



MUNICIPAL BUSINESS SUPPORT SERVICES IN USAID/AKT-LS PARTNER MUNICIPALITIES IN KOSOVO

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Overview of the current situation of provision of municipal support services to SMEs operating in 16 partner municipalities of USAID/Advancing Kosovo Together – Local Solution program in Kosovo and the gaps SMEs face in obtaining such services.

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Preface

This report presents the findings and recommendations from an assessment of municipal support services for private sector in 16 partner municipalities of USAID/AKT-LS program in Kosovo. It is based on information collected over four months through surveys, interviews, data analysis and reviews of various reports and legislation.

It addresses the key supply and demand side gaps faced by SMEs in accessing municipal support services and provides recommendations on how to address these gaps. It was commissioned by the Community Development Fund (CDF) and prepared by the NGO AKTIV under the auspices of USAID/Advancing Kosovo Together-Local Solution (AKT-LS) program aimed at fostering positive and constructive inter-ethnic communication in Kosovo.

In distributing this report USAID/AKT-LS has three objectives:

1. To describe the current situation of provision of municipal support services to SMEs in 16 partner municipalities in Kosovo and the gaps SMEs face in obtaining such services.
2. To promote specific institutional reforms required for sustainable improvements in provision of municipal support services.
3. To increase awareness among policymakers, donors, and market participants about the challenges faced by private sector and induce a coordinated response to implement the reforms.

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List of acronyms

BRO	Business Registration Office
CDF	Community Development Fund
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
EUR	Euro currency
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FI	Financial Institution
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IFC	International Finance Corporation
IFI	International Financial Institutions
KOSME	Kosovo SME Promotion Programme
ARBK	Kosovo Business Registration Agency
MFI	Micro-finance Institution
MSME	Micro, Small and Medium Enterprise
OECD	Organization for Economic Co-operation and Development
UNDP	United Nations Development Program
USAID	United States Agency for International Development
USD	United States Dollars
WB	World Bank

1. Introduction

Entrepreneurship is a local activity. Start-ups occur at a local level, and local availability of customers, resources and institutional support influence the decision to start a business. After the start-up phase, local business environment is essentially what keeps the business running and growing. Thus, fostering local entrepreneurship processes helps local economic development, while local contexts have a major impact on the extent and nature of entrepreneurship development.

Local governments are, therefore, instrumental in creating a business-friendly environment including support for the new and existing small firms. Empirical evidence¹ shows that entrepreneurs highly value factors such as qualified and rapid administration services and, implicitly, also less bureaucracy at the local level.

In order to improve the business environment, the common approach is based on integration and simplification of local services. This is done by setting up “one-stop” municipal (or regional) offices where aspiring and existing entrepreneurs can obtain majority or all information required for business operation or can be redirected to service providers with more specific expertise.

One-stop office is a relatively new concept, nowadays often referred to in public administration reform and research. The concept includes integration and rationalization of public services based on genuine clients’ needs. According to a study on best practices in one-stop services in the United States ‘*Under the one-stop paradigm, all of a customer’s business can be completed in a single contact, be it face to face or via phone, fax, Internet or other means. One-stop customer service is convenient, accessible, and personalized*’². In other words, the key idea behind one-stop-shops is to bring services together under one roof, both in order to share costs and to make it easier for clients to access a range of services in one place.

In Kosovo, this approach has been supported by a number of international agencies and organizations including USAID, World Bank, European Union, GIZ, Swiss Cooperation Office Kosovo, etc. The World Bank has established 22 one-stop shops across Kosovo under its “Sustainable Employment Development Policy Operation (SEDPO)” program. Some of the one-stop-shops such as the one in Kamenica/ë³ have established positive reputation and exemplify a good-practice in provision of municipal services.

However, when it comes to services for private sector, the good governance structures are still being developed in majority of surveyed municipalities. Our inquiry indicates that the business support offices in partner municipalities of USAID/AKT-LS program despite providing the basic business statutory services (such as business registration, change of address or ownership, number of employees etc.) lack in addressing a variety of other supporting services required for a structured business development (such as providing information on networking activities, governmental and international donors’ subsidies, professional development opportunities and so on).

¹ OECD, 2013

² Federal Benchmarking Consortium (1997), *Serving the American Public. Best Practices in One-Stop Customer Service*, Washington, D.C., NPR.

³ Swiss Cooperation Office Kosovo, Manual for establishing a one stop shop and good practices from the case of municipality of Kamenicë, 2012

Such additional services are particularly needed by SMEs operating in the non-majority municipalities in Kosovo in the light of still present ethnic distance that affect their access to the overall Kosovo market.

If not addressed, these shortcomings can have serious implications on the dynamics of local economic development, employment rates and efficient integration of majority and non-majority markets. Institutional support limited to sole provision of basic administrative services, not only deprives the SMEs from accessing information and opportunities required for expansion of their businesses, but also suppresses entrepreneurship spirit among the youth and unemployed. The lack of information, counseling and guidance through the process of integration into Kosovo legal and administrative system pushes the non-majority SMEs into grey economy, tax evasion, incompliance with regulations and standards, violation of labor rights and undermining competitiveness of the legitimate businesses.

Furthermore, inefficient provision of municipal services establishes negative reputation particularly in the newly established local governments and potentially negates some of the gains that have been achieved through very painful, but necessary political processes.

1.1. Background and purpose of this research

The goal of USAID program Advancing Kosovo Together – Local Solutions (AKT – LS) is to foster positive and constructive inter-ethnic communication in Kosovo, centered on common problems, needs, and solutions. This includes opportunities for better integration of non-majority and majority markets, and increased responsiveness of local administrations to address the needs of non-majority communities.

One key objective of the program is to improve the quality and diversity of municipal services provided to citizens and enable the local governments to better plan and implement local development policies.

This research recognizes the role of private sector as a driving force of Kosovo economy and, as such, its impact on the overall local and regional stability. The improvement of the quality of institutional support to private sector at the local level is one of the key elements in creating a conducive business environment. Therefore, the purpose of the assignment was to explore what kind of additional support services, apart from the existing ones, are required by micro, small and medium businesses at the local level and whether those services can be introduced and delivered through municipal One-Stop-Shops for private sector. The paper also explores the modalities for assisting the local government structures in increasing their capacity for provision of such services. Core issues addressed in this research are:

1. Establishing what kind of business support services the targeted local governments currently provide and how their services/capacity can be improved.
2. Perception of the private sector of the quality of available municipal business support services in AKT-LS partner municipalities in Kosovo.
3. Strategic options for further development of municipal services for private sector in target municipalities in Kosovo.

1.2. Definition of “One-stop-shop”

For this report the “one-stop-shop” is defined as a municipal department designed to enable a single access point to information and services provided to citizens.

Nowadays, public administration offers a broad range of services to citizens and holds a crucial role in providing a stable, secure and sustainable environment for investment, social and economic development and growth.

One of the ways in which local governments are seeking to improve public service provision is to “join-up” various services in one place and adopt a more customer-oriented approach. The main aim behind this idea is:

- To improve interaction with the citizens.
- To simplify access to a range of services, regardless of who the responsible service provider is.
- To develop the service provision around the clients’ needs.

The idea to “join up” services can take many different forms and has been named in many different ways; such initiatives are often called information centers, one-stop-shops, single-windows, integrated services, community service centers, citizens’ service centers, etc. Despite the slight differences that might exist in all these different models, in most cases the basic idea remains the same⁴.

1.3. Methodology

The research was carried out between January and August 2017 and it was conducted through a combination of the following three methods:

- Quantitative research method was used for the assessment of the service demand aspect. It encompassed a face-to-face survey with 215 randomly sampled SMEs in each of 16 partner municipalities of USAID/AKT-LS program in Kosovo. The respondents came from both majority and non-majority communities in respective municipalities with a ratio aspiring to replicate demographic breakdown in Kosovo (80 - 90 % from majority community and 10 - 20 % from non-majority communities). The questionnaire consisted of 55 closed-ended questions directed exclusively to business owners.
- Qualitative research method, direct interviews, were used as an appropriate tool for the assessment of service supply aspect involving relevant municipal officials in 16 partner municipalities of USAID/AKT-LS program in Kosovo. The main focus was to map the existing services within the targeted municipalities as well as to identify the obstacles for service improvement. Based on their technical expertise, interviewees were also asked to offer recommendations for tailored service improvement interventions in their respective municipalities.
- Background research was conducted in order to identify the best international practices aimed at ensuring municipal support to private sector as well as to analyze existing literature, legislation and

⁴ European Commission, CARDS program, *Information Centers and One-Stop-Shops – Albania, Montenegro, Croatia, 2007*

strategic documents on local economic development and municipal support to SME sector in Kosovo.

This element of the research also included the review of a number of related studies performed in the past:

1. NGO Aktiv, *Doing business in Northern Kosovo: needs and obstacles for expansion into Kosovo Market*, 2017
2. Austrian Development Cooperation, KOSME program, *Municipal Competitiveness Review (MCR) - Measuring the competitiveness of municipalities in Kosovo*, 2016
3. Swiss Cooperation Kosovo, *Manual for establishing a one-stop-shop and good practices from the case of municipality of Kamenicë*, 2012
4. D&G Solutions NGO, *Analysis of the Current Entrepreneurship and Business Development Challenges in North Kosovo*, 2015

1.4. Focus of the Report

The report aims to evaluate the existing business support services provided by 16 partner municipalities of USAID/AKT-LS program in Kosovo against the genuine needs of businesses operating in the respective areas. Once compared they offer clear and comprehensive picture of potentials and requirements for service improvement that are later on translated into recommendations in the conclusion of the report. Consecutively, the report contains the following:

- Assessment of the service delivery. This research component examines what kind of services the target municipalities provide to private sector through their Business Registration Offices operating within the Directorates for Economic Development, their existing capacities in terms of available resources, networking dynamics and obstacles/recommendations for extending the service provision.
- Assessment of the service demand. The aim of this research component was to identify what kind of additional support services are needed by the micro, small and medium businesses in target municipalities in Kosovo apart from those already available.
- Conclusions and recommendations. The findings of the previous parts of the research were streamlined into recommendations on strategic options for establishment of functional and sustainable private sector One-Stop-Shops in AKT-LS partner municipalities. The recommendations do not provide specific and detailed action points, as those are left to individual municipalities to develop, but rather focus on requirements and strategies for creation of overall conditions for service provision reform.

2. Assessment of municipal business support services

The USAID Advancing Kosovo Together - Local Solutions program was designed to implement activities and target beneficiary communities in the following 16 partner municipalities in Kosovo:

Six Serb-majority municipalities in the south:
<ol style="list-style-type: none"> 1. Gračanica/Graçanicë 2. Klokot/Kllokot 3. Novo Brdo/Novobërdë, 4. Parteš/Partesh, 5. Ranilug/Ranillug 6. Štrpce/Shtërpçë
Six Albanian-majority municipalities with significant number of Serbian non-majority population:
<ol style="list-style-type: none"> 1. Gjilan/Gnjilane 2. Istog/Istok 3. Klinë/Klina 4. Obiliq/Obilić 5. Pejë/Peć 6. Vushtrri/Vučitrn
Four Serb-majority municipalities in the north:
<ol style="list-style-type: none"> 1. North Mitrovica 2. Leposavić/Leposaviq 3. Zubin Potok 4. Zvečan/Zveçan

Table 1. Partner municipalities of the USAID/AKT-LS program in Kosovo

The purpose of this research component was to assess the scope of support services provided to the private sector by surveyed local government administrations through municipal Business Registration Offices.

2.1 Existing business support services in target municipalities

Among 16 surveyed partner municipalities of AKT-LS program Business Registration Offices (BRO) exist in 10 municipalities. The table below lists these municipalities and the services they provide:

Municipality	General services provided
1. Vushtrri/Vučitrn	- Business registration
2. Gračanica/Graçanicë	- Change of business owner
3. Novo Brdo/Novobërdë	- Change of business address
4. Ranilug/Ranillug	- Adding new business activity
5. Štrpce/Shtërpçë	- Change of business activity
6. Gjilan/Gnjilane	- Change of number of employees

7. Istog/Istok	- Change of type of business
8. Klinë/Klina	- Closing down the business
9. Pejë/Peć	
10. North Mitrovica	

Table 2. Basic services provided by municipal Business Registration Offices operating in 10 AKT-LS partner municipalities

The Business Registration Offices operate within municipal Directorates of Local Economic Development as direct service providers and the main points of contact between the public and private sector at the local level. They have been established during the period from 2009 to 2012 and usually employ 1 to 2 staff members. As the study reveals the services currently provided by the surveyed municipalities are usually limited to assistance related to business legal status and procedures for its amendments.

Business Registration Offices do not exist in the remaining six surveyed municipalities, as a consequence of incomplete integration process i.e. establishment of services and departments envisaged by Kosovo legal framework in newly established Serb-majority municipalities, or due to the proximity of bigger administrative centers that provide such services. In such situation municipal authorities resort to intermediate and improvised solutions in order to meet the clients' demands. For example, instead of establishing its own Business Registration Office, the Municipality of Obiliq/Obilić has been forwarding clients' requests to Prishtina/Priština Municipality. Similarly, the Municipality of Partëš/Partesh is using the services of the bigger neighboring Municipality of Gjilan/Gnjilane, while the Business Registration Office in Viti/Vitina processes requests submitted to the Municipality of Klokot/Klllokot. In the Municipality of Zvečan/Zveçan, Zubin Potok and Leposavić/Leposaviq Business Registration Offices do not exist and the only local government in the north that provides business registration and statutory services is the Municipality of North Mitrovica.

During the research period, the Municipality of Obiliq/Obilić was in the process of obtaining license from the Kosovo Business Registration Agency required for establishing a Business Registration Office.

2.2 Additional business support services provided by target municipalities

The research indicates that some local governments, based on their internal competences and capacities, have been also providing additional information/services, listed in the table below:

- Information on procedure for registering employees
- Issuing working permits
- Information on procedure for payment of tax and personal contributions for employees
- Information/Registration of business associations
- Information on business trainings and other capacity building activities
- Information on local, regional and international business/agricultural fairs
- Information on procedure for obtaining phyto-sanitary and veterinarian certificates
- Information on available subsidies and grants provided by line Ministries
- Information on procedure for obtaining export-import certificates
- Information on procedure for obtaining bar codes for products
- Information on procedure for obtaining ISO, HAASP, Global Gap certificates

- Facilitating business-to-business linkage and cooperation
- Information on/networking with suppliers for raw material/semi-products
- Information on procedures for resolving legal issues between businesses
- Information on available donors' granting programs

Table 3. Additional services provided by some BROs in target municipalities

These services are good example of extended competences tailored to the genuine needs of local SMEs, but unfortunately they are not being offered in a standardized manner in all target municipalities in Kosovo. This is due to the fact that their provision is rather a matter of individual ambition than a structured legal mandate. Consequently, the list of provided services varies from one municipality to another leaving a part of business community in Kosovo deprived of locally available assistance services.

The Municipalities of Gračanica/Gračanicë, Ranilug/Ranillug, Gjilan/Gnjilane and North Mitrovica are providing a quite comprehensive set of additional services setting the best practice examples for the other partner municipalities. Their work opens a possibility for inter-municipal cooperation on exchange of best practices and networking with central level institutions.

The Municipality of Gjilan/Gnjilane is particularly exemplary in this regard as it offers a wide range of support services to local businesses. Its Local Economic Development Directorate encompasses a Business Registration Center, Business Incubator, Business Support Center, Investment Promotion Office and Energy Efficiency Office.

As mentioned earlier, the Business Registration Office in North Mitrovica provides business support services to all four northern municipalities including the basic package of services (Table 2) and most of the additional services, which, on the other hand, creates enormous workload for the office employing only two persons.

When it comes to cooperation between the surveyed municipal Business Registration Offices and the central level institutions, the scope of this cooperation also varies from one municipality to another, again without a standardized approach and mostly relying on personal contacts of BRO staff.

National Institutions	Number of target municipal BROs cooperating with the given institution
Kosovo Chamber of Commerce	4
Ministry of Trade and Industry	11
Ministry of Agriculture	4
Kosovo Tax Administration	8
Kosovo Customs Administration	1
Phytosanitary Agency	5
Veterinary Agency	5
Trade Inspectorate	8
Financial Inspectorate	3

Table 4. Cooperation between surveyed BROs and Kosovo central-level institutions

As many as eight out of 10 existing Business Registration Offices have presented the records of cooperation with various international donors and NGOs implementing business support granting schemes. Similarly, seven offices receive regular newsletters and updates on grant programs provided by international donors.

The Business Registration Offices interact with the local SMEs through the following communication channels: in-person contact at the office, by phone, via municipal websites, by e-mail, via municipal bulletin boards and through social networks.

However, these communication channels are not always effective. For example, our inquiry shows that majority of interviewed entrepreneurs in the Municipality of Parteš/Partesh believe that there is a Business Registration Office in their municipality although their requests and queries are being forwarded to and processed by Gjilan/Gnjilane Office.

2.3 Main issues faced by municipal BROs and recommendations for improvement

The research also provided opportunity for interviewed municipal staff to indicate the main problems, obstacles and shortcomings in the work of Business Registration Offices. Table below summarizes the most frequent deficiencies of surveyed municipal BROs:

Problems, obstacles, shortcomings	Municipality
Lack of staff for efficient service provision	Gjilan/Gnjilane, Istog/Istok, Obiliq/Obilić, North Mitrovica
Insufficient office budget	Gjilan/Gnjilane
Lack of working space	Ranilug/Ranillug, Istog/Istok, Klinë/Klina, Novo Brdo/Novobërdë
Lack of interest for business training and counseling among SMEs	Obiliq/Obilić
Lack of contact with the Ministry of Trade and Industry	Klinë/Klina
Lack of cooperation with the business owners	Klokot/Kllokot
Poor internet connection	Novo Brdo/Novobërdë
Lack of coordinated information sharing among business support stakeholders	North Mitrovica

Table 5. Perceived problems, obstacles, shortcomings of the municipal BROs

At the same occasion, the BROs' staff members provided the following suggestions and recommendations for improvement of service provision capacity of their offices:

Suggestions and recommendations	Municipality
Establish entrepreneurship and business trainings for start-ups and youth through international donor support programs	Gjilan/Gnjilane
Enable hiring the additional staff	Istog/Istok, Pejë/Peć, Obiliq/Obilić, North Mitrovica
Expand the working premises	Istog/Istok
Establish separate office for business advisory services	North Mitrovica
Improve cooperation between the BROs and governmental inspectorates and agencies	Klokot/Kllokot
Foster cooperation of business owners with trade inspectorate.	Klokot/Kllokot
Improve capacities of the office staff	Novo Brdo/Novobërdë

Table 6. Suggestions and recommendations for improvement of targeted municipal BROs

As the table above summarizes, the most significant problems of Business Registration Offices, as perceived by their staff, are related to insufficient human resources and internal infrastructure capacities to extend the scope of available services and include e.g. technical business advisory support. Furthermore, their arguments imply that the central level technical institutions do not utilize resources of municipal offices for business support to an optimal extent, but rather rely on direct contacts with businesses. With such a practice, the locally needed services can be obtained exclusively at the central level including services such as access to information which could be easily incorporated in the portfolio of municipal Business Registration Offices thus making those services more accessible to local businesses.

3. Assessment of demand for business support services

3.1 Information on surveyed SMEs

The research involved 215 SMEs operating in 16 AKT-LS partner municipalities. Out of the total number of surveyed SMEs 60 companies are based in the four municipalities north of the River Ibar, while 155 companies operate in the remaining 12 target municipalities in the south of Kosovo.

3.1.1 Registration Status

According to the survey data 80% of involved companies are registered with the Kosovo Business Registration Agency (ARBK). In terms of North vs. South registration distribution the results reveal significant differences. Among the companies surveyed in four northern municipalities every third is not registered within Kosovo legal system (see the figure below).

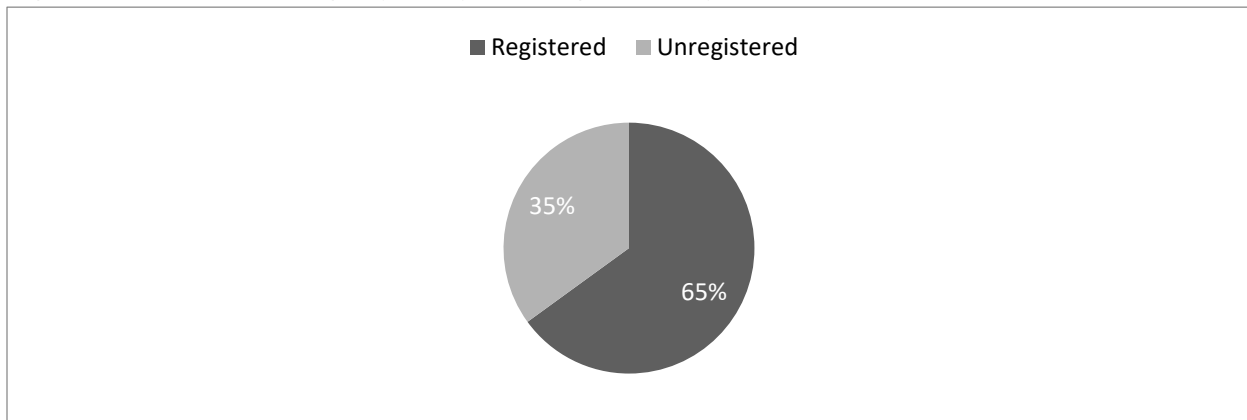


Figure 1. Registered vs. unregistered companies – northern Kosovo (four target municipalities)

In the rest of AKT-LS partner municipalities 14% of all surveyed companies are not registered, attributing this mainly to their start-up status.

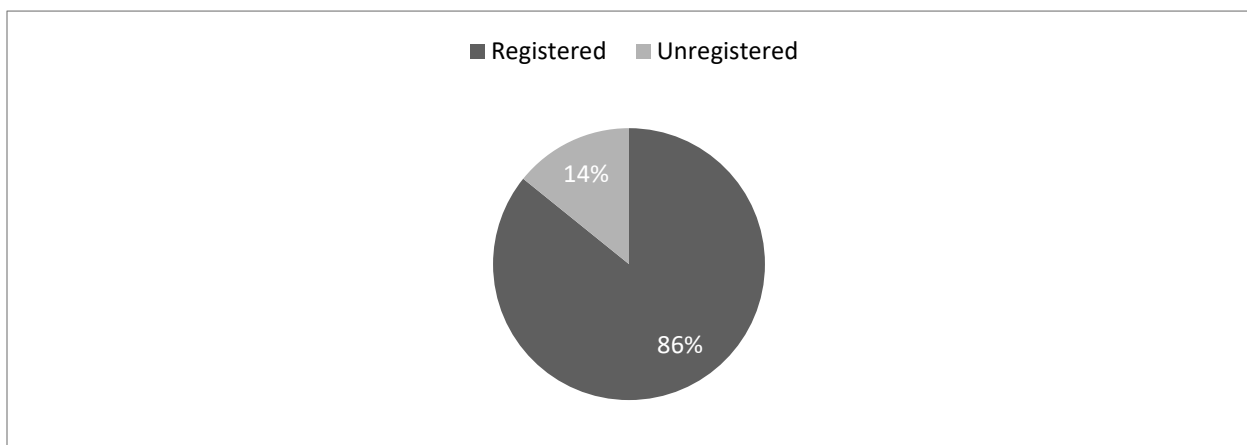


Figure 2. Registered vs. unregistered companies – southern Kosovo (12 target municipalities)

It is noted that northern Kosovo municipalities, namely, North Mitrovica and Zvečan/Zveçan, reveal remarkably high number of unregistered enterprises, 46,7% and 40% respectively. The table below presents the distribution of registered vs. unregistered enterprises per surveyed municipality.

Municipality	Registered	Percentage	Unregistered	Percentage	Total
North Mitrovica	8	43.3%	7	46.7%	15
Zvečan/Zveçan	9	60%	6	40%	15
Leposavić/Leposaviq	11	73.3%	4	26.7%	15
Zubin Potok	11	73.3%	4	26.7%	15
Vushtrri/Vuçitrn	13	86.7%	2	13.3%	15
Obiliq/Obilić	15	100%	0	0%	15
Gračanica/Graçanicë	15	100%	0	0%	15
Klokot/Kllokot	8	80%	2	20%	10
Novo Brdo/Novobërdë	9	90%	1	10%	10
Parteš/Partesh	8	80%	2	20%	10
Ranilug/Ranillug	8	80%	2	20%	10
Štrpce/Shtërpçë	10	100%	0	0%	10
Gjilan/Gnjilane	15	100%	0	0%	15
Istog/Istok	10	66.7%	5	33.3%	15
Klinë/Klina	10	66.7%	5	33.3%	15
Pejë/Peć	12	80%	3	20%	15

Table 7. Breakdown of registered and unregistered companies per target municipality

Although the sample is too small for any definite conclusion the survey indicates an evident problem with the legal status of businesses in northern Kosovo. The high number of unregistered companies may be attributed to delayed integration of northern municipalities into the legal system of Kosovo, nevertheless, such situation points towards significant problems these companies are faced with in accessing wider Kosovo market, financial support programs as well as accessing capital (bank loans) and other opportunities the absence of which gravely affects developmental potential of northern Kosovo economy.

3.1.2 Number of employed staff and registered employees per surveyed enterprise

The inquired enterprises employ 3.7 employees in average, with SMEs averaging 3.95 employees in northern Kosovo compared to 3.46 in the south. In terms of the number of employees in production vs. services the breakdown shows the average of 4.76 vs. 3.05 in favor of production companies. Comparative analyzes of employees' registration status reveals a much lower number of employees that are registered in accordance with legal requirements. In average only 2.03 employees of all surveyed SMEs are registered, which constitutes around 55% of the averagely employed workforce reported in the study. The difference

is once again evident when these rates are compared on geographic basis, thus the northern Kosovo companies report only 0.73 registered employees per company in average, while the same data in the surveyed companies in other parts of Kosovo report the average of 2.42 registered employees per company. The difference is noticeable and it can again be attributed to a delay in integration of northern Kosovo municipalities and institutions into Kosovo constitutional framework.

However, the noted difference is particularly significant in terms of labor rights, since the numbers indicate that in average only 1 out of 5 employees in northern Kosovo companies is registered and entitled to receiving legal benefits from his/her employment status (out of 3.95 averagely employed per company only 0.73 are registered).

- *81.51% of workers employed by the surveyed SMEs in the four northern municipalities are not registered in Kosovo system.*

Although not directly related to the primary objective of this study, the data suggest a realistic need for improvement in the implementation of the rule of law and protection of labor rights throughout Kosovo and particularly in its northern municipalities. The findings also point towards a whole new area of possible engagement of municipal Business Registration Offices.

3.1.3 Size of the surveyed enterprises

Sole-ownership and start-up enterprises make the largest segment of the surveyed companies⁵ (48%). Similar in size is the micro enterprises segment (47%). The breakdown of surveyed SMEs according to their size to a large extent mirrors the Kosovo-wide enterprise structure and is as follows:

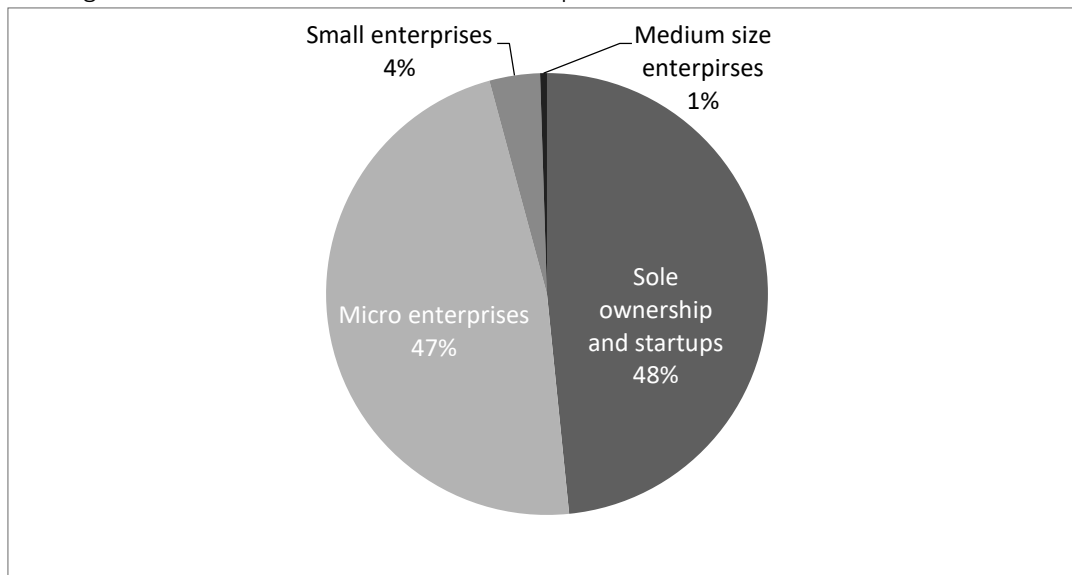


Figure 3. Size of the surveyed enterprises (research sample)

⁵ According to Law No.03/L-031, a Micro Enterprise is considered any enterprise having 1 to 9 employees, a Small Enterprise is considered any enterprise having 10 to 49 employees and Medium Enterprise is considered any enterprises having 50 to 249 employees.

3.2 Private sector assessment of municipal business support services

3.2.1 Assessment of the local business environment

When asked to evaluate the business development environment in their municipalities on a scale from 1-5, with 1 being “very bad” and 5 “very good” local businesses provided the following answers:

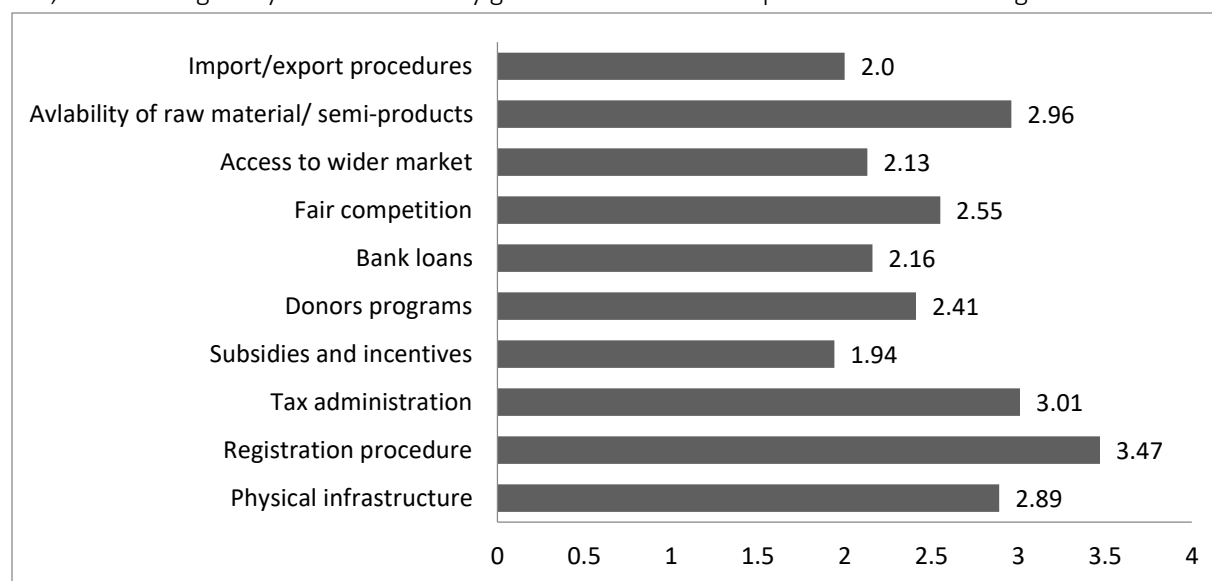


Figure 4. Private sector evaluation of the current business environment at the local level

The “registration procedure” was evaluated with the highest score followed by the quality and efficiency of “tax administration” and “availability of raw materials”. At the same time the availability of governmental “subsidies and incentives” for private sector at the local level got the lowest score followed by the “import/export procedures” and the “access to wider market”.

It is indicative that questions pertaining to the “access to market” scored relatively low, showing that the companies have difficulties in selling their products and connecting to targeted markets. In this regard, municipal business support units should ensure that their services are developed in a way that meets the actual needs of local SMEs. In this case it would require extending the existing support to also include services aimed at increasing the marketing capacities of local SMEs.

3.2.2 Most needed standard BRO services according to surveyed SMEs

When offered a choice of eight standard services provided by municipal Business Registration Offices, the inquired companies stated that following services are matching their needs:

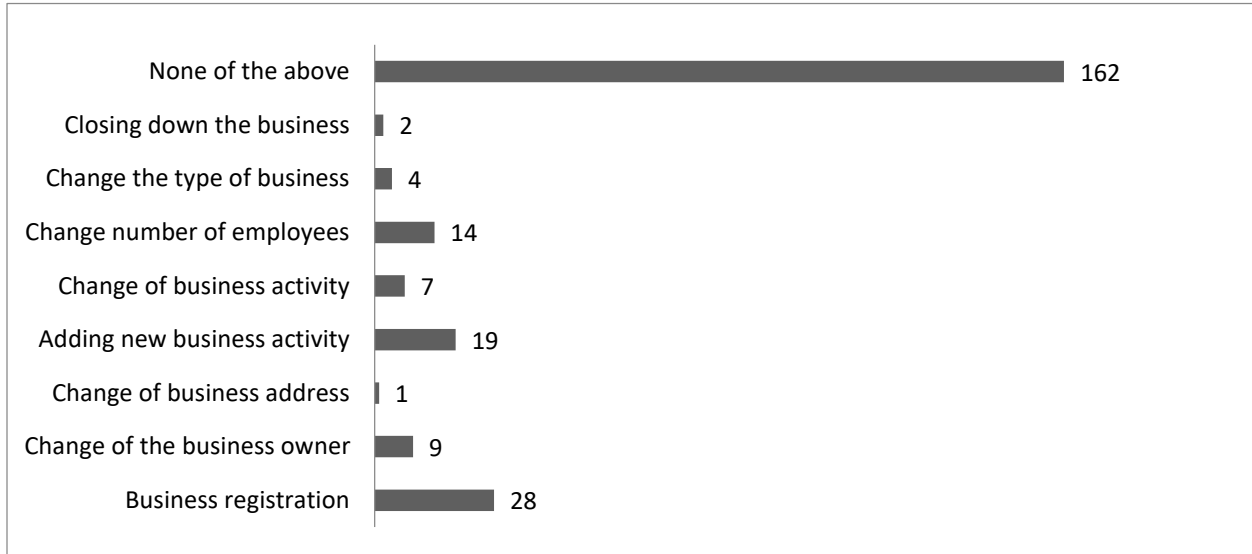


Figure 5. Standard BRO services most needed by SMEs – Kosovo-wide

The findings indicate that municipal Business Registration Offices are recognized as focal points for business statutory matters. As the next part of the research reveals, most of the surveyed companies have already used some of the statute related, non-repetitive services, mainly during the registration phase, while extended, business development support services, are targeted at different addresses. This explains why the highest portion of surveyed businesses (as many as 162) does not require many of available BRO’s services once the registration process is completed. Furthermore, this implies that the work of BROs, if limited solely to provision of basic business support services (registration), is not burdened with numerous clients’ demands, but rather consists of low intensity paper work. This situation leaves space for strengthening the role of BROs in the overall local business development dynamics through expansion and diversification of services. In another words, there is space for the existing local government resources to be utilized to a greater extent.

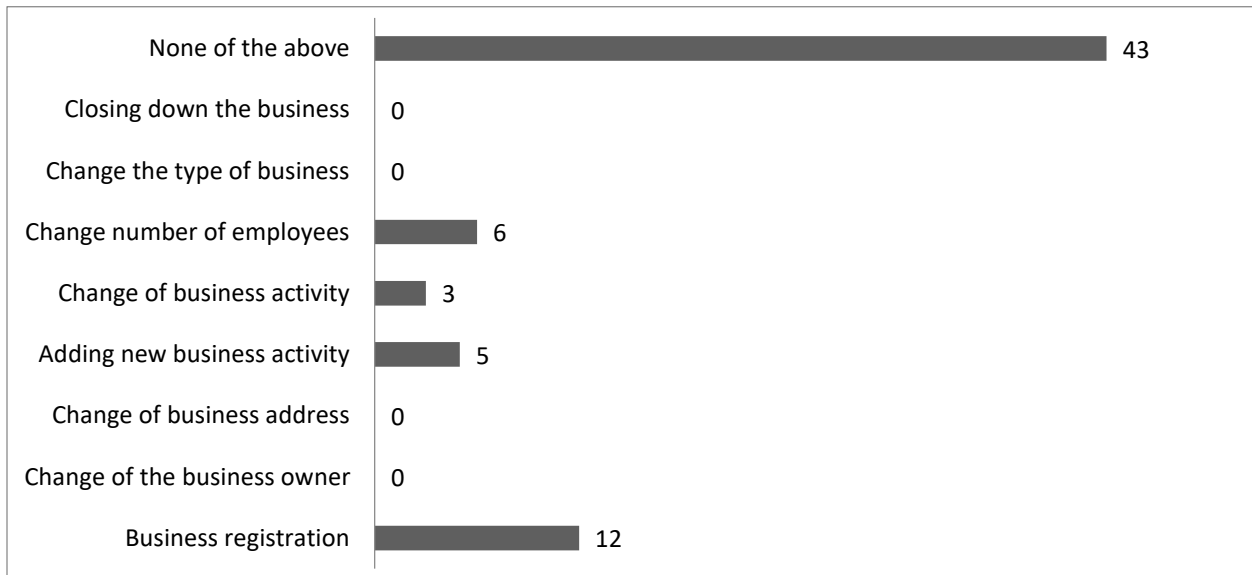


Figure 6. Standard BRO services most needed by SMEs – Northern Kosovo

Although at first sight the statistics reveals the same trends when only northern Kosovo data are analyzed, the interpretation and qualitative follow-up indicate a completely different reasoning behind.

More than two thirds of northern Kosovo businesses included in the survey indicated no need for BRO services. The findings can be mainly attributed to a lesser percentage of registered companies i.e. greater number of companies that operate outside the formal economic circles. The limited need for BRO services is not a matter of the lack of motivation or awareness, but rather of the fact that legal mechanisms that regulate business operations have not been fully installed in northern Kosovo which enables companies to postpone the legalization and avoid paying their dues as long as they can.

In the absence of the rule of law instruments that will enforce the legalization of private businesses, it has been noted that various donors’ granting schemes requiring such criteria, stimulate businesses to undergo a prompt registration process in order to gain eligibility status. Although efficient, this mechanism can achieve only limited results demonstrating the need for a structured institutional response aimed at formalization of business operations and suppression of gray economy to the maximum possible level.

The companies in the north also reveal far less knowledge about the services that can be obtained through municipal Business Registration Offices owing this to still ongoing integration in the Kosovo legal system, language incompliance issues and, last but not the least, the social stigma around Kosovo institutions still remnant in northern Kosovo. This is exactly where the potential for proactive engagement of BROs lies as these offices can effectively disseminate information, promote benefits and assist businesses with technical counseling and guidance through both integration and development processes.

3.2.3 Most used standard BRO services according to surveyed SMEs

When asked about the list of eight standard services provided by the municipal Business Registration Offices, the inquired companies stated that they have used the following services:

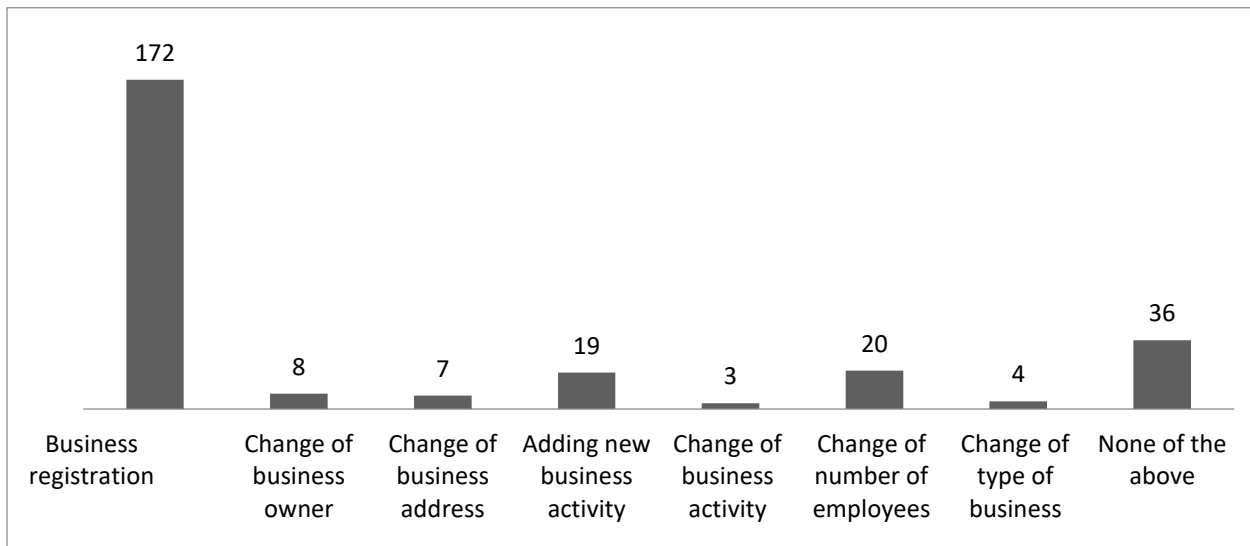


Figure 7. Standard BRO services most used by SMEs – Kosovo-wide

In northern Kosovo most frequently used services are the following:

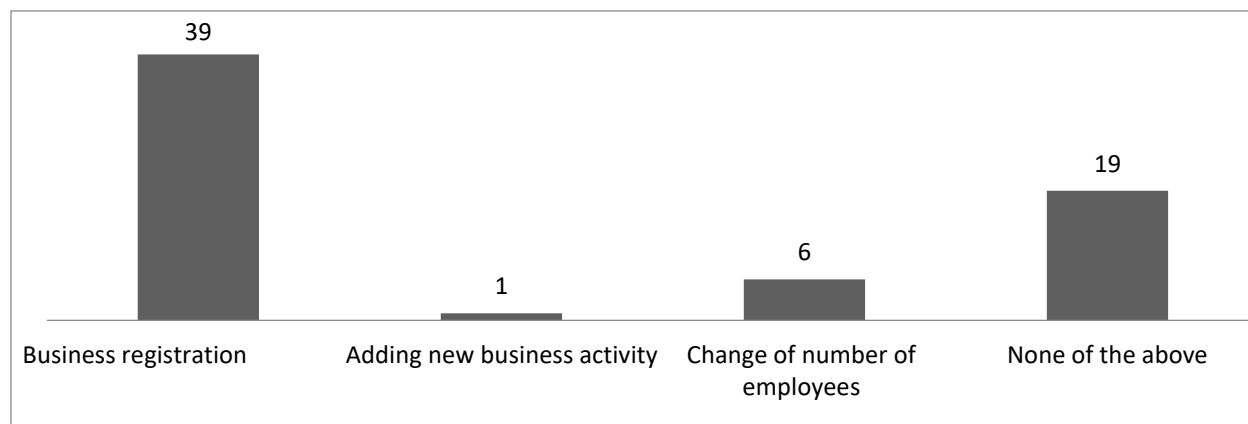


Figure 8. Standard BRO services most used by SMEs – Northern Kosovo

Comparative analysis of data on the use of standard administrative services Kosovo-wide and in northern Kosovo only indicates that standard BRO services are tailored to fulfill the basic needs of businesses and that BROs are recognized as the focal points for business statutory matters. Furthermore, it also points toward the potential of the Business Registration Offices to be easily transformed into “One-Stop-Shops” type of service providers by increasing the range and quality of services offered to already engaged SMEs. The high score of services such as “registration of enterprise”, “adding new business activity” and “changing the number of employees” also indicates that legal procedures are constructively adapted to client needs/benefits. The World Bank’s Doing Business report confirms this achievement setting Kosovo at the high-ranking 13th position out of 190 global economies with regards to “ease of doing business” measuring business regulations for local firms and their enforcement.

3.2.4 Needs assessment and access to additional support services for private sector

Apart from providing data on the existing business support services and awareness of local enterprises of the municipal BROs mandate, the survey also aimed to assess the SMEs’ need for additional support services required for further advancement of their business operations as well as the knowledge of surveyed businesses about institutions where these services can be obtained.

The figure 9 (below) lists the most common needs of surveyed SMEs in terms of additional business development services. They are mostly related to regulatory and standards compliance, access to finances and new markets, networking and capacity building activities etc. However, as the figure 10 shows later on, the primary need of surveyed SMEs is **the need for information** about the listed services, the requirements and procedures they entail and, most importantly, information about the correct addresses where those services can be obtained.

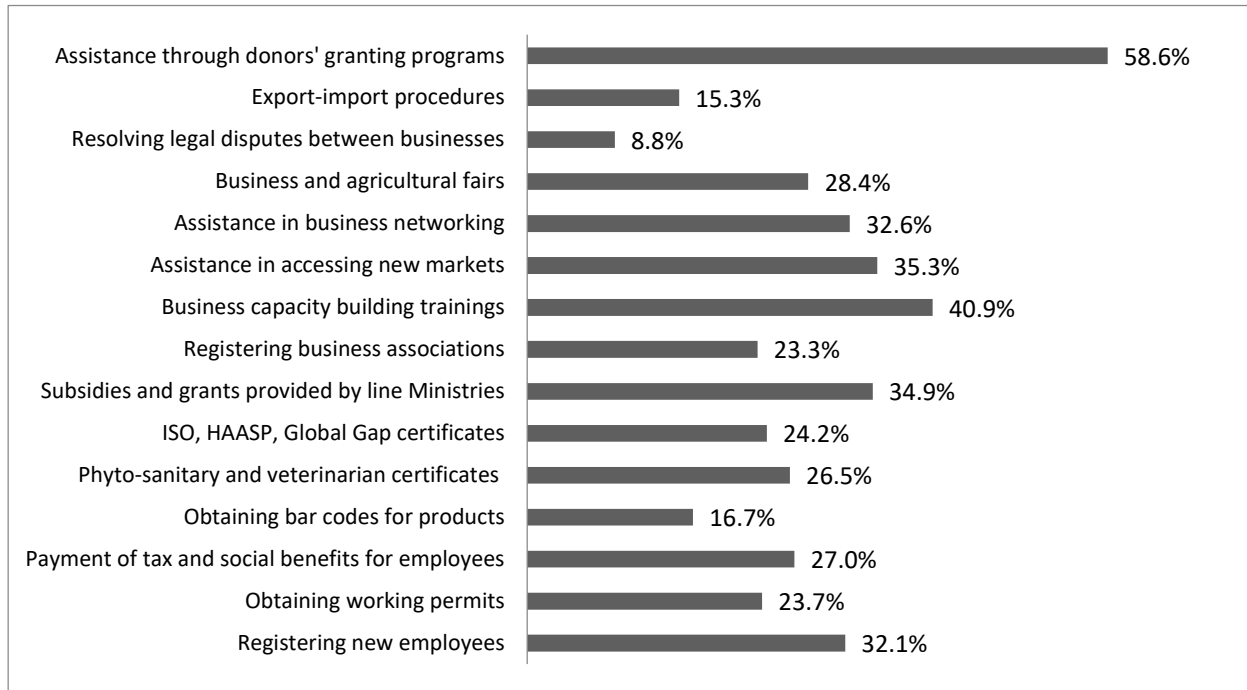


Figure 9. Percentage of SMEs expressing the need for additional business support services – Kosovo-wide

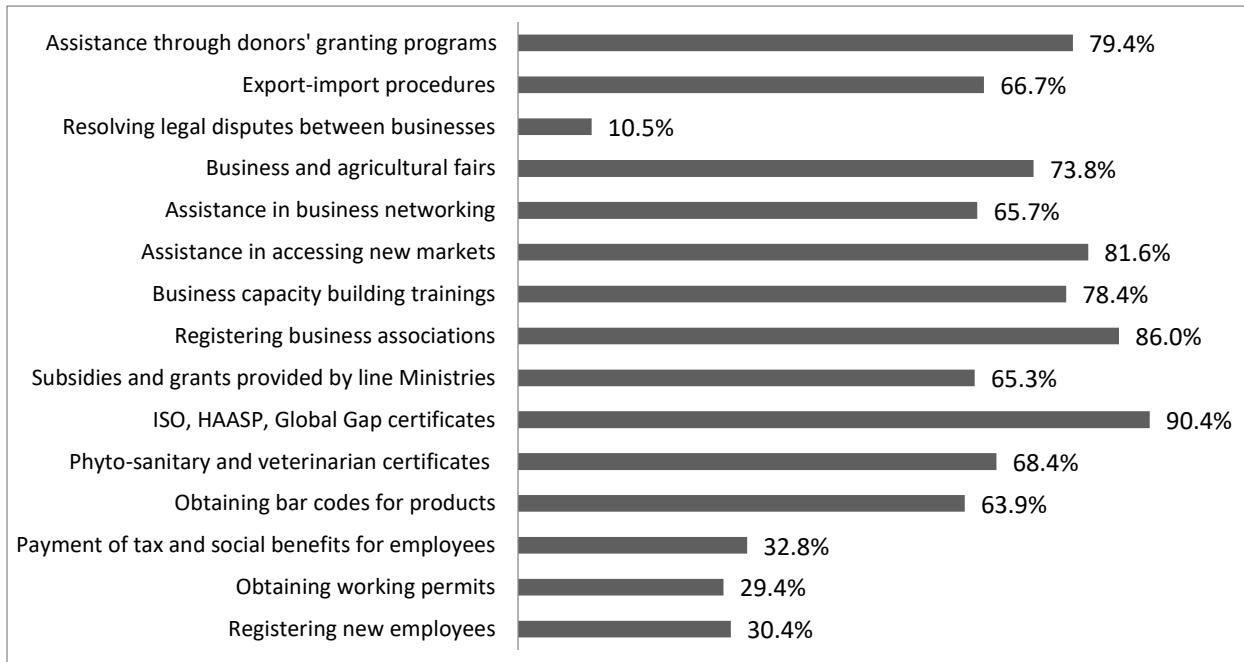


Figure 10. Percentage of SMEs NOT KNOWING where to obtain information about listed services – Kosovo-wide

The general conclusion from the data presented in the figures above would be that SMEs in 16 target municipalities are exceedingly unfamiliar with institutions where services outside the mandate of Business Registration Offices can be obtained. At the same time the surveyed SMEs demonstrate a great need for such services.

The greatest need is evidenced in relation to assistance in accessing financial aid (granting and subsidies programs), business capacity building trainings and business network expansion. Apart from that, other main conclusions on additional support services required by businesses surveyed Kosovo-wide are the following:

- *40.9% of companies claimed that they need business capacity building trainings, while at the same time 78.4% of companies stated that they did not know where to obtain such type of training.*
- *35.3% of companies stated that they need support in accessing new markets, while 81.6% did not know who could provide this kind of support.*
- *32.6% of companies stated that they need assistance in business networking and finding new suppliers and sources of raw materials, while 65.7% did not know where to obtain support for these activities.*
- *86% of the queried companies did not know the procedure for establishing a business association or institution/s responsible for this activity.*
- *As many as 80% of companies did not know where to obtain information on available donors' granting programs for private sector.*

The same relation, between the expressed needs and available information about where those needs can be addressed, is observed on more technical business support and regulatory services, e.g. obtaining of certifications legally required for placement of products, regulation of production or retail in food industry etc. The more specific and technical the services get, the lesser is percentage of businesses familiar with the process and relevant institutions in charge of those processes.

- *Even 90.4% of surveyed companies did not know where and how to obtain ISO, HACCP, Global Gap certificates.*
- *68.4% of the companies that indicated the need for phyto-sanitary and veterinarian certificates did not know where these certificates can be obtained.*

The companies that were surveyed north of the River Ibar expressed the need for the following services:

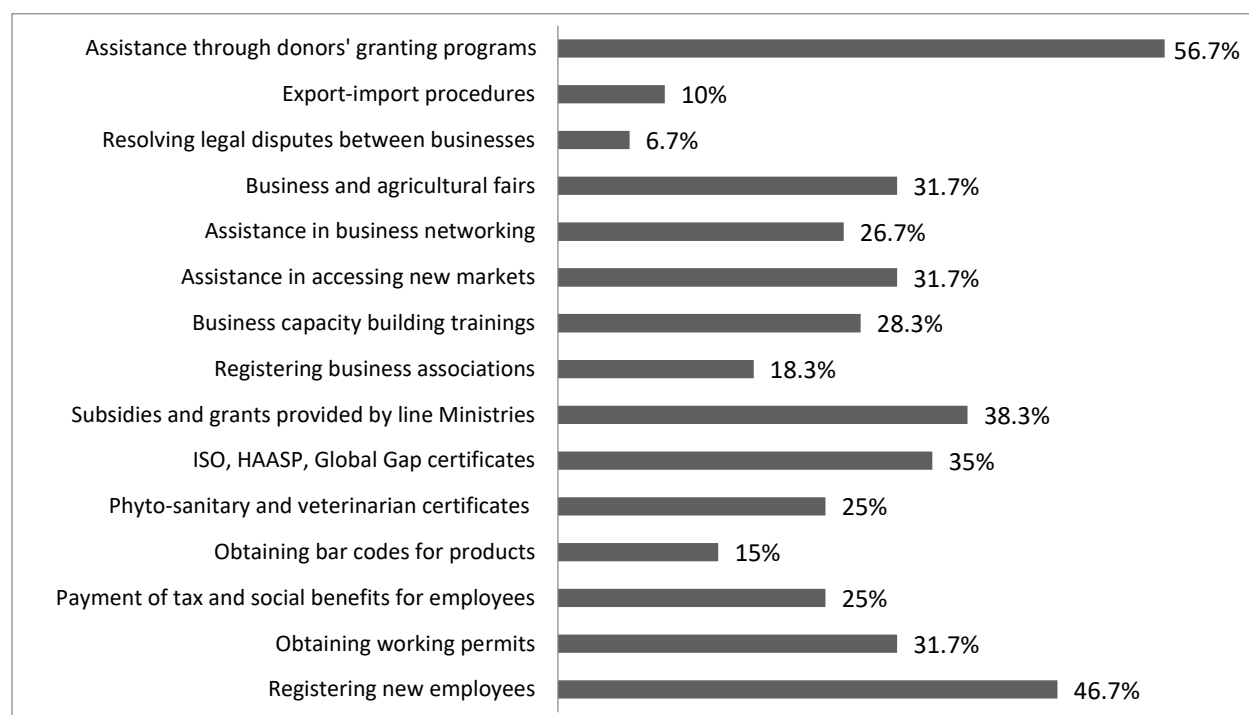


Figure 11. Percentage of SMEs expressing the need for additional business support services - northern Kosovo

The table above reveals several interesting trends that at the same time reinstate earlier findings of this survey. Firstly, the relatively low demand in services required for product placement in Kosovo and regional markets (bar codes, export certificates etc.) confirms inner orientation of northern Kosovo economy, i.e. its focus on the local market in northern Kosovo where such certificates are not yet required due to the poor application of the rule of law.

The need for legal assistance in resolving business disputes is extremely low and it corresponds to the previously presented figures evidencing that majority of business transactions in the north are conducted outside the legal system, e.g. unwritten business agreements, cash payment etc. On the other hand, the percentage of businesses indicating the need for support in employees' registration process (46.7%) is quite encouraging as it points toward a rising willingness of businesses in the north to adapt to the forthcoming consolidation of the rule of law system in northern Kosovo. Additionally, the legalization of employees' status has been presented as an eligibility requirement in many granting schemes previously implemented. The assistance in obtaining information on financial support programs (granting schemes) available in northern Kosovo is in high demand regardless of the fact whether these programs are implemented by international agencies or the Government of Kosovo. The demand is high due to the realistic lack of information on such opportunities i.e. lack of any referral address that unifies this type of information and disseminates it to business community in the north. An obvious solution for provision of this service would be the transformation of North Mitrovica Business Registration Office into the main source of information on the local level (both municipal and regional in this case), yet, for the time being, this service is not in the portfolio of this BRO.

Since the required pieces of information are scattered throughout the wider stakeholder circle, the

research also aimed to assess the knowledge of northern Kosovo businesses about institutions that can provide the needed services in order to demonstrate its impact on business operations. The table below indicates the percentage of companies that are not familiar with institutions/organizations providing listed services or information on services:

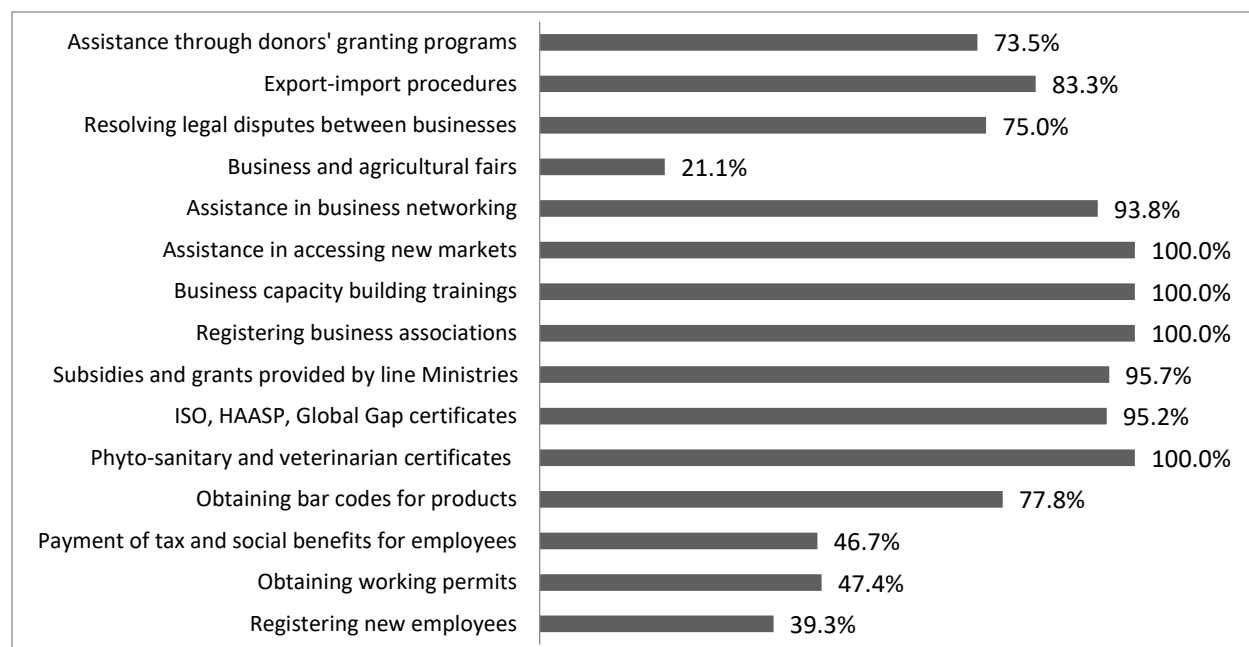


Figure 12. Percentage of SMEs NOT KNOWING where to obtain information about listed services – northern Kosovo

It is alarming that overwhelming majority, sometimes up to 100%, of surveyed companies do not know where to obtain information concerning a) **certification and standardization services** and b) **networking and business development information** (business training, granting scheme) and c) **diversification of supply chain** (new market expansion, suppliers of raw materials and semi products etc.).

Much better results are, however, noted when SMEs were asked about the services that are available at the local level (registration of new employees, working permits, tax and social benefits payment etc.), once again confirming the recognition of municipal Business Registration Office as a sole or/and main reference address for business related issues. This data only reaffirms what this study demonstrated earlier, that municipal BROs are recognized as significant local government potential that needs to be developed into a more comprehensive institutional support provider to the private sector.

Somewhat surprising is the number of SMEs in northern Kosovo familiar with opportunities for participation in agricultural and business fairs at the national level (almost 80%). This can be attributed to various networking programs implemented by local or/and central level civil society organizations. Engaged on project basis, CSOs demonstrated the ability to generate sufficient resources for efficient delivery of specific services, e.g. facilitating the participation of businesses at various local, national and regional business fairs, business-to-business meetings and other networking activities. Although not sustainable in the long run unless incorporated into service portfolio of local governments' institutions, services provided by CSO are very important for the wider business community and this symbiosis has not exhausted its full potential.

Civil sector organizations need to assist in the creation of sustainable local capacities for provision of comprehensive business support services and gradually prepare to shift from the filling-in-institutional-gaps position to monitoring the institutions' performance while continuing with research and policy level work focused at improvement of business environment in Kosovo.

With regards to SMEs surveyed in northern Kosovo, the main correlations between the need for additional services and knowledge about the institution/s responsible to deliver them are the following:

- *35% of surveyed companies indicated the need for ISO, HACCP, Global Gab certificates, while as many as 95.2% of companies did not know where and how to obtain this service i.e. who the actual service provider is.*
- *46.7% of surveyed companies stated that they need the service of registering new employees, while 39.3% of companies did not know who provides that service.*
- *56.7% of companies are interested in applying for donors' grants, while 73.5% of all queried companies do not know where to obtain this information.*

3.2.5 Access to service providers

The following section analyzes the manner in which the business attained the additional business support services (outside the standard BRO portfolio). The data were again analyzed separately for the whole sample i.e. overall Kosovo and for its northern part. The results are the following:

	Percentage of companies that attained service/activity	Percentage of companies that attained service with no external assistance	Percentage of companies that attained service with assistance of Municipal BROs	Percentage of companies that attained services with assistance of NGOs
Registering new employees	61.4%	87.9%	5.3%	6.8%
Obtaining working permits	36.7%	81%	12.7%	6.3%
Payment of tax and social benefits for employees	53.5%	90.4%	7%	2.6%
Obtaining bar codes for products	6.5%	57.2%	35.7%	7.1%
Phyto-sanitary and veterinarian certificates	9.3%	65%	25%	10%
ISO, HAASP, Global Gap certificates	3.7%	25%	37.5%	37.5%
Subsidies and grants provided by line Ministries	12.1%	53.8%	26.9%	19.2%
Registration of business associations	8.4%	50.0%	22.2%	27.8%
Business capacity building trainings	14.0%	36.7%	33.3%	30.0%
Accessing new markets	13.5%	62.1%	27.6%	10.3%
Business networking	9.3%	75.0%	25.0%	0.0%
Participation at business/agricultural fairs	14.0%	16.7%	20.0%	63.3%
Resolving legal disputes between business	3.3%	42.9%	57.1%	0.0%
Obtaining export-import certificates	5.1%	63.7%	36.4%	0.0%
Applying for donors' grants	47.9%	13.6%	5.8%	80.6%

Table 8. Specific support services/business development activities attained by the surveyed SMEs – Kosovo-wide

As the data reveal, Kosovo businesses mainly rely on themselves in acquiring additional business support services. This indicates a self-reliance culture that has developed in the absence of structural institutional support. This does not demonstrate that businesses can manage by themselves, but simply shows that the business owners are forced to improvise and put additional time-consuming efforts in order to attain them. Again, the local businesses need greater support when the services get more technical, for example, as few as 6.5% of companies managed to obtain bar-codes for their products without external assistance (in 57.2% of cases).

The data analysis also reveals a matching role of CSOs in assisting with additional services to businesses in

comparison to support provided by local or central level institutions. In some cases, businesses rely more or exclusively on civil society organizations. This is attributed merely to the local availability of CSOs and their proactive approach in reaching out to businesses. Helpful as it currently is, this role of CSOs needs to be taken over by the institutions as they are developing and assuming new mandates, because it is the only way to ensure the sustainability of service provision.

The table below offers the same overview, this time for northern Kosovo sample. The results confirm the well-known pattern in which CSOs are useful in delivering services when institutions are underdeveloped. In this particular case such services include entrepreneurship trainings, networking through business fairs or even highly technical certification/standardization process. The CSOs can be praised for vigilance in meeting the demands of local business communities, but again, these business support arrangements cannot become sustainable unless local institutions incorporate them in their portfolio.

The results on northern Kosovo sample are presented below:

	Percentage of companies that attained service/activity	Percentage of companies that attained service with no external assistance	Percentage of companies that attained service with assistance of Municipal BROs	Percentage of companies that attained services with assistance of NGOs
Registering new employees	31.7%	52.6%	5.3%	42.1%
Obtaining working permits	23.3%	57.1%	7.1%	35.7%
Payment of tax and social benefits for employees	23.3%	64.3%	14.3%	21.4%
Obtaining bar codes for products	3.3%	100.0%	0.0%	0.0%
Phyto-sanitary and veterinarian certificates	3.3%	50.0%	0.0%	50.0%
ISO, HAASP, Global Gap certificates	3.3%	0.0%	0.0%	100.0%
Subsidies and grants provided by line Ministries	5%	66.7%	33.3%	0.0%
Registration of business associations	0%	0.0%	0.0%	0.0%
Business capacity building trainings	6.7%	0.0%	0.0%	100.0%
Accessing new markets	5%	66.7%	33.3%	0.0%
Business networking	3.3%	100.0%	0.0%	0.0%
Participation at business/agricultural fairs	20%	8.3%	0.0%	91.7%
Resolving legal disputes between business	0.0%	0.0%	0.0%	0.0%
Obtaining export-import certificates	0.0%	0.0%	0.0%	0.0%
Applying for donors' grants	43.3%	11.5%	0.0%	88.5%

Table 9. Specific support services/business development activities attained by the surveyed SMEs – northern Kosovo

Despite similarities with the previous table presenting the Kosovo-wide situation, the most noticeable trend here is the extremely low percentage of businesses that have used any of the listed services. It could be said that the first column of the Table 9 reflects, in a nutshell, the consequences of numerous problems pointed at through this study: the inner orientation of northern Kosovo economy, prevalence of grey economy, poor application of legal provisions regulating business operations, still present ethnic distance and other problems that affect both the investment climate and everyday business transactions.

3.2.6 Other relevant data about from the survey

- Only 17.7% of all inquired companies stated that they are members of business associations, while this number in northern Kosovo is 23%.
- Out of 215 inquired companies 11.7% have stated that they are members of the Kosovo Chamber of Commerce or that they have been cooperating with the Chamber of Commerce.
- When asked to evaluate the quality of business support services provided by target municipalities to the private sector, on a scale from 1 to 5, the surveyed companies Kosovo-wide have provided an average grade of 2.47 while the companies northern of the River Ibar graded the quality of these municipal services with 1.85.
- The surveyed companies were inquired about the need for and usefulness of One-Stop-Shops or Business Info Points and 96% of respondents stated that it would be very useful to have such service providers established at the local level where they would be able to obtain all information relevant for their business operation in one place.

4. Recommendations

4.1 General recommendations

It is a generally adopted view that small and medium-sized enterprises hold a particular importance as a driving force of local economic development and that their ability to play this role is potentially undermined by administrative burdens or inadequate institutional support. This study concludes the latter.

The private sector in Kosovo is lacking structured institutional support in expansion of business operations. Therefore, the transformation of local governance structures with the purpose of providing adequate support to private sector is a challenge, nonetheless, the one that must be addressed.

There is not a single 'correct' approach for achieving the transformation of public sector service delivery. Although, there is a number of common trends as well as challenges faced by Kosovo municipalities, the responses will vary depending on the local context. What these efforts do share in common is the need to focus on improving the quality of customer experience by ensuring that local business community can achieve better outcomes from interactions with the public sector.

With regards to the partner municipalities of USAID/AKT-LS program in Kosovo, the main interfaces of the local governments' service delivery to the private sector are municipal Business Registration Offices functioning within the Departments of Local Economic Development.

The Business Registration Offices are the most common points of interaction between the private and public sector and they are recognized as the first local reference points on business related matters. The municipal BRO staff are familiar with the local contexts and specific challenges of relevant sectors, while the offices themselves are maintained through municipal budgets. Their sustainability is further ensured by the fact that municipal annual budget allocations can be influenced through local decision-making mechanisms the business community is a part of. For this and many other practical reasons this study concludes that BROs should be assisted in expanding their competencies and services in order to transform into municipal One-Stop-Shops for private sector.

Most of the 'one-stop-shop' initiatives are decentralized and set up at the local level. This is commonly justified by the fact that local governments are usually the first level of service delivery system and the closest ones to businesses.

As explained earlier in this document we recommend that municipal Business Registration Offices are upgraded into One-Stop-Shops for private sector or that they are complemented with this initiative. Established in accordance with the local economic environment the One-Stop-Shops will be capacitated to target all SMEs in a municipality. They can be particularly beneficial to businesses that are located in remote rural areas due to their ability to provide necessary information in a single instance without need for repeated visits to different municipal departments or scattered local and central governmental institutions.

Experience shows that the main benefits from initiatives such as One-Stop-Shop are the following:

- Taking into account the needs of business community improves the image of local governments.
- Direct interaction between the private sector and government administration makes the cooperation more efficient and effective.
- Enables services to be tailored to the needs of local SMEs and to be provided locally.
- Facilitates coordinated service provision.
- Cost-efficiency.
- Better coordination between existing governmental agencies and processes.
- Increased outreach and transparency.

The initiative for transformation of BROs into One-Stop-Shops should be a local effort, validated through central governance structures. Advocacy for this initiative, however, should originate from direct beneficiaries, i.e. businesses, either individual or gathered in associations, as well as civil society organizations in order to authenticate the credibility of initiative. Various mechanisms in place to assure the participation of communities in local decision-making processes should be utilized for this purpose, including consultations citizens, formation of expert groups at the local level, public budget hearings, public meetings, Assembly sessions, petitions and many other.

4.2 Recommendations on approaches and methodology

In terms of development of the One-Stop-Shops in target municipalities in Kosovo the following set of recommendations can be considered:

Recommendation 1: Decentralization

Information Centers and/or One-Stop-Shops should operate at decentralized (local) level in order to ensure proximity to the businesses. The One-Stop-Shops should be set up through a structured and coordinated expansion of competences of the existing Business Registration Offices or these offices can be complemented through formation of Info Desks or Business Information Centers that will provide information on business related matters and support local businesses in obtaining needed services. The expansion of competences regarding the set up and structuring of One-Stop-Shops must be implemented in full coordination with the relevant central level institutions, primarily, the Business Registration Agency of Kosovo operating within the Ministry of Trade and Industry which defines the mandate of the One-Stop-Shops.

In case of northern Kosovo, the recommendation differs. Considering the relatively small number of population, geographic coverages, number and size of businesses and other practical reasons, it appears that a rational solution will be to further develop the Business Registration Office in North Mitrovica to attend to clients from all four municipalities in northern Kosovo. In other words, the competences and capacities of North Mitrovica BRO should be transformed into a regional Business Support Office, again, in full coordination with the relevant central level institutions. Should this course of action be assumed, it will be necessary to expand the number of staff and their competencies, increase the linkage with other

municipalities in northern Kosovo and relevant institutions at regional and central level, assure appropriate municipal outreach plan and create appropriate channels of communication and information sharing (e.g. website and social media, monthly newsletter, info sessions, public debates etc.).

As proposed institutional changes require significant time, intermediate solutions can be set in place to meet the needs of businesses while awaiting the completion of service reforms. The CSOs can play a significant role in this process by establishing temporary one-stop information points closely cooperating with municipal offices and central level institutions that provide services to SMEs.

Recommendation 2: Visibility and accessibility

It is vital for the success of One-Stop-Shops to be visible and fully accessible to the citizens.

- A one-stop-shop must have a strong identity i.e. a recognizable visual identity.
- The office must be fully accessible to all users (business owners from non-majority communities, persons with disabilities etc.)
- It should have a visible display area as well as appropriate signage, so that clients are aware of its function, available services and attracted to it⁶.
- It should have capacity to provide multi-language services in accordance with Law on Use of Languages in Kosovo and best practices.

Recommendation 3: Inter-sectoral cooperation and organization

Provision of comprehensive and reliable information to clients presupposes that the task division between various actors within and outside the municipalities is clearly defined and that information exchange system is simplified and reengineered to ensure efficient operational flow.

Cooperation between departments of various institutions involved in the provision of private sector support services is indispensable for all administrative procedures introduced in One-Stop-Shops. In order to ensure horizontal and vertical organizational cooperation, coordinating mechanisms between different departments should be studied and relevant procedures should be drafted⁷.

Recommendation 4: Technical infrastructure

One-Stop-Shops should vastly rely on application of up-to-date IT technologies. Information systems of different services and the channels for information dissemination should be interconnected as to allow secure and efficient exchange of information.

It is also important is that offices use prevailing online communication tools in assuring swift outreach to targeted audiences (social media platforms, e-mail and SMS alerts, etc.).

Recommendation 5: Human resources

With regards to solution proposed through this paper, which implies the expansion of competencies of existing BROs rather than establishment of new structures, it is crucial to assure:

⁶ Countryside Agency, Setting up One Stop Shops, A good practice handbook on linking services in market towns, Countryside Agency Publications, December 2003, website: www.countryside.gov.uk

⁷ European Commission, CARDS program, Information centers and one-stop-shops, 2007

- Expansion of the number of BROs staff with expertise and experience that meet the technical and workload demands generated through expansion of office portfolios, and;
- Development and delivery of professional capacity building programs that will increase competences and skills of staff members in delivering additional services.

Recommendation 6: Funding

One-Stop-Shop project typically includes elements such as accessible and appealing physical location, IT infrastructure, well trained staff and established operational procedures and standards. Therefore, funding is an important issue for this type of project. Adequate funding for efficient operation of One-Stop-Shops should be identified, while the cost of such projects should be duly calculated.

In cases where municipalities lack resources for implementation of such initiatives it is recommended to seek support of local CSOs and the international donor community present in Kosovo. However, even in that case the municipal authorities need to commit sufficient resources for basic operations of the offices that minimally includes staff salaries, office space and operational costs. These costs need to be incorporated in municipal annual budgets.

Recommendation 7: Obtaining public support

As this intervention entails multi-actor engagement (central and local level institutions and agencies, civil society, citizens, majority and non-majority communities etc.) it is crucial that direct beneficiaries, decision makers and wider audience are informed about the benefits of One-Stop-Shops, so that the initiative can receive strong political and community support. In this regard, a clear communication and dissemination strategy should be developed.

5. Literature

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