

The environment for business development in Kosovo

Mustafë Kadriaj

Lulzim Beqiri

Abstract

The environment as a term implies natural, social space and the infrastructure in general. Even in the genesis itself, based on the information provided in the divine books and scientific researches and all the facts that surround us, it can be seen that firstly God created nature and then he put the man on the Earth. Hence, the environment is a dominant factor of human development.

The world is heading towards a common trade which in the scientific literature is known as economic or commercial globalization, and Kosovo is headed in this direction. Kosovo has started its competitive business activity since 1999. The Kosovo business despite the legal restrictions factors, technical infrastructure and fiscal policy has shown a solid and promising development. Since the Republic of Kosovo is oriented towards market economy, business is a key factor for the economic development, the Interior Gross Product (GDP), job occupation as well as filling the state budget. The Kosovo business despite its development, it faces the unfavorable environment of normal and competitive development. This paper addresses the business environment in Kosovo through research, literature, national and international reports.

Keywords: Kosovo, business environment, businesses, infrastructure.

Introduction

Encouraging the entrepreneurial spirit is essential in creating jobs, and in improving the competitiveness and economic development. Small and medium businesses are the engines of creating new jobs; they are the driving force to economic prosperity. The private sector development is considered a priority for the creation of a sustainable economic development, for reducing unemployment, etc. In Kosovo, the operation of SMEs plays an important role in the overall scheme of the economic development. SMEs constitute about 65% of jobs in the Republic of Kosovo. The role of small and medium businesses is observed through their influence and contribution to employment and gross domestic product growth (GDP). Reports of Europe Council analyze that Kosovo is still far from meeting the standards. Some of the weaknesses consist of: financial limitations, lack of human resources for implementation, dependence on foreign donations, lack of technological capacity of SMEs, taxes and access to finance, lack of energy, slow privatization process; then, underdeveloped infrastructure such as market information system, transportation system, distribution system, business premises etc. Some of the main challenges for the Republic of Kosovo are: the design of new policies, finding additional ways for implementation, within which are included the businesses that employ the largest number of residents. The business environment in this paper is addressed through

professional literature, laws, relevant national reports as well as international of scientific researchers, businesses and students of economic fields in order to offer you the overview of legal and infrastructural environmental barriers of doing business. The competitive environment is such a situation in the market, which has to do with the number and the type of the competitors, the nature and behavior and their competitive abilities, which concerns the commercial director while conducting his functions. The more competitive is the environment, the more difficult is to enter the market, to sell and carry goods at favorable prices (Skenderi, 2010, p. 157).

Analysis of doing business

According to the Ministry of Trade and Industry, they are committed to improve the environment of doing business, such as: Starting a Business - Businesses are now registered for free and within a short time: One (1) day for individual businesses and three (3) for joint stock businesses. This is made possible by the integration of the system, where businesses receive a certificate with two numbers: the number of business and the fiscal number. Also, the initial capital is removed and the registration procedures have been simplified.

Protection of Investors - Kosovo has significantly improved the protection of shareholders, by improving inter alia, the requirements for transactions publications in case of the conflict of interest between officials of corporations, enabling shareholders to cover any damage resulting from transaction, as well as allowing the court to invalidate the transaction if the shareholders exercise successfully the request.

Construction license - It has improved significantly, with 80 % reduced time and reduced costs for the registration.¹ According to the World Bank report "Doing Business 2015", Kosovo is ranked 75th, marking a significant increase from previous years. One of the indicators that improved by 58 seats, (from the 100th it has dropped to the 42th seat) is the indicator of business registration. This is a result of changes, simplifications of procedures, shortening of time limit for business registration and the integration of registration system of institutions such as the Tax Administration and Kosovo Customs.

Reforms of doing business in 2015 according to the World Bank

Local authorities say that they are continuing the reforms in the doing business environment; therefore, according to officials of the Ministry of Trade and Industry, the ranking of Kosovo in the World Bank report "Doing Business 2015" is expected to be better. Meanwhile, experts on the economic issues say that the improvements are of an administrative nature. The institutional vacuum does not obstruct the reform process in the environment of doing business in Kosovo. Lulzim Demolli, a senior adviser at the Ministry of Trade and Industry, says that they are continuing their commitment for reforms in the business environment and creating more facilitation for business. He says: "This year, the Ministry of Trade has taken a series of steps to

¹ <http://www.mti-ks.org/sq/Reformat-e-te-berit-biznes>, n.d.

improve the climate of doing business in Kosovo, and we expect that these reforms will continue to create the best conditions for doing business". According to Demolli, the reforms made during the year will be reflected in the World Bank report "Doing Business 2015": "We believe that this year we will be ranked even higher than last year when from the 117th place, we were ranked in the 86th place". Whereas the analyst of RIINVEST Institute, Alban Hashani says that the improvements in the environment of doing business are mainly related to procedural and administrative matters, but they are not real and qualitative improvements that businesses feel: "The indicators that are followed from the report of doing business, mainly deal with procedural matters, so they deal more with the administrative and bureaucratic way of doing business, rather than with the actual doing business, where they are associated with real institutional problems, such as dishonest competitions, which primarily arises because of the corruption, tax evasion and informality at work. "Otherwise, one of the biggest problems in the business environment highlighted by the World Bank is inefficiency of the courts and investors protection. Meanwhile, local businessmen have complaints about the difficult access to finances, high interest rates on loans, tax multiple loads; but also other issues, which causes bankruptcy.² The report of the World Bank's Group of *Doing Business* has recognized Kosovo's reform efforts to improve the investment climate. Out of 189 countries studied, Kosovo now is ranked 86th. The report that measures the easiness of doing business has captured the reforms in three of the ten indicators, regarding: (i) starting a business; (ii) building permits; and (iii) registration of property. Thus, Kosovo is among the 10 top reformers worldwide.³

Empirical Research

The empirical research was conducted in different municipalities of Kosovo. 250 different enterprises were surveyed in the manufacturing sector, in the trade sector and in the services sector. The survey was extended in these regions: Prishtina, Peja, Mitrovica, Prizren and Podujeva.

Barriers in the work of business

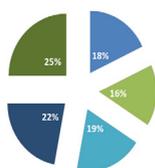


Figure 1: Barriers in the work of business?

- Lack of qualified staff
- Economic policies
- Fiscal Policy
- Informality in the economy
- Financial barriers

Source: Calculation of authors

From the total of the representatives surveyed, 25% of them have said that the largest barrier in their development are the financial barriers as a result of high interest rates from commercial banks which operate in Kosovo, then according to them, it is the informality in the economy by 22%. Thus, the fiscal policies, which are frequently changing in Kosovo, 18% of them are considered as a barrier by businesses. The economic policies undertaken by Kosovo institutions are not being liked by Kosovo

² <http://www.telegرافي.com/raporti-te-berit-biznes-2015-i-bb-se-prijet-optimiste/>.

³ (<http://www.worldbank.org/sq/news/press-release/2013/10/29/doing-business-report-identifies-kosovo-as-top-ten-reformer-worldwide>, n.d.

businesses; this opinion is shared by 16% of respondents to the case of this research. The SME category Kosovo businesses have problems with the qualified staff; they consider that there is a lack of professional staff in their field and this is counted as a serious barrier for around 18% of businesses surveyed.

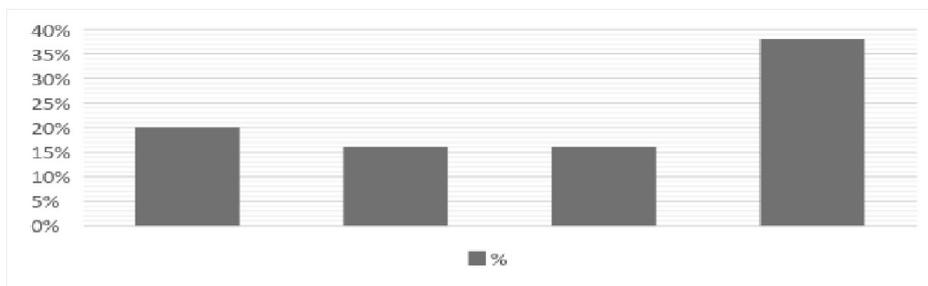


Figure 2: The effects that bring business barriers for businesses that were surveyed in the field?

Close businesses, 20%. Reputation risk, 16%. Reduce profits, 16% Low productivity, 38%

Source: Calculation of authors

Low productivity is considered a great result for businesses by 38%; then, as a result of these barriers businesses are closed, and this opinion is shared by 20% of respondents of the survey. Meanwhile, 16% of them point out that these barriers jeopardize their reputation and the damage of these barriers is reflected in the profit.

Table 1: What impact has the informal economy in your business?

What impact has the informal economy in your business?	Nr. The Business	%
Big	143	57.2
Relatively	43	17.2
Impact	63	25.2
Abstention	1	0.4
A total of	250	100

Source: Calculation of authors

The informal economy has a significant impact on the territory of Kosovo. About 30% currently is estimated informal economy, and the biggest problem comes from the north of Kosovo that is administered by the Serb ethnic minority while not obeying the laws of the Republic of Kosovo. Therefore, our research has highlighted this concern of businesses with the case of our survey, as 143 businessmen from a total of 250 as surveyed, see this as an obstacle and about 57.2% of them share this opinion, while 17.2% think relatively and 25.2% think it has an impact. This means that the informal economy is largely present in the territory of Kosovo even after 7 years of independence. The power supply has improved significantly in recent years, as

52.5% of businessmen have stated that electricity is stable or from the 250 businesses surveyed 134 said they did not have big problems with electricity, while 46.4% have stated that electricity is unstable.

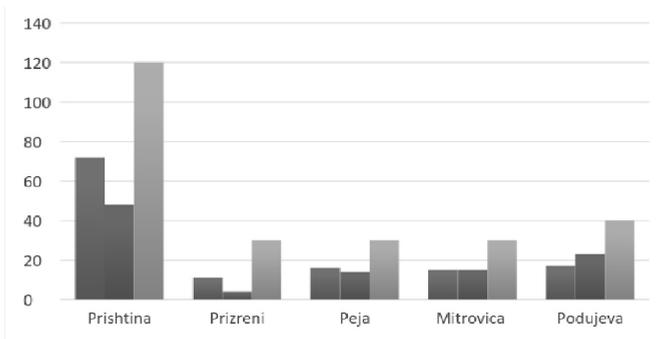


Figure 3: Electricity Power Supply?

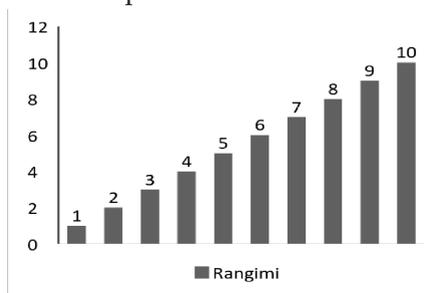
- Stable
- Not Stable
- In total

Source: Calculation of authors

The biggest problems with stable electricity supply, has the region of Podujeva, and the region of Pristina has small problems with power supply, the region of Mitrovica and Peja have significant problems with a stable power supply. The region of Prizren has stable electricity supply; by a total of 30 businesses surveyed, only 4 businesses said they had problems, while the rest are satisfied with the power supply. The region that has the most stable electricity supply is Pristina.

Figure 4: What are the biggest problems of doing business in Kosovo, according to you?

1. Poverty
2. Limited access to finance
3. corruption

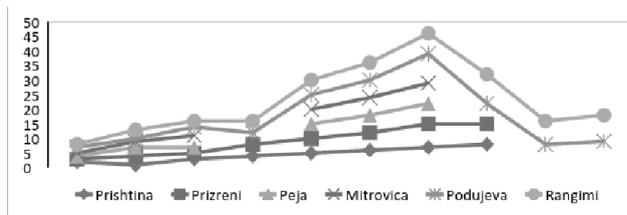


4. Organized crime
5. Rule of law and its implementation
6. Political instability
7. Poor technological level of the economy
8. Education
9. Business administrative procedures
10. Poor physical infrastructure

Source: Calculation of authors

According to the periodical researches which makes the Agency for support of small and medium enterprises, and based on researches that other institutions have done, both local and international; also, according to our survey, there is a universal agreement among all, that the barriers are numerous and of different natures.

Figure 5: Barriers to SMEs?



The biggest problem or the greatest barrier, according to officials surveyed is the poverty which is big enough in Kosovo, then, the access to finance is the second ranked barrier. Corruption is on the third rank of the matters of barriers to

doing business, whereas the organized crime has an important role as a barrier or as a development business problem. Lack of rule of law and its implementation is calculated as the fifth obstacle in the ranking followed by the political instability of the country which in 2015 was characterized by blockades and vague political situations. Poor technological levels and poor quality education are ranked in the latest positions as obstacles followed by bureaucratic procedures and inadequate infrastructure for doing business. Besides the main barriers mentioned above, we have asked businesses for other barriers that are hindering their normal business. In a question directed to the respondents whether the small market has a negative impact in your business life, we have this perception: 50 businessmen stated that the small market has influence in their business by calculating the active population in Kosovo, or 45.46% have the opinion that the small market has a significant impact on the growth of their business. Another serious barrier is considered theft and disorder in the country with 27.28%, as well as limited access to land is a serious problem for surveyed Kosovo businesses. From 110 businessmen surveyed, only 3 of them have abstained on this question.

Conclusions and recommendations

This study, which was based on international reports, state statistics and a survey, show that SMEs, have many difficulties in being competitive and based on the strategies and recommendations issued by the EU..

Recommendations that can be given in this case are:

1. Support and motivation from the government, respectively from the Ministry of Trade and Industry and Ministry of Economy and Finance;
2. Opening a separate bank for SMEs that would deal specifically to strengthen their functioning through facilitations and direct financial support;
3. Reducing the existing interest that represents a significant role in their success and development; Removing or reducing the taxes for a certain period until SME's are stabilized;
4. Improvement of the road infrastructure and Electric Power.

References

- Skenderi, N. (2010). *Fjalor Ekonomiko-Social*. Prishtine: Alliance of Kosovo Busines.
<http://www.invest-ks.org/sq/Lajme/-105>. (16.6.2016).
<http://www.mti-ks.org/sq/Reformat-e-te-berit-biznes>. (16.6.2016).
<http://www.worldbank.org/sq/news/press-release/2013/10/29/doing-business-report-identifies-kosovo-as-top-ten-reformer-worldwide>. (16.6.2016).
http://www.indep.info/documents/76951_INDEP%20%20Kufizimet%20e%20raporti%20(16.6.2016).