

# Local Businesses and the Importance of Supporting Them

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## Abstract

This study will provide us with detailed information about the importance of supporting local businesses. The material will include several aspects: (1) the importance of supporting local businesses, (2) Case Study of Gjilan's municipality: support of local businesses from the municipal level -Gjilan, (3) Businesses in Kosovo: The importance of supporting local businesses in Kosovo, an overview of their financial difficulties.

We will use different methods for data processing: For the presentation of results we will use graphical and tabular methods, as well as information collected by the country's official institutions that are responsible for supporting local businesses.

Through these methods we will try to provide with a comprehensive overview of the problems and barriers that local businesses are dealing at the local level, aiming to create a stronger relationship between local businesses and local level with the purpose of creating greater profits for businesses as well as the economy in general.

**Key Words:** Local Development Agencies, The Business Difficulties, Procedures and Establishment of Businesses, Financial Problems, Business Incubators.

## 1. Introduction

Today businesses play a special role in the economic development of a country. According to many authors the number of businesses is a potential indicator of a country's economic growth. The goals of this study are:

- to present the role and importance of the support for local businesses;
- to analyze the structure and dynamics of businesses in Kosovo with a special emphasize in Gjilan;
- to provide a comprehensive overview on the support for businesses in the municipality of Gjilan;

Businesses today face many challenges that hinder their performance expressed in goods and services. A deeper cooperation between businesses and local level will cause a chain network, which will be very effective for its economy.

If we stop and analyze the relationship between businesses and local authorities in the Municipality of Gjilan, we will see that this relation is significantly strengthened recently. This fact is an indicator that tells us that our local levels are aware of the importance of supporting businesses local. Therefore, such an active role in supporting municipal at local businesses has shown positive results in local economic development by reducing the unemployment rate.

In Gjilan, businesses, especially small ones need subsidies, in order to increase their productive capacity. This is because small businesses are increasingly threatened by large businesses, which try to occupy the entire market. Results have shown that despite government efforts to support businesses to reduce taxes, by introduction of fiscal till etc. still remain many other barriers faced by businesses in our country.

## 2. The importance of businesses in local economic development

Advancing the role of local government and its impact on economic growth is realized with assistance, which is based on real needs and which can be applicable. Each municipality has its own advantages. As curriculum may be the increase of attention for attracting domestic investment in some categories where it will aim to increase the budget of the municipality, with a well-designed program municipalities will be able to manage assets and create generation of rising incomes and economic

efficiency. Municipality helps businesses by providing extensive information given time, providing subsidies especially in their infancy, which is essential to business operations. By organizing projects, multiple tables with external donors, who will invest in the municipality thanks to opportunities and facilities offered to municipalities. Municipalities rank economic development as a priority for the municipality. As part of this activity is DEMI program, which is a conducted roundtable that evaluates the role of local development in Kosovo.

This report has provided solutions to the problems, challenges facing governments in countries continuously during operation.

Initiative for Democratic Effective Municipalities (DEMI) - is a 3 year program, which is carried out, to assist Mayors and their citizens in the implementation of good governance. This project is implemented by international and local staff operating in 25 municipalities across Kosovo, including the Serb-majority municipalities. Their objectives are to promote skills, raise employment rate and increase services to citizens. These goals are realized between the efficiency of municipalities, service delivery and increase of municipal capacity which is achieved through local development.

The focus is on:

- Strengthening of the Municipal Assemblies;
- Establishment of civil engagement in municipal governance;
- Promotion of local economic development;
- Stimulating grants and other funding for businesses.

The role of local economic development and investment lacks today in Kosovo for many reasons:

Presentation of Kosovo's image as a safe place and would be attractive to business investitures. The municipality gives importance to infrastructure, financial plan, saves money by extending capital investments to help businesses grow and attract new investment and will eventually be a positive impact on economic development.

Investors find it difficult to take the initiative in a community where the cost of public services, the level of fees, differences in taxes change constantly.

Municipalities need to change the regulations, procedures and establishment of businesses, so that their staff treat citizens as clients, their

businesses, and this will be accomplished by offering simple procedures, information, statistics and help for businesses.

Depending on the type of business acquaintances are generally required as:

- Marketing
- Strategies
- Funding
- Legality
- Sales/Trade

Bringing the right person affects business development at the proper stage, as well as other instructions owning a company active in the market. Chain of growth continues for a long time bringing many other positive effects.

### **2.1. Local development agencies**

It is important that these agencies are part of a system of territorial organization that has the purpose of coordinating local development activities.

Local employment initiatives began operating in the early 1980s, as a result of promoting international organizations such as the Organization for Economic Cooperation and Development (OECD).

The goals of these initiatives are financial and technical support activities that can create sustainable employment on the grounds. Basically local employment initiatives stand at innovation and resource of hidden local mobilization.

Local Development Fund (LDF) in the municipality of Suhareka funded by Austrian Development Cooperation aims to give effect to the continuous development of local businesses that are compatible with development strategies. Municipalities go towards the advancement of agro and rural businesses. Foundation was established in 2011 by IRDS project. From this foundation are implemented 36 projects where receivers are 1,598 individuals. Local economic development agencies as the organizations dealing with the overall economic development at the local level, act together and organize them based on some entrepreneurs and objectives for a more rapid economic development.

### 3. Supporting businesses in Gjilan

Small local businesses are the most in number in our community, providing the most jobs to residents. Because of that the municipality of Gjilan has tried to assure the people that make business a good environment with various projects in many sectors.

#### 3.1. General analysis of businesses in the Municipality of Gjilan

Department of Economic Development, through the Center for Business in Gjilan has done a research in order to identify more accurately the businesses, their needs for the labor market as well as identify obstacles that businesses face while performing their activities. Below we will present the results of this research. According to research, active businesses in Gjilan municipality are 3050, and informal businesses are 332.

Municipality of Gjilan region is presented with a variety of businesses, where most of them entered in the category of commercial and service businesses.

**Table: 1.** Type and number of businesses in the Municipality of Gjilan

1	TRADE	1,281
2	RETAINER	1,149
3	HOTEL	231
4	PRODUCTION	188
5	SANITARY	108
6	CONSTRUCION	37
7	OTHER	16
8	AGRICULTURAL	2

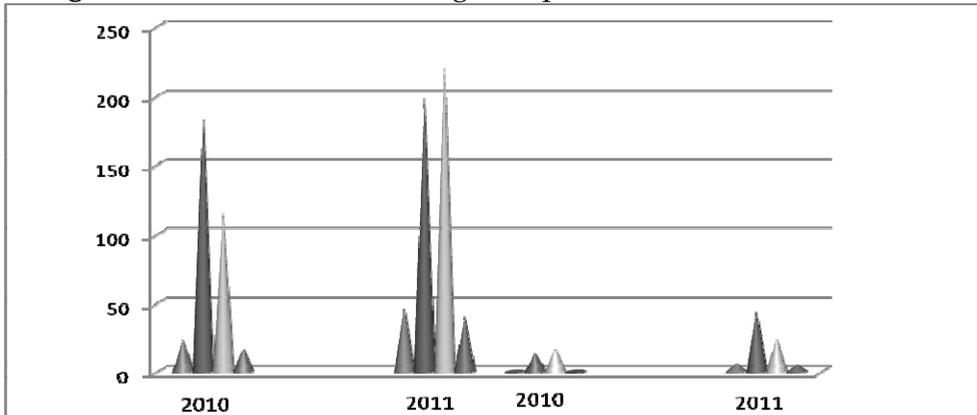
**Source:** Based on the results of the research in Business Centre in Gjilan - 2013

So, according to the data in the table, it appears that the largest number of businesses are commercial (businesses 1.281) and retainer 1,149, then there are hotels (231), manufacturing enterprises (188), while other types of businesses are of a smaller number.

Although this result is somehow satisfactory, having a solid number of commercial businesses and services, remains to be desired for a better

result in the manufacturing businesses which represent the backbone of the country's development.

**Figure 1:** Productive and trading enterprise 2010-2011



**Source:** Based on the results of the research in Municipality of Gjiilan 2013

### 3.2. Problems of businesses in the Municipality of Gjiilan

Businesses that are dominating factor in the economic growth of Gjiilan face numerous problems which hamper their activity.

It is worth noting that private sector businesses in Gjiilan have employed 8699 workers including owners themselves. The municipal government in this country has done municipal tax relief for these businesses. But nevertheless the problems faced by businesses are different, from problems with sewage, water supply, power and infrastructure. According to a survey conducted by the municipal level, 3029 respondents said that businesses are satisfied with municipal services and business climate in Gjiilan.

Meanwhile, businesses in the Municipality of Gjiilan face numerous barriers that affect their work efficiency:

- 1) Bureaucracy, which always increases the cost of opening businesses and increases the cost for existing businesses which aim to enhance the activity,
- 2) Inadequate infrastructure, lack of electricity,
- 3) Unfair competition, which imitates those who work within the law of the market,
- 4) Lack of different incentive measures for businesses,

According to businesses in Gjilan, local government has not paid attention to economic development. Unfavourable development policies, especially in the field of production, citing the difficulties of farmers and producers have made Gjilan businesses feel discriminated against.

As problems are: lengthy procedures for construction permits, municipal high taxes, unfair competition between companies.

In the previous years businesses in the region have created mitigating procedures in obtaining, building permits and subsidies as incentives for them to form.

In 2013, the Municipality of Gjilan local development is realized as subject. Engagement process and economic experts in cooperation with USAID have worked on setting objectives to promote local products.

Projects funded by the European Commission supported agricultural production businesses and farmers continuously require subsidies from municipalities and international funds.

#### **4. Structure and dynamics of businesses and business difficulties in Kosovo**

The report of the Agency for support of small and medium businesses shows that out of 97 thousand businesses there are in Kosovo, 95 thousand are micro-enterprises. Businesses like these make up 98 percent of registered enterprises in Kosovo, which employ 1- 9 employees. Meanwhile, the number of enterprises in other business categories is low; according to the type of property are under 1 percent, except those which are 1:38 medium percent. According to the survey of registered enterprises during the period 2008-2011 by the Statistics Agency of Kosovo (SAK), the number of active enterprises was 41,000 to 42,000 enterprises. Number of enterprises by activity is presented in the table below:

**Table 2:** Active enterprises by economic sections for the years 2008 - 2011

Sections	Description economic sections	2008	2009	2010	2011
C	Extractive Industry	207	200	205	202
D	Processing Industry	4313	4353	4356	4504
E	Production, distribution of electricity, gas, steam and water	50	56	68	64
F	Construction	2297	2390	2474	2632
G	The retail and wholesale trade, repair of motor vehicles and household appliances	20795	21105	19755	19770
H	Hotels and restaurants	3498	3559	3364	3459
I	Transport and telecommunications (storage)	3610	3655	3377	3477
K	Business services	3846	4197	4112	4572
O	Other services	2501	2564	3345	2738
	<b>In total</b>	<b>41117</b>	<b>42079</b>	<b>41056</b>	<b>41418</b>

**Source:** Statistics Agency of Kosovo 2011

The local authorities as key actors in society as well as the citizens, develop various initiatives as individuals themselves and in the group. These initiatives are based on the objectives and different opportunities but the goal remains the same: resurrection and local economic recovery through enterprise promotion tool.

#### **4.1. World Bank report on entrepreneurship and businesses in Kosovo**

If we take a retrospective look at the development of Kosovo since 1999 we see that its development was solid, but obvious that ideas are concretized by international aid. While in the first years after the conflict the main focus was on reconstruction, in recent years were largely driven by investment capital projects.

While donor funding were expected to grow, on the other hand public resources remained limited. Challenge in the future for a sustainable development of the private sector remains activation. Among the

advantages of Kosovo such as simple tax system and low tax rates, Kosovo firms face many problems and challenges.

If you stop and analyze the advantages of doing business in Kosovo, as a primary should probably be mentioned the modern legislation in conformity with EU standards.

Also if we analyze the results of AABN 2009, it indicates that only 10% of firms think that labor regulations are an obstacle for affirmation. So the labor market in general is perceived as powerful advantage in Kosovo. One other downside of Kosovo is the implementation of contracts, which is also another area of the rule of law. In Kosovo it has become a common issue for firms to violate the contracts. If we look at the report, *Doing Business 2010*, the World Bank shows that to enforce a contract the average was 420 days and 53 procedures and the cost of this can reach over 60% of the value of the complaint. From this report it appears that Pristina and Prizren are very difficult cities for a contract to be implemented.

Given all the complications, length of proceedings and the cost, it turns out that only 3% of the firms surveyed have used the judicial system in the past three years.

In this area Kosovo has benefited greatly from the open market, in labor market rigidities regarding hiring and dismissal is very low. One of the areas where Kosovo has not succeeded is business registration and licensing. These obstacles are the same for local investors alike foreign investors. In this regard investment promotion agency must provide services to potential investors by providing timely information. Despite difficulties due to lack of knowledge of the situation, many of the surveyed firms are taking seriously the issue of creating conditions for investments.

Kosovo should focus on three aspects: the rule of law, good governance and proper management of the budget, which columns will affect the creation of auxiliary space to work and increase business activities.

Recently the Ministry of Trade and Industry offered slightly better procedures with simple access for businesses aiming their growth and easing procedures for them. Once businesses are registered, at the same time they are equipped with fiscal number certificate and taxes for business registration are removed. These changes have led to the partial easing of procedures for businesses. As a continuation of work after issuing a certificate of registration and certificate of fiscal number should be applied to the device with a certificate of registration in the Value Added Tax, registration application in Profit Tax or Income Tax Corporate registration

of workers, which is done at the Tax Administration of Kosovo (TAK). The time used for all this documentation is approximately 15 to 20 days in order to start a business.

#### 4.2. SME access to credit and financing

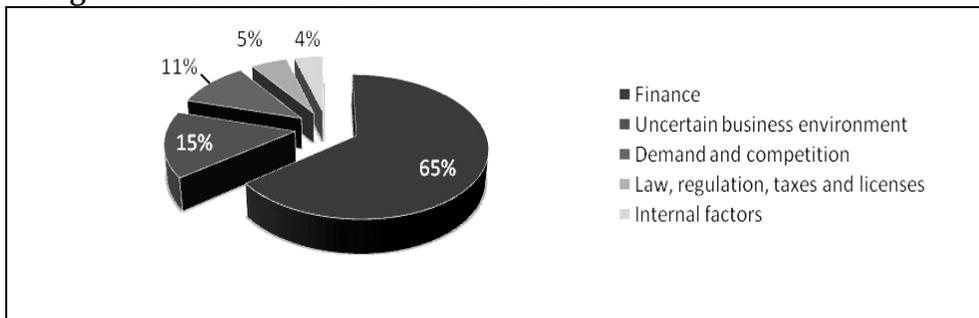
According to many surveys, in Kosovo are being created incentives for business financing. This forces businesses to approach commercial banks, which have high interest rates and precisely because interest rates are unaffordable businesses give up multiple investments.

Businesses are those which carry the highest burden of interest rates because loans to businesses have a higher interest rate compared to loans to households.

Interest rates in Kosovo go up to 14.3%, which are considered as the highest in the region compared with Albania at 12.9%, Macedonia 11.9%, Croatia 10.2%.

Access to sources of funding and uncertainty in the business environment appear as the main obstacles hindering the expansion of SME activities.

**Figure 2:** Barriers to business environment



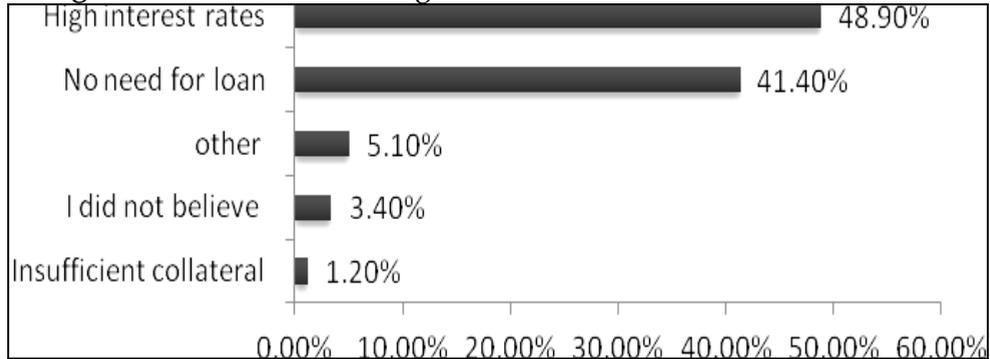
**Source:** UNDP HDR (2011) Sector Assistance Banking- or Barrier.

In Kosovo businesses do not have many choices for financing, internal funds and competition and it affects the level of planning that makes these businesses cut their investment level.

While Kosovo remains a challenge for economic development and job creation, SMEs should be held more powerful in order to increase the level of production and competition by offering higher quality products which would be required in other countries.

Riinvest according to a survey, explains that SMEs use credit as a form of financing from banks by nearly 12%, and borrow from friends and family by 10%.

**Figure 3:** Reasons of avoiding credit from businesses



**Source:** UNDP HDR (2011) Sector Assistance Banking- or Barrier.

With the growth of technology was increased the possibility of access to finance, but many firms do not practice the transactions they carry out through the bank, only 44% of them make their sales through the bank.

Number of businesses will increase if trust between banks and businesses will increase, as well if the opportunities for funding were low to the cost of financing.

Some of the main reasons that companies do not apply for loans are:

- a) High interest rates,
- b) Confidentiality, trust between banks and clients,
- c) Lack of collateral
- d) No need for credit.

#### 4.3. Business Incubators

Business incubators as common tools to stimulate enterprises and local development, offer blended service solutions for business incentives.

Building of business incubators is in place to support business start-ups, growth and development, by providing space for business incentive awards, training and business advice. Creating incubators based on the idea of close links, followed by various experts' roads to solving problems from different businesses.

Business Incubator is an effective way to promote the creation and growth of new enterprises, businesses and innovative ideas. Many innovative ideas and businesses in their infancy face many operational and strategic challenges, which hinder the development and progress of their business.

## 5. Conclusions and recommendations

Businesses in Kosovo face numerous problems that are largely a result of institutional negligence but also many bureaucratic procedures that slow down the pace of business development at the local level. However, Kosovo has also advantages in this regard, which are emphasized by the World Bank and the research done by foreign organizations. In this regard it is worth noting simple tax system and low tax rates. In this paper I am trying to identify the main problems of the business environment in our country. Initially enterprises face financing problems, where to have a business idea is not enough but it should be realized through funding sources. Many people with good ideas for business, complain that they do not have the option of providing funds to make the idea a reality since the banks charge high interest rate for businesses.

Business owners complain that they need to simplify bureaucratic procedures which will speed up their work, and the removal of tariffs as a form of Municipal local level support.

It is known that every municipality has limited funds, so attraction investors is vital for the existence of a municipality, but different types of problems that many investors face, make the business environment in Kosovo qualify as inadequate for investing. In this regard it is worth mentioning the possibility of obtaining funds from the European Commission but the design of these projects should be run by a group of EC experts.

The issue of funding - knowledge for realization of a business idea is not enough, because in order to materialize it, one must ensure funding sources.

**Quality of human capital** - Although our country's human capital is very important, more should be invested in its quality. In this respect the municipal authorities should provide suitable conditions for practice in schools in particular laboratories.

**Promoting professional schools** - the municipality should encourage and stimulate students to attend these schools, because this will create opportunities to them to access the labor market. The role of the municipality in this case would be to identify market needs and human capital in guiding young people toward trades and professions which the market needs.

**Stimulating local production on different fairs** - It is known that enterprises provide the basis for sustainable development of the country, so in this context, municipalities should stimulate local production by organizing fairs which would promote these products, but also by giving awards for the work done during the year such as farmer of the year/ woman of the year, etc.

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