in ARPSK, business entities are registered for a type of activity, but in reality they operate in another or several different economic activities.

2.1.1 Share of economic activities in the municipality of Mitrovica North

From the beginning of 2000 to the end of 2017, 554 businesses from Mitrovica North were registered with ARPSK, which is 17.4% of the total registered businesses in North Kosovo.

Chart 2 Number of registered business entities by economic activity in the municipality of Mitrovica North

In the structure of economic activities in Mitrovica North, most enterprises are in Wholesale and retail trade (168 enterprises, 30.3%) and Manufacturing (87 enterprises, 15.7%, Chart 2). In the municipality of Mitrovica North, 48 companies are registered in Professional,
scientific, innovation and technical activities, i.e. 8.7% of the total registered enterprises in this municipality.

In the category Other service activities, 43 enterprises (7.8%) were registered in Mitrovica North, while 40 companies (7.2%) were registered for Agriculture, forestry and fishing. Considering the small area covered by this municipality, it is expected that agriculture is not in the top three dominant activities, which is the case in other municipalities in North Kosovo.

2.1.2 Share of economic activities in the municipality of Zvecan

In the municipality of Zvecan, 737 business entities were registered, which is 23.2% of the total number of registered businesses in North Kosovo. These business entities perform 17 different economic activities, with the similar share as in the overall territory of North Kosovo. Most registered economic activities in Zvecan are: Wholesale and retail trade, repair of motor vehicles and motorcycles; Agriculture, forestry and fishing; Manufacturing and Construction.

Chart 3 Number of registered business entities by economic activity in the municipality of Zvecan

Source: InTER, according to the data from ARPSK for the period 2000-2017

In this municipality, 296 business entities were registered in Wholesale and retail trade, repair of motor vehicles and motorcycles, i.e. 40.2% of the total number. Agriculture, forestry and fishing account for 18.7% (138 business entities). The third share belongs to Manufacturing, with 12.3% of businesses (91 business entities). There is also a significant number of construction companies, 50 in total, i.e. 6.8% of registered business entities in this municipality. The remaining 13 economic activities in the municipality of Zvecan have smaller shares, as presented in Chart 3.
2.1.3 Share of economic activities in the municipality of Leposavic

In the municipality of Leposavic, 1,291 business entities were registered, which perform 17 different economic activities. The dominant economic activity is Wholesale and retail trade, repair of motor vehicles and motorcycles, with 41.8%, i.e. 540 registered business entities. The municipality of Leposavic has a good geographic position and climate for agriculture, which is why 22.4% of registered enterprises in this municipality were registered for Agriculture, forestry and fishing. By comparison, this is twice the number of enterprises registered in the same economic activity in the municipalities of Zvečan and Zubin Potok, and almost seven times more than in the municipality of Mitrovica North.

![Chart 4 Number of registered business entities by economic activity in the municipality of Leposavic](chart.png)

*Source: InTER, according to the data from ARPSK for the period 2000-2017*

Manufacture accounts for 11.2% in this municipality, which means that 144 enterprises were registered for this economic activity. In construction, there are 6.4% of registered enterprises, which is almost the same share as in other municipalities.

2.1.4 Share of economic activities in the municipality of Zubin Potok

The municipality of Zubin Potok had 598 registered business entities in the period 2000-2017. According to business density, Zubin Potok is ranked third out of four North Kosovo municipalities. In the observed period (2000-2017), 3.9 enterprises per 100 inhabitants were registered in this municipality. Enterprises were registered for 15 economic activities, and those with the biggest share are Wholesale and retail trade, repair of motor vehicles and motorcycles; Agriculture, forestry and fishing; Manufacturing and Construction (Chart 5).
Wholesale and retail trade, repair of motor vehicles and motorcycles includes 46.8% of the total registered business entities (280). In Agriculture, forestry and fishing, there were 20.7% (124) registered enterprises, and in Manufacturing, 8.4% (50 enterprises) of the total number of enterprises in this municipality. In Construction, there is 6.2% (37 enterprises).

Chart 5 Number of registered business entities by economic activity in the municipality of Zubin Potok

<table>
<thead>
<tr>
<th>Economic Activity</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acts, entertainment and recreation</td>
<td>1</td>
</tr>
<tr>
<td>Education</td>
<td>1</td>
</tr>
<tr>
<td>Health and social work activities</td>
<td>2</td>
</tr>
<tr>
<td>Water supply, waste water management</td>
<td>4</td>
</tr>
<tr>
<td>Professional, scientific, innovation and technical activities</td>
<td>6</td>
</tr>
<tr>
<td>Mining</td>
<td>7</td>
</tr>
<tr>
<td>Information and communication</td>
<td>8</td>
</tr>
<tr>
<td>Other service activities</td>
<td>13</td>
</tr>
<tr>
<td>Administrative and support service activities</td>
<td>15</td>
</tr>
<tr>
<td>Accommodation and food service activities</td>
<td>18</td>
</tr>
<tr>
<td>Transporting and storage</td>
<td>32</td>
</tr>
<tr>
<td>Construction</td>
<td>37</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>50</td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>124</td>
</tr>
<tr>
<td>Wholesale and retail trade, repair of motor vehicles and motorcycles</td>
<td>280</td>
</tr>
</tbody>
</table>

Source: InTER, according to the data from ARPSK for the period 2000-2017

2.2 Agricultural holdings as enterprises

Previously presented statistics show that the majority of business entities, after those in trade, are from Agriculture, forestry and fishing. The reason is probably the fact that a significant number of agricultural holdings are registered with ARPSK as enterprises performing economic activity.

Based on the official data of the relevant institutions of the Republic of Serbia, there are 3,139 agricultural holdings registered in the four municipalities in North Kosovo, of which the majority is registered in Leposavic municipality (1,811). During the transitional process in North Kosovo after the signing of the Brussels Agreement, a significant number of agricultural holdings have been registered as enterprises. The reason for this type of registration probably lies in the fact that farmers are poorly informed and they considered it to be the only way to sell their products and to apply for donor funds. However, this type of registration is not adequate for agricultural holdings, because they cannot use their right to

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any kind of subsidy from the agrarian budget of the Government of Kosovo. Such a registration additionally burdens farmers with the obligations of paying sales tax.

For farmers to register their agricultural holding in the Kosovo system, they must satisfy certain criteria relating to the total area of arable land, or a certain number of livestock, in case they are involved in cattle breeding. Kosovo legislation requires the ownership of at least two hectares of arable land, which is an unachievable criterion for most farmers from North Kosovo due to the land fragmentation.

As for the use of subsidies in agriculture, one of the requirements that is an issue for businesses from the north is to prove ownership of land. Due to the lack of functioning of the judiciary system in North Kosovo and the problems with the exchange of cadastral documents between Serbia and Kosovo, many farmers have a problem to prove ownership of their land.

A significant problem is the boycott of the Census of Agriculture carried out in 2014 by the Kosovo Agency of Statistics (ASK). During the Census, the Register of Agricultural Holdings was created, which did not include farmers from North Kosovo, and therefore they are not in a position to regulate their rights. Farmers from North Kosovo also did not participate in annual surveys of agricultural holdings for 2015 and 2016.

It is also important to note that the lack of credible statistical data on the state of agriculture in North Kosovo makes it difficult to develop adequate programs to support the development of agriculture in this area. Nevertheless, some donors, such as the European Union Office in Kosovo, have invested significant funds to support agricultural sector in North Kosovo.

2.3 Business entities from North Kosovo registered with the Business Registers Agency

According to financial reports of business entities registered with the Business Registers Agency (APR) of the Republic of Serbia, in 2015, there were 340 business entities operating in the observed municipalities, of which the majority was registered in Kosovska Mitrovica (Mitrovica North), 115 in total, followed by Zvecan (87), Leposavic (77) and Zubin Potok (61 enterprises). By structure, micro enterprises dominate (up to 9 employees), with 326 enterprises in total, and one large company also operates in Zvecan (Trepca). It is interesting...

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7 Due to the importance of this problem both for citizens living in Kosovo and for displaced persons, the issue of cadastral records was the subject of negotiations in Brussels. On 2 September, 2011, representatives of Belgrade and Pristina, with the mediation of the European Union, have reached an agreement on cadastral records. However, in the implementation of this agreement, new problems have emerged, so it is expected that the solution will again be discussed in Brussels.

8 The data do not include sole traders.

9 The legislation of the Republic of Serbia maintained the name “Kosovska Mitrovica” which includes the entire city. However, having in mind that the laws of the Republic of Serbia are only “applied” in the north part of the city, a direct link can be made between Kosovska Mitrovica and Mitrovica North.
that there are no medium-sized enterprises in this area (50-249 employees). Data about the structure of business entities registered with APR are presented in the following table.

**Table 2** Number of business entities from North Kosovo by size

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Micro</th>
<th>Small</th>
<th>Medium-sized</th>
<th>Large</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kosovska Mitrovica (Mitrovica North)</td>
<td>112</td>
<td>3</td>
<td></td>
<td></td>
<td>115</td>
</tr>
<tr>
<td>Zvecan</td>
<td>84</td>
<td>2</td>
<td>1</td>
<td></td>
<td>87</td>
</tr>
<tr>
<td>Zubin Potok</td>
<td>59</td>
<td>2</td>
<td></td>
<td></td>
<td>61</td>
</tr>
<tr>
<td>Leposavic</td>
<td>71</td>
<td>6</td>
<td></td>
<td></td>
<td>77</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>326</td>
<td>13</td>
<td>0</td>
<td>1</td>
<td>340</td>
</tr>
</tbody>
</table>

*Source: APR, based on financial reports for 2015*

The largest number of companies operate in Wholesale and retail trade, 50.7% of companies in Kosovska Mitrovica (Mitrovica North), 46% in Zvecan, 42.9% in Leposavic and 42.6% in Zubin Potok. In Zvecan and Zubin Potok, other activities include Construction (Construction of buildings accounts for 10.3% of companies in Zvecan, Specialized construction works account for 6.6% of companies in Zubin Potok and Architectural and engineering activities, engineering testing and analysis accounts for 5.2% of companies in Leposavic).

Classification of economic activities in North Kosovo based on APR’s data is provided in Annex 2 of this study.
3. Registration of business entities in the Kosovo system

3.1 Trend of North Kosovo business entities’ registration in ARPSK

Registration of companies from North Kosovo with ARPSK from 2000 to the end of 2017 did not take place continuously with the same dynamics. The situation changed significantly with the signing of the Brussels Agreement, because the number of registered companies before this event began to grow significantly (Chart 6). This is the beginning of the process of integration of businesses from four municipalities from North Kosovo into the Kosovo legal system.

Of the total number of registered business entities (3,180) from North Kosovo, between the year 2000 and the signing of the Brussels Agreement (2013), 1,618 were registered in ARPSK, while the remaining 1,562 companies were registered from 2013 to the end of 2017. The next chart shows the dynamics of registration of businesses from North Kosovo in the period from 2011 to 2017.

**Chart 6** Dynamics of registration of business entities from North Kosovo with ARPSK

![Dynamics of registration of business entities from North Kosovo with ARPSK](image)

*Source: InTER, based on the data from ARPSK for the period 2011-2017*

If we look at the period after the Brussels Agreement, the biggest increase in the registration of companies was in 2014 and 2015, where the number of registered companies has significantly increased. After that, there is a decline in the business registration trend.

The dynamics of company registration in the Kosovo legal system is similar for all municipalities in North Kosovo, as there is significant growth in the number of registered companies in the period after the Brussels Agreement. A review of the trend of company registration by municipalities in North Kosovo with ARPSK for the period 2011 to 2017 is given in the following chart.
The biggest changes took place in the municipality of Mitrovica North. Namely, until the signing of the Brussels Agreement (April 2013), there were only 16 business entities registered with ARPSK in this municipality. After the Brussels Agreement, 538 new companies were registered in this municipality. Table 3 gives an overview of company registration before and after signing the Brussels Agreement.

Table 3 Companies registered with ARPSK before and after the signing of the Brussels Agreement

<table>
<thead>
<tr>
<th>Period</th>
<th>Mitrovica North</th>
<th>Zvecan</th>
<th>Zubin Potok</th>
<th>Leposavic</th>
</tr>
</thead>
<tbody>
<tr>
<td>From 2000 to the Brussels Agreement</td>
<td>16</td>
<td>437</td>
<td>377</td>
<td>788</td>
</tr>
<tr>
<td>%</td>
<td>2,9</td>
<td>59,3</td>
<td>63,0</td>
<td>61,0</td>
</tr>
<tr>
<td>From the Brussels Agreement to the end of 2017</td>
<td>538</td>
<td>300</td>
<td>221</td>
<td>503</td>
</tr>
<tr>
<td>%</td>
<td>97,1</td>
<td>40,7</td>
<td>37,0</td>
<td>39,0</td>
</tr>
<tr>
<td>Total</td>
<td>554</td>
<td>737</td>
<td>598</td>
<td>1291</td>
</tr>
<tr>
<td>%</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

In addition to the registration of new ones, there is also a trend of closing the registered companies. After the signing of the Brussels Agreement, in particular from the fourth quarter of 2013 to the third quarter of 2017, 5.2% of the total registered companies were closed. After the accelerated registration of companies, especially in the second quarter of 2014 and the first quarter of 2015, there was a gradual closure of a small number of business entities. The number of closed companies was the most significant in the fourth quarter of 2015 (14 companies) and the third quarter of 2016 (10, Graph 8).

10 It should be taken in consideration that the municipality of Mitrovica North was established only after the signing of the Brussels Agreement.
3.2 Reasons for registration of business entities in the Kosovo system

The agreements reached in the process of normalizing relations between Kosovo and Serbia have created the necessary prerequisites for business development and links between enterprises. Important agreements in this field resulted from this process, such as: Agreement on the Freedom of Movement; Agreement on Integrated Border Management, Registration and Collection of Customs Duties and VAT, and Agreement on Customs Seal. Based on the Customs Agreement, at the beginning of 2013, the Provisional Fund for Economic and Infrastructural Development of North Kosovo (North Kosovo Development Fund) was established. By establishing the Fund, it was possible for the socio-economic development of the four municipalities in North Kosovo to be financially supported to a certain extent.

As underlined in the previous section, the signing of the Brussels Agreement has improved the process of registering business entities with ARPSK, which has initiated the increased number of registered enterprises with this Kosovo institution. There are several reasons that have led to an increased registration of businesses from North Kosovo in the Kosovo system. On the one hand, registration in the Kosovo system makes it possible for companies from the four municipalities to more easily connect and do business with companies from other parts of Kosovo, while ensuring the same rights and obligations accepted with the registration for economic activity in Kosovo. Registered companies from the north have the possibility to access the market of South Kosovo, without restrictions for unregistered companies or

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11 Data were not available for the fourth quarter 2017 at the moment of development of this study.
companies registered in other legal systems, in this case in the Serbian system. This is especially important for trading businesses.

On the other hand, the only way for companies from North Kosovo to trade with Serbia and operate legally is by registering in the Kosovo legal system. This is regulated by the establishment of administrative border crossings between Serbia and Kosovo. All companies registered in the territory of Kosovo are obliged to pay customs duties for import and export of goods and services. For this reason, apart from newly established business entities, those who had been registered in the Serbian system also registered in accordance with the Kosovo legislation.

Participation in public tenders in local self-governments in North Kosovo is also one of the main reasons for the increased number of registered companies. Local self-government units in North Kosovo, constituted after the signing of the Brussels Agreement and operating under Kosovo laws, often announce calls for public works and the procurement of goods and services to which companies from Kosovo registered in Serbia cannot apply. Bearing in mind that most companies in these municipalities are registered with the Business Registers Agency of the Republic of Serbia, their registration was no longer valid for participation in municipal tenders. Therefore, registration with Kosovo institutions was crucial for further operations of these businesses.

The reason for the increased number of registrations is partly in the rules for using donor assistance in North Kosovo. In order for businesses from North Kosovo to receive grants, they need to be registered in ARPSK, or to be obliged to register the company after obtaining the grant. Due to the lack of funds to start or expand the existing scope of business, a significant number of entrepreneurs from North Kosovo are registering the company in the Kosovo system in order to fulfil the formal requirement of donors. This can also be concluded on the basis of the period with the largest number of registrations (2014 and 2015), which is the same period of the European Union’s calls for grant award, as well as the period when local self-governments announced the largest number of tenders.13

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13 Information about investments in North Kosovo in 2014 and 2015 can be found in the study “Do we live better?”, available at http://bit.ly/2A7Clio
4. Challenges and obstacles in the operations of North Kosovo businesses

Due to various political, security and economic problems, as well as the lack of the rule of law, a system has been created in which businesses from North Kosovo are in an unenviable position. There are numerous problems and obstacles that businesses from the observed municipalities encounter in their operations, and the most significant ones are listed below.

As noted above, a large number of businesses from North Kosovo have a double business registration, within the Serbian and Kosovo systems. This requires double bookkeeping, which increases the costs of business, which are reflected in a higher price of a product or service. This ultimately jeopardizes their competitiveness in the market. In addition, different business regulations under the two legislations require additional efforts in an adequate understanding of the regulations, which is necessary for the business to be in accordance with the law.

One of the consequences of the double registration is the payment of double taxes and customs duties. This problem is mostly affecting businesses dealing with trade, because the imported goods have double customs duties during procurement from suppliers in Serbia: the first time when the goods enter Serbia, the second time when goods enter Kosovo. Such a situation negatively affects the competitiveness of product or service prices in the market. As a result of this situation, businesses from North Kosovo are more and more choosing to buy goods from suppliers from South Kosovo, which is not necessarily a negative thing, but sometimes it can lead to a limited range of products and quality of goods.

There are also challenges due to insufficiently clear customs procedures. Businesses from North Kosovo often face the fact that customs officers do a free assessment of the value of goods during customs clearance regardless of the value indicated on the invoice. Sometimes there are changes in tax rates, without timely notification of the public by the competent institutions.

Problems also arise due to payment of customs duties at administrative crossings in North Kosovo. When businesses from the north pay the duties at the administrative crossing in North Kosovo, they cannot sell the goods in the south of Kosovo. Namely, the money from the customs that the businesses pay on this administrative crossing is transferred to the North Kosovo Development Fund, and not to the Kosovo budget. If businesses later want the imported goods (or surplus goods) to be sold in the south, it is necessary to go through the procedure at the terminal in South Mitrovica, where more documentation is needed for customs clearance of goods and duties are higher.
There are also problems when paying taxes according to the Kosovo system. The Kosovo Tax Administration does not recognize business costs of enterprises from the north, for water, electricity, telephone and transportation, because these costs are still not paid to Kosovo's competent authorities. Only lease of business premises is accepted as a valid expense when calculating tax. Therefore, only generated revenues, but not all expenditures, are mostly presented in tax forms, which results in the value of tax base being much higher than the real one.

Enterprises’ lack of knowledge about Kosovo's tax and customs regulations is also a problem in business operations, and additional complications are made by regulations in the Serbian language which are difficult to understand (or poorly translated).

Another challenge for businesses in North Kosovo is limited freedom of movement. Due to difficult circumstances in obtaining personal documents, especially when obtaining Kosovo driver's license, businesses from the north cannot take their goods to the south with their own vehicles, but they are forced to hire freight forwarders to deliver goods. This also increases the costs, which additionally affects their competitiveness.

Property issues and legal relations are another challenge for business in North Kosovo. The assets of the companies in North Kosovo are mostly registered with courts that were until recently in the jurisdiction of the Republic of Serbia, and which are not recognised by the Kosovo institutions. This problem is particularly evident when applying for mortgage loans with commercial banks in Kosovo.

Fulfilment of requirements for obtaining loans with commercial banks is also a problem in business, not only when it comes to already mentioned property and legal relations, but also when proving business success, because commercial banks do not take into account the operations that were carried out within the Serbian system. Business success and years of business operations within the Serbian system are also a problem when it comes to participating in public tenders of institutions that are budget users of the Government of Kosovo (e.g. local self-government units).

Stigmatization of businesses is also on the list of problems, when it comes to interethnic cooperation (among Albanians, it is not popular to buy goods from businesses from the Serbian ethnic community) or in their own community (many members of the Serbian community believe that cooperation between Serbian and Albanian companies is contrary to national interests).
5. The role of donors in the economic development in North Kosovo

In previous years, many international development agencies and organizations supported the development of private sector in North Kosovo. Among them, the most important role was held by the European Union Office in Kosovo, United States Agency for International Development (USAID), Swiss Agency for Development and Cooperation (SDC), International Organisation for Migration (IOM), as well as several embassies of western countries (primarily Great Britain, Norway and Finland). Support to enterprises has most often been provided through financial and non-financial grants, and to a smaller extent support is provided through business development trainings.

European Union has been recognized as the largest donor in economic development support in North Kosovo. From 2010 to 2016, EU has allocated over EUR 54.5 million for socio-economic development of this region. Within the two grant schemes for North Kosovo, between 2013 and 2016, European Union has allocated funds for private sector development (slightly more than EUR 2 million) and for the development of agriculture (about EUR 2.8 million). These funds mostly supported sole traders and family businesses, which has influenced the improvement of their production capacities, the introduction of ISO standards, improvement of the quality of packaging and branding of their products, etc.

European Union’s support for businesses in North Kosovo also affected their registration in the Kosovo legal system, as well as opening of bank accounts with Kosovo commercial banks. In this way, business entities that were program beneficiaries had to learn Kosovo’s legal procedures for bookkeeping, import and export, payment of customs duties and taxes, registration of employees, etc.

The biggest problem with donor support is when users register in the Kosovo system only because of participation in calls for grants, and after that they do not continue to perform activities for which they received some assistance. Also, international organizations’ support programs are not aligned with the development strategies of municipalities in North Kosovo, which has caused the distribution of available funds to a large number of industries, which resulted in limited positive effects on economic development and employment.

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14 Ibid, page 23
15 Ibid, page 27
6. The role of chambers of commerce in North Kosovo

One of the first results of the Brussels agreement is the established cooperation between the chambers of commerce of Serbia and Kosovo, which took place in July 2013 by signing the Memorandum of Cooperation with the mediation of Eurochambres. The memorandum stipulates that the Serbian Chamber of Commerce and the Chamber of Commerce of Kosovo shall assist their members in promoting and strengthening mutual trade and economic cooperation, as well as mediate with relevant institutions in solving problems related to economic cooperation and business operations.

By mid-2017, 17 meetings were held between the two chambers that discussed the improvement of economic cooperation and the solving of the problems of businesses. In these meetings, issues related to infrastructure rehabilitation, establishment of postal services, direct meetings of businesses, improvement of customs cooperation, harmonization of phytosanitary and veterinary certificates and certificates related to the trading of medicines and medical devices, as well as issues related to the application of CEFTA Agreement were considered.

Links between business entities are also established through the organisation of joint fairs. The first business meeting of the Kosovo and Serbian businesses organised by the Serbian Chamber of Commerce and the Chamber of Commerce of Kosovo was held in May 2015 in Gracanica, where about 70 companies participated. At the end of September 2017, the Fair of Agriculture and Industrial Products was organized in Pristina, where about 100 businesses from 34 companies from Serbia participated. In addition, several joint visits were organised to businesses in the municipalities of Presevo, Bujanovac, Medvedja, and several events in Pristina.

Participation of businesses from North Kosovo at events, fairs and business meetings organised by the two chambers is minor, and they did not directly benefit from cooperation between the chambers of commerce of Serbia and Kosovo. Their participation in fairs and business meetings is mainly organised with the support of international organisations and non-governmental organizations operating in North Kosovo.

Businesses from North Kosovo are mostly members of the Chamber of Commerce of Kosovo and Metohija, which operates within the Chamber of Commerce of Serbia. After the signing of the Brussels Agreement, the Chamber of Commerce of Kosovo and Metohija participated in the dialogue between the chambers of commerce of Serbia and Kosovo, especially in the domain of establishing working groups in the negotiations on rail and postal traffic. However, by establishing the direct cooperation between the Serbian Chamber of Commerce and the Chamber of Commerce of Kosovo, the role of the Chamber of Commerce of Kosovo and Metohija has been minimised. In addition, it is not clear what the future role of the Chamber of Commerce of Kosovo and Metohija will be, having in mind the unfavourable legal framework for its normal functioning and reduction of income from membership fees.
7. Employment in North Kosovo

High unemployment rate is one of the biggest challenges in the whole region of West Balkans, including Kosovo. According to the data from ASK, in the third quarter of 2017, unemployment rate in Kosovo was 30.2%. There are 365,700 employed people in Kosovo (30.4% of the total population), which mostly work in private sector, in the following sectors: trade (14.9%), construction (13.8%), manufacturing (13.3%) and education (9.2%).

Unemployment is also a major problem in municipalities in North Kosovo. According to the National Employment Service of the Republic of Serbia (NES), which keeps records of unemployed persons in municipalities in North Kosovo and other Serb communities, 6,933 unemployed persons were registered by the end of October 2017. These people are users of services in the field of active employment measures financed by the Republic of Serbia, which include information and advisory services, participation in employment and entrepreneurship fairs, employment mediation services, non-financial support measures through participation in additional education and training programs, and financial support measures through employment subsidies programs.

In the municipalities of North Kosovo, the Employment Agency of Kosovo has been operating for two years, through the municipal employment offices in Zubin Potok, Leposavic and Zvecan. In this period, several activities were carried out to increase the employability of citizens. For example, municipal employment offices cooperated with businesses registered in the Kosovo system to identify potential job vacancies and mediate in employment. In addition, these offices also implemented other active employment measures, such as job subsidies and support for self-employment. For example, over the past two years, the Leposavic Municipal Employment Office has mediated in the employment of 37 people and provided five subsidies for self-employment.

A survey recently published by InTER shows that the largest number of employees in municipalities in North Kosovo work in the public institutions of the Republic of Serbia, about 12,100 people. Although it is not possible to determine with precision the number of employees in the business sector, it is evident that it is far smaller than the number of employees in the public sector. As noted earlier, the economic structure in North Kosovo consists mainly of micro enterprises that employ a small number of people, and most often they are family-owned enterprises. Besides that, employers often do not register their employees.

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21 Municipal Office in Zvecan is also in charge of the unemployed people in the territory of the municipality of Mitrovica North.
According to the data obtained from the financial statements for 2015 submitted to the Business Registers Agency, the total number of employees in business entities from North Kosovo amounted to 4,025 (Table 4). The highest number of employees was in Trepca, a total of 2,944, while the other 511 employees were employed in micro and small enterprises.

**Table 4 Number of employees in business entities in North Kosovo**

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Micro</th>
<th>Small</th>
<th>Medium-sized</th>
<th>Large</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kosovska Mitrovica (Mitrovica North)</td>
<td>186</td>
<td>265</td>
<td></td>
<td></td>
<td>451</td>
</tr>
<tr>
<td>Zvecan</td>
<td>117</td>
<td>32</td>
<td></td>
<td></td>
<td>1,093</td>
</tr>
<tr>
<td>Zubin Potok</td>
<td>54</td>
<td>61</td>
<td></td>
<td></td>
<td>115</td>
</tr>
<tr>
<td>Leposavic</td>
<td>154</td>
<td>212</td>
<td></td>
<td></td>
<td>366</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>511</strong></td>
<td><strong>570</strong></td>
<td><strong>0</strong></td>
<td><strong>2,944</strong></td>
<td><strong>4,025</strong></td>
</tr>
</tbody>
</table>

*Source: APR, according to the data from financial report for 2015*

According to the data from the Tax Administration of Kosovo, as of September 2017, 727 employees are registered in North Kosovo. The number of registered workers includes 127 employees of "MTS" Ltd, which means that there are 600 workers in other companies. When we compare this number with the total number of registered companies in the Kosovo system (1,721 companies since 2010), the impression is that there is a large number of companies that do not have any employees.

**Table 5 Number of registered employees in North Kosovo, in accordance with the Kosovo legislation**

<table>
<thead>
<tr>
<th>Municipality</th>
<th>January 2017</th>
<th>September 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitrovica North</td>
<td>174</td>
<td>337</td>
</tr>
<tr>
<td>Zvecan</td>
<td>109</td>
<td>110</td>
</tr>
<tr>
<td>Zubin Potok</td>
<td>100</td>
<td>110</td>
</tr>
<tr>
<td>Leposavic</td>
<td>101</td>
<td>170</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>484</strong></td>
<td><strong>727</strong></td>
</tr>
</tbody>
</table>

*Source: InTER, according to the data from the Tax Administration of Kosovo*

Based on the data given in Table 5, in the period January - September 2017, there was a positive trend in registering employees of the Tax Administration of Kosovo. The largest increase in the number of workers was recorded by the municipality of Mitrovica North, due to the establishment of MTS Ltd. in accordance with the Telecommunications Agreement. This company has adapted its operations to Kosovo legislation, and accordingly, it has registered 127 of its employees in the Tax System of Kosovo. In addition to the municipality

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of Mitrovica North, a large number of registered workers were also recorded in Leposavic municipality, mostly in the enterprises from the manufacturing industry and retail and wholesale.

It should also be underlined that among the unemployed there is not much interest in employment in the private sector. Comparatively, salaries in the private sector are significantly lower than in the public sector, and the private sector fails to attract quality workforce. It also happens that the unemployed people do not want to be employed at all because they would lose the right to a monetary compensation for the unemployed that they receive from the NES. Unemployed persons are often not trained enough to perform jobs required by the private sector, which is also an obstacle to employment. Finally, it should be noted that the unstable security and political situation leads to the fact that young and educated people do not see their future in North Kosovo (or in Kosovo in general), but they more often go to Serbia or abroad searching for a job.
8. Conclusion and recommendations

The specifics of a complex legal, institutional and security environment in North Kosovo are also reflected in the functioning of the economy. Businesses in Serb-majority municipalities in North Kosovo generally operate in the legal system and payment system of the Republic of Serbia. This means that companies are registered with the relevant institutions of the Republic of Serbia, where they submit financial and tax reports, and the dinar is used as a payment currency.

To some extent, the situation changes with the signing of the Brussels Agreement, when Kosovo legal system in North Kosovo is established. As a part of this process, there is an increase in the number of (re)registration of business entities with the relevant Kosovo institutions. The Brussels Agreement brought a few more important new developments for business operations of enterprises in North Kosovo, from the introduction of the company into the legal system of Kosovo through the regulation of the transfer through integrated border/administrative crossings Jarinje and Brnjak, to the customs clearance system for goods intended for northern municipalities. Since the signing of the Brussels Agreement, the European Union's engagement through grant awards for private sector development has also increased. The Brussels Agreement has enhanced cooperation between the chambers of commerce of Kosovo and Serbia, but this process has not so far brought significant benefits for the businesses from North Kosovo.

However, there are still many challenges that businesses from North Kosovo are facing. The biggest challenge is the lack of the rule of law and the unstable security and political situation, which has a negative impact on all spheres of business, especially on business development, investment flows and keeping the quality workforce. Functioning within the two legal systems is also a challenge in terms of double tax and customs duties, as well as double bookkeeping. Businesses are forced to follow the regulations in both Serbia and Kosovo at the same time, which is particularly problematic when it comes to regulations in Kosovo due to the lack of knowledge of the competencies of institutions and poor translation of laws and by-laws in Serbian language. An additional challenge is the problem of obtaining personal documents (ID cards and driving licenses) from Kosovo institutions, which limits freedom of movement and business operations of enterprises from North Kosovo. Resolving property and legal relations and proving business success are also challenges, especially when it comes to accessing bank loans and other sources of financing. Problems in proving business success and continuity are also an issue.
when applying to public tenders announced by local self-governments and other institutions operating in the Kosovo legal system.

There is no organised response from North Kosovo businesses to address these challenges, or an organization working to represent the interest of the economy from North Kosovo. They were previously gathered around the Chamber of Commerce of Kosovo and Metohija, which operates within the Chamber of Commerce of Serbia, and which advocated for solving the problems of businesses from North Kosovo. However, by establishing direct cooperation between the chambers of commerce of Serbia and Kosovo, the role of the Chamber of Commerce of Kosovo and Metohija has been marginalised, and its influence in solving the accumulated problems is minimal.

Regarding the structure of the business sector in North Kosovo, entrepreneurs and micro companies that perform activities in the field of trade and services mostly dominate. In the last few years, construction has also developed to a certain extent, mainly based on significant investments in communal infrastructure and public construction (schools, hospitals and other public institutions). Production is at the level of small manufacturing activity, although there are several successful examples of production facilities for building materials (doors and windows), metalworks, food production and textile. Most factories from the Yugoslav period closed their facilities, although some of them still operate. They include Trepca in Zvecan, as the largest employer in North Kosovo, Lola – a forging factory in Lesak, and production was also restored a few years ago in Javor factory in Zubin Potok.

Although there are no official data on this, it is evident that there are no significant foreign or local direct investments in the economy in North Kosovo. Access to financial markets is also hampered by numerous legal and administrative procedures that businesses from North Kosovo cannot easily fulfil. Over the past years, financial and non-financial assistance to businesses in North Kosovo has been provided by the European Union and several other donors (USAID, SDC and several embassies of European countries active in this area). However, concrete effects of these investments are not visible. For example, in the last few years significant donor funds have been invested in the development of agriculture, but the results are (still) not satisfactory because it did not trigger the development of municipalities, especially rural areas where agriculture is the dominant economic activity. The North Kosovo Development Fund also allocated funds for the development of economy for each municipality, but the effects of these subsidies are still not known by the general public.
The economy of North Kosovo depends to a large extent on public sector institutions that operate within the Serbian or Kosovo system, either from tenders announced by public institutions, budget subsidies, or from public sector salaries that are an important driver of trade and services. In this way, businesses are exposed to the political influence of the governing structures, and their success in business depends on the support of certain political options.

Despite the existence of a university, its impact on economic development is minor. The university is also not a generator of innovation, nor does it have a role in the development of entrepreneurship among the students. Entrepreneurship is not popular among young people, or in other population structures. Support to entrepreneurship development is provided by several non-governmental organizations, but their work is mainly organised on a project basis through donor support. Non-governmental organizations are particularly active in the development of entrepreneurship in socially vulnerable groups such as women or persons with special needs.

According to all this, the following recommendations can be given, which can significantly improve economic development in North Kosovo.

- **To work on the rule of law and create a safe, legal environment** that is politically stable and safe for investments, not only in northern municipalities, but in the entire territory of Kosovo;
- **To establish a Working Body that would work on solving the problems of businesses in North Kosovo**, especially related to the transition from Serbian to the legal system of Kosovo;
- **The develop the Economic Development Strategy for municipalities in North Kosovo**, which would define strategic sectors and objectives;
- To use the funds from the North Kosovo Development Fund **to establish the Guarantee Fund for financing of companies from North Kosovo**;
- To include the university in the process of development of innovation and entrepreneurship, especially among youth;
- To work on strengthening institutions for business support and development of business skills;
- To establish and strengthen business association of enterprises from North Kosovo;
- **To work on strengthening business cooperation between enterprises from the north and other parts of Kosovo**, and to promote good examples of business cooperation on inter-ethnical basis.
ANNEXES: Structure of economic activities in North Kosovo

Annex 1: Most common economic activities in North Kosovo, according to the data from ARPSK

Number and share of most common economic activities in North Kosovo by municipality

### Agriculture, forestry and fishing

- **Mitrovica North**: 40 enterprises (7%)
- **Leposavic**: 289 enterprises (49%)
- **ZVECAN**: 138 enterprises (23%)
- **Zubin Potok**: 124 enterprises (21%)

### Wholesale and retail, repair of motor vehicles, motorcycles

- **Mitrovica North**: 168 enterprises (13%)
- **Leposavic**: 540 enterprises (42%)
- **ZVECAN**: 296 enterprises (23%)
- **Zubin Potok**: 280 enterprises (22%)

### Manufacture

- **Mitrovica North**: 87 enterprises (23%)
- **Leposavic**: 144 enterprises (39%)
- **ZVECAN**: 91 enterprises (25%)
- **Zubin Potok**: 50 enterprises (13%)

### Construction

- **Mitrovica North**: 33 enterprises (16%)
- **Leposavic**: 82 enterprises (16%)
- **ZVECAN**: 50 enterprises (18%)
- **Zubin Potok**: 37 enterprises (13%)

*Source: Database of the Agency for Registration of Business Entities in Kosovo for the period 2000-2017*
Annex 2: Structure of economic activities in North Kosovo, according to the data from the Serbian Business Registers Agency for 2015

Kosovska Mitrovica (Mitrovica North)

- Wholesale trade, except of motor vehicles: 41.7%
- Retail trade, except of motor vehicles: 8.7%
- Construction of buildings: 3.5%
- Accommodation: 3.5%
- Telecommunications: 3.5%
- Manufacture of food products: 3.5%
- Waste collection, treatment and disposal: 2.6%
- Manufacture of rubber and plastic products: 2.6%
- Manufacture of other non-metallic mineral products: 2.6%
- Manufacture of fabricated metal products, except machinery and equipment: 2.6%
- Legal and accounting activities: 2.6%
- Management activities: 2.6%
- Security and investigation activities: 2.6%
- Land transport and transport via pipelines: 6.1%

Zvečan

- Wholesale trade, except of motor vehicles: 39.1%
- Construction of buildings: 10.3%
- Retail trade, except of motor vehicles: 6.9%
- Specialised construction activities: 3.4%
- Management activities: 3.4%
- Waste collection, treatment and disposal: 5.7%
- Manufacturing of food products: 2.3%
- Manufacture of rubber and plastic products: 2.3%
- Manufacture of other non-metallic mineral products: 2.3%
- Manufactures of fabricated metal products, except machinery and equipment: 2.3%
- Programming and broadcasting activities: 2.3%
Leposavic

- Wholesale trade, except of motor vehicles: 28.6
- Retail trade, except of motor vehicles: 14.3
- Construction of buildings: 7.8
- Waste collection, treatment and disposal: 5.2
- Manufacture of food products: 5.2
- Agriculture, hunting and related activities: 2.6
- Architectural and engineering activities: 2.6
- Management activities: 2.6
- Land transport and transport via pipelines: 2.6
- Construction of other civil engineering projects: 2.6
- Construction of buildings: 2.6
- Telecommunications: 2.6
- Education: 2.6

Zubin Potok

- Wholesale trade, except of motor vehicles: 42.6
- Manufacture of wood and of products of wood, except furniture: 3.3
- Manufacture of food products: 3.3
- Land transport and transport via pipelines: 4.9
- Construction of buildings: 4.9
- Agriculture, hunting and related activities: 4.9
- Specialised construction activities: 6.6
- Water collection, treatment and supply: 3.3