



Research Article

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Business Barriers on Doing Business in Kosovo

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Abstract

Doing Business is an important issue for countries in developing economy, and to achieve this, we need to note a continuous improvement in the Doing Business Report. In this paper we'll analyse Kosovo's performance in TBB indicators, such as: business startup, building permit, building electricity, registration security of ownership, receiving loans etc. In particular, we'll present the business difficulties, such as: (business certificate, fiscal number, municipal permits, professional work licenses, construction permits). Businesses start work based on research products and services, of trade enterprises in Kosovo. Based on the World Bank Report, we'll see that Kosovo has increased significantly from World Bank rankings in the Doing Business Report.

Keywords: DB (Doing Business), Indicators, Business, Development

1. Introduction

The aim of Doing Business Report is to measure rules of doing business for enterprises in a country. State ranks in the Doing Business Report, affect the policy making of these states according to this issue, especially at developing ones.

Key factors evaluated by the Report of Doing Business (D, Dobranja; Canhasi, D; Bodnarova, B.;, 2012) for each indicator are number of necessary procedures, time, cost and protection of law. This means that the report of doing business is based on the regulatory aspect and improvements in ranking which are made by reforms in the legal framework of a given country.

Business opening procedures, property registration, building permits, contract enforcement, and investor protection are some aspects that determine the quality of business environment.

This paper aims to analyse importance and impact of the report of doing business in our country. Also, the leading indicators affecting doing business are shown, where each of the indicators turns into a numerical result that makes it easy to form a general result for a particular country. Then, another important issue is analysed in the rankings of Doing Business Report of Kosovo compared with some other countries in region.

2. Literature Review

The aim of literature review is to observe and analyse relevant research literature in that has a significant connection with the topic our paper brings to the reader. Many other authors have handled works, projects, and studies, with topics similar to this one. During our research, we have traced some of them we consider of worth reference. Therefore, in order to reflect their work and our empirical study, we are going to sum up briefly some authors who have treated topics similar to ours:

The authors Mohammad Sharfuddin Rashed & Ashraf Un Nesha (Rashed & Nesha, 2016) published their paper "*Doing Business in and with China*" in the journal *Global Economics and Business Research*.

In their paper "*Doing Business in and with China*", they show that China has become much easier than it was decades ago on its policy of doing business. Thus, China in the last years has entered to unprecedented economic growth since its economic reforms (in 1978) by becoming the second largest economy in world. However, doing business in China has some barriers, such as foreign exchange restrictions, anti-trust laws, intellectual property rights, etc.

Summing up, the authors address the driving factors of doing business in China and hindering factors, considering barriers that make it difficult to do business in China by highlighting the advantages and disadvantages.

Other authors who have treated topics similar to ours, are Seeta Gupta and A. Uday Bhaskar (Gupta A & Bhaskar, 2016) in their article entitled "*Doing Business in India: cross-cultural issues in managing human resources*". In their work, they deal with the great opportunities that India offers on doing business. They also stress the fact that India has made a great stride in economic growth during the recent years. Apart the opportunities that India offers in doing business, the authors also refer to the main barriers encountered, that are cross-cultural issues and HR management.

3. Research Method

In order to give a clear view of the findings, we used in our work the descriptive method based on comparative analysis, which is expressed in percentage (%). Initially, we focused on the comparative analysis expressed in percentage by size of the small and medium enterprises, and by employment rates measured in Kosovo. Then we focused on the main barriers of Doing Business in Kosovo, based on comparative analysis expressed in percentage. Another issue we focused on was the comparative model in order to highlight the advantages and disadvantages that Kosovo has, compared to some other countries in the region.

3.1 The Purpose of the Paper

This paper aims to analyse the importance of doing business and the main factors affecting doing business in Kosovo, based on the comparative analysis of Kosovo case to several other countries in the region.

3.2 The Research Question

The research question in our paper is related to the purpose of paper itself, which is the determining of the barriers that directly affected doing business in Kosovo. Therefore, the aim of research question is to trace and define the constraining and driving factors that impact directly or indirectly doing business in Kosovo.

3.3 Data and Choice

The data we've used in our paper are quantitative secondary data. We retrieved these data mainly from the Business Registration Agency in Kosovo (ARKB) Report for 2010, as well as by SME Development Strategy in Kosovo for period 2012-2016.

4. Analysis of the Results

Initially we gathered data as mentioned above, and then we focused to elaborate them so that to give a clear analysis of the businesses registered in Kosovo, classifying them by size and number of employees.

4.1 Registered Businesses in Kosovo

According to Business Registration Agency (ARBK) in MTI, (Kosovo, 2011) the number of SME-s registered until December 31, 2010 was greater than 100.000, employing up to 216.799 workers, or 79.59% of total employed in the private sector and 62.24% of the total number of people employed in Kosovo.

The size of SME in Kosovo is defined by number of employees, (Official, LAW NO. 02 / L-5 On supporting small and medium enterprises, 2006) (Official, LAW NO.03/L-031 LAW ON AMENDING AND SUPPLEMENTING THE LAW 02 / L-5 ON SUPPORT OF AGREEMENTS, 2008), that is the only criterion used for classifying enterprises by size in Kosovo (Kosovo, 2011). This represents the difference of Kosovo with EU countries, where apart from the number of employees, the annual turnover is also taken into account. The table below shows a spectrum of enterprises registered in Kosovo based on number of employees:

Table 1: Enterprises registered in Kosovo by number of employees - 2010

Classification by size	Number of employees	Number of enterprises	Percentage in total
Micro	1-9	102.070	98,37
Small	10-49	1.406	1,35
Medium	50-249	221	0,22
Large	250 and more	58	0,06
Total		103.755	100

Source: Development Strategy of SME in Kosovo, (P. 17)

According to the table presented above, we can see that 98.37% are micro-enterprises; 1.35% is small enterprises; 0.22% are medium and only 0.06% are classified as large enterprises. (Kosovo, 2011)

4.2 Doing Business Report Analysis

The Doing Business Report aims to measure the rules of doing business for small and medium enterprises in a country. This report is based on ten indicators. The categories where businesses face the greatest number of barriers are considered tax payments and electricity security. The states reflect their performance in all ten DB report indicators, and according to this performance, their ranking is set. After the measurements, each of the indicators turns into a numerical result that makes it easy to form a general result for a particular state. Thus, the comparison between states and indicators is simple. The ten DB indicators that are also used for Kosovo, are:

- Business start
- Obtaining a building permit
- Provision of electricity
- Registration of ownership
- Making loans
- Protection of investors
- Tax payment
- Trade across borders
- Enforcement of contracts

➤ Solving the impossibility of debt

The World Bank mentions a number of major TBB limitations. Stressing that the TBB has a limited range of alignment, among others, it is mentioned that it doesn't value security, macroeconomic and financial stability. It also does not value the lack of the quality of workforce, referring to the same source. (D, Dobranja; Canhasi, D; Bodnarova, B., 2012)

4.3 Business barriers on starting work

Business startup is a process that faces different challenges and obstacles. The first significant obstacle for business start-up process is the aspiring one, which in itself shows the aim of the person to become self-employed. Another obstacle is considered the preparing one, which is followed by the entering obstacle. These hurdles represent the challenges that start-up businesses face at their first steps of implementation. Apart from challenges related to fierce competition, market penetration and creation of a good image, businesses also face a range of formal barriers imposed by state institutions. The licenses for professional work and municipal permits pose difficulties for starting a business, while the business certificate and fiscal number don't present any significant barrier when business startups. Below, in Table 2, we present the difficulties that business faces when starting work, based on the survey of manufacturing, service and trade enterprises in Kosovo.

Table 2. Difficulties in Doing Business at the initial moment of starting work

Difficulties in Doing Business	Manufacturing Business %	Service Business %	Commercial Business %
Business Certificate	10.4	9.9	15.6
Fiscal Number	11.1	11.7	6.7
Municipal Permit	25	23.2	22.2
Licenses for professional work	22.2	28.3	28.9
Building permits	31.3	26.9	26.6
Total	200	200	100

Source: Report-SME Research

One of the difficulties is managing the activities the business itself wants to develop. Thus, when a business is initiated with different types of activities, the difficulties are different according to the types of activities.

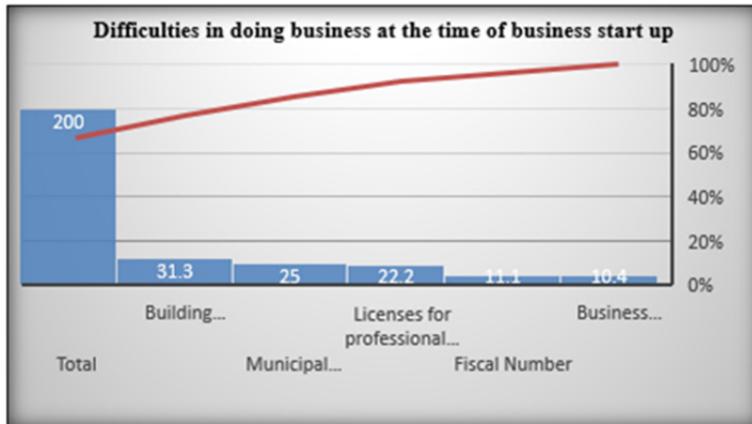
For 31.3% of enterprises with manufacturing activities, the main difficulty in business development is the provision of construction permits; while 25% of them said that it is the work permit from the Municipality; 22.2% of them declared that the obstacle is obtaining professional licenses; 11.1% stated that the hurdle is obtaining the fiscal numbers and 10.4% showed as an obstacle the equipment with business certificates.

If we have a look at the data taken from the Commercial businesses and Service businesses, it comes out that they do have difficulties with building permits. They range more or less at the same level regarding this. Nonetheless, they consider the obstacle of obtaining Licences for professional work as the biggest one, referring to the chart (28.9% of the Commercial Businesses, and 28.3% of Service Businesses, respectively), while it seems to be quite easy for Manufacturing enterprises.

Regarding the obstacle of obtaining the Business Certificate we can notice that Service enterprises consider it as the least obstacle compared to two other types, that of Manufacturing and Commercial enterprises. Meanwhile, it is also worth mentioning that Commercial business suffers the least in obtaining the Fiscal number (6.7%) compared to Manufacturing and Service enterprises that are more or less at the same range.

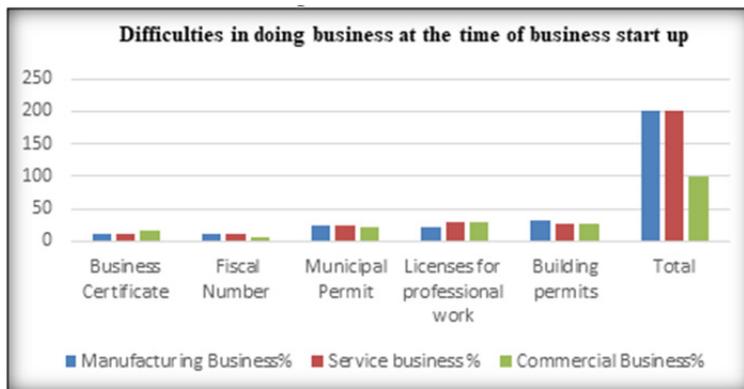
As far as difficulties with municipal permits is concerned, we can notice that the three types of enterprises are more or less at the same level, where Commercial businesses take a slight

advantage compared to the Service ones, and a bit more difficult seems to be for the Manufacturing businesses. Reading these data helps us believe that state procedures are not so business friendly or municipalities keep more or less the same attitude toward different types of business regarding the issue of permits. (Kosovo, 2011)



Graph 1: Here the graph shows difficulties in doing business at the time of start-up

Regarding Graph 1, which presents the difficulties of doing business at the moment of start-up, and considering all three types of businesses, manufacturing, service and commercial businesses, the biggest constrained factors expressed in percentage are assessed the obtaining of construction permits, professional licenses, and municipal permits.



Graph2: Here the graph shows which categories of business types have more difficulties at the time of business start-up.

Chart 2 shows the categories of business types that have more difficulties at the time of business start-up. Business construction and service business meet more hurdles compared to commercial businesses at the time of their start-up. As it is clear from the graph, the biggest obstacles are in terms of obtaining building permits, licenses for professional work and municipal permits. The graph also shows that commercial enterprises face fewer obstacles compared to the other two types of businesses, that of Manufacturing and that of Service. It is worth mentioning that these graphs should serve as a bell for policymakers in order to draft clear-cut strategies to assist different types of enterprises with their start-ups.

4.4 Report on Doing Business in Kosovo

Another report we bring aiming to reflect the situation of Doing Business in Kosovo throughout the years, is based on these ten indicators settled to measure this phenomenon. If we analyse Kosovo's performance in the DB's ten indicators for two consequent years 2012 and 2013, we see that borrowing is the indicator where Kosovo ranks best, and getting building permit is the indicator where Kosovo ranks worst. In the table below you can find Kosovo's doing business (TBB) performance for 2012 and 2013 where slight differences appear in both years for indicators such as *Providing electricity, Registration of property, Payment of fees, Trade across borders, Implementation of contracts and Debt impossibility solution*. We notice that *Receiving the credit* is the indicator where Kosovo ranks best in both years and maintaining the same level.

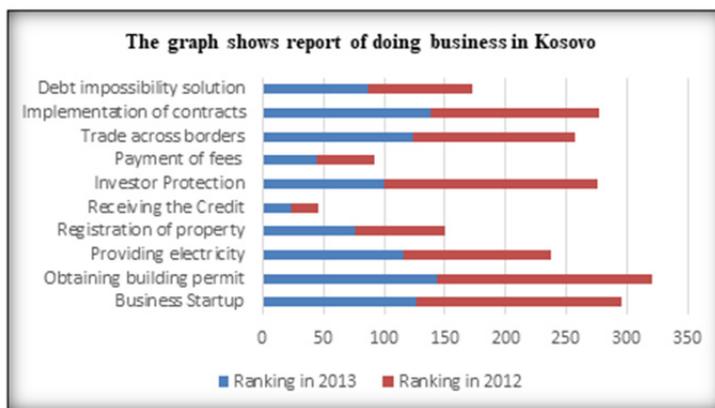
Obtaining building permits, which is the indicator where Kosovo ranks worst, is shown with a significant difference from year 2012 to the year 2013, with a slight improvement. An overall tableau gives us the impression that improvement is evident in all ten indicators, but the biggest improvement from year 2012 to 2013 is for the indicator of Investor Protection. (D, Dobranja; Canhasi, D; Bodnarova, B., 2012).

Table 3. The report of doing business in Kosovo

Indicator	Ranking in 2013	Ranking in 2012
Business Startup	126	170
Obtaining building permit	144	177
Providing electricity	116	122
Registration of property	76	74
Receiving the credit	23	23
Investor Protection	100	176
Payment of fees	44	48
Trade across borders	124	133
Implementation of contracts	138	139
Debt impossibility solution	87	86

Source:D, Dobranja; Canhasi, D; Bodnarova, B., (2012). *Limited policymaking doing bussines, Kosovo and Doing Business Report,(P. 7)*,

Summing up, we can notice from the table that in terms of doing business for the period taken into consideration, subject of this study, more barriers are highlighted in 2012 compared to 2013, which is reflected in decreased values of these indicators in 2013.



Graph 3. Here the graph shows results from the Report of Doing Business in Kosovo

Graphically, we can see how the indicators of doing business in Kosovo appear for 2012 compared to 2013. We can say that the main barriers of Doing Business in Kosovo are: getting a construction permit, implementing contracts, border trade, investor protection and electricity security. These indicators, represent the main barriers to doing business in Kosovo, are almost at the same range from 2012 to 2013. As already mentioned above, considering the comparison between two consecutive years, there were more obstacles of doing business in Kosovo in 2012 than in 2013.

5. The Doing Business Report in Kosovo. Classification according to World Bank Measurements

The World Bank measurements aiming to report the Doing Business climate (TBB) in Kosovo have started since 2009. However, these measurements focused only in opening new businesses and not any other indicators of this report. Since 2010, Kosovo has been included in the World Bank measurements of Doing Business Report for all categories. This report, published at the end of 2010, ranked Kosovo in 117th place from 183 countries in the world. Taking into consideration the Report, Kosovo has big challenges to face in all the categories. These first measurements are very important for the state of Kosovo because they have to be used as the first milestone of the way ahead. These measurements are used as a basis for further progress in each of the categories of report, eventually. In its first publishing, the Report of Doing Business ranks Kosovo among the last countries in the region. For the year 2011, the best ranked countries in the region were Republic of North Macedonia holding the 38th place, followed by Montenegro in 66th place, Albania in 82nd place, Croatia in 84th place and Serbia in 89th place. It is obvious that Macedonia has made significant progress compared to other countries of the region, devoting itself in doing business reforms as a form of attracting foreign direct investments.

The state of Kosovo has undergone changes in specific categories over the years, even though the state did not take any concrete and effective measures in order to improve indicators. Changes in ranking make us understand that the problem exists out of our efforts or our status quo. This means that, although in Kosovo's case there are no evident changes in the procedures such as time and capital that should be invested in one of the categories; a state may fall in the ranking because of improvements of other states. So, states have to consider it not a mere ranking of measurements, but to feel it as a competitive atmosphere in order to improve from time to time their climate of Doing Business. Policymakers have to consider these measurements compared to other states, for sure, because this situation is also for the upgrades in categories and their result in ranking. As a result, the ranking position of a country does not always depend only on its inner policies and reforms but also on the performance of other countries.

5.1 Impact of Doing Business Report

The Report on Doing Business has an impact, specifically in the countries in developing economies. These rankings mostly affect the policy making of the states. Nonetheless, there is a misinterpretation from policymakers for many countries in developing economies, which dictates that if public policies focus on improving the ranking in the report, they'll also improve the business environment for the development of the private sector. At the same time, these policymakers think that the Report serves as a guide for potential investors. The higher the state ranking, the higher will be the number of foreign investments. Policymakers consider the Report only as a tool to increase the foreign investments.

According to Independent Evaluation Group (IEG), 85% of policymakers consider their country ranking in Doing Business Report as a drive for reforms to be undertaken, but most of them don't qualify this Report as an action guide. IEG suggests that policymakers have to shift their attention in considering the ranking of their countries. Turning the values of the Report into milestones of an action guide for the country is more reliable for foreign investments and for the business climate itself. Thus, the impact of the Report of Doing Business is much greater in policymakers of countries than in potential investors themselves.

Apart from these reasonings, the Doing Business Report has a large number of shortcomings.

Although the Report tends to improve the business climate in general, it doesn't guarantee development. As noticed, the report has its greatest impact on developing countries, on countries that suffer from policies that see the improvement of TBB ranking as a priority through policies that would have economic growth outcomes. However, the Doing Business Report leaves out a number of factors that can cause damage to developing countries in the future. The essence of this report, neither encourages active involvement of women in business, nor promotes the importance of a skilled workforce. On the other hand, the report takes into account only data for a particular category of enterprises operating in the capital, thus circumventing small and medium businesses in other countries, especially rural ones. This also results as a lack of reforms that would help such enterprises in developing countries to be the main holders of the local economy. (D, Dobranja; Canhasi, D; Bodnarova, B., 2012)

Reforms taken by policymakers for the regulation of business are only one element that might incite competitiveness. They may also pave the path for a solid economic development. However, policymakers have to be aware of other important aims to follow, such as effective management of public finances, adequate attention to education and training, adoption of the latest technologies to boost economic productivity and the quality of public services, and appropriate regard for air and water quality to safeguard public health. (World, Doing Business, 2017) Considering these factors, policymakers have to set their priorities according to the most urgent needs the country itself has.

In addition, DB generally supports the elimination of legislation even if the purpose of this legislation is to regulate rates that might be seen as conducive to investors or would help the country's economic environment. Such rates include economic environment, minorities and gender equality. This also applies to the taxation system. In the Doing Business Report, a system that has lower corporate tax rates is highly rated, but in developing economies, tax revenue is necessary for the functioning of the state apparatus. If a state applies corporate tax cuts, the state has to keep higher personal income taxes that greatly affect social welfare.

In general, the impact of Doing Business Report is much greater in a country's policy than in potential investors perceiving. There are a large number of other reports, apart of investment analysis, which investors consult before making decisions about a state. Regardless the reports, the final assessment of a potential investor is made upon the basis of a real state of affairs in a state, a situation that can only be regulated through comprehensive decisions and actions of the state itself.

5.2 *New forms of doing business*

Doing Business encompasses six legal forms of it, which are Sole proprietorship, Partnership, Corporation, S corporation and Limited liability. In the era of great technological changes and advancement in informatics and communication, these types of doing business tend to respond to the needs of the market demand. Thus, enterprises install and use electronic platforms in order to facilitate optimize their services. The advancements in technology make it possible for enterprises to utilize various methods of digital information and communication technologies to sustain or modernize business processes, from the very first steps of preparation until thorough implementation. Named as E-business, after an IBM advertising campaign about computerized procedures to automate business processes, (World, Doing Business, 2017) it represents a completely new form of doing business, where various transactions are realized through uses of advanced information technology by means of Internet. E-business is realized online and not in its traditional form people were used to.

It's true that this type of business doesn't have yet a great spread today in the world, but intersection and the number of firms that use e-business grows faster. (LLaci, 2010)

5.3 *Ranking of Kosovo in Doing Business Report*

As the World Bank Report on Doing Business shows, Kosovo ranked in the 117th place in 2011. Kosovo held the same ranking level, even in the year 2012. We can consider this ranking, very low in the scale, as stagnation for the country according to this report. Our observation holds the view

that policymakers did not stride towards improvement or take any further steps to encourage and incite the business climate. Meanwhile, considering the Doing Business Report for the year 2013 we notice that Kosovo ranks in the 98th place, marking a significant improvement in the ranking of the Doing Business Report. We consider this increase in ranking very positive for the business climate in general and an incentive for potential foreign investors. The increase in rank position is even higher for the year 2014, going up in the 86th place and leaving behind all the other countries in the region. This business-friendly climate is a significant indicator of the reforms or actions that policymakers have undertaken during the years. However, the challenge is not only maintaining this position in the ranking, but going even higher. As mentioned above, the reason for the increase in ranking does not necessarily mean good job of the policymakers and business actors of the given state, but it might be even because of the low performance in the field from the other states. However, we uphold the idea that actions taken from the policymakers and business actors in Kosovo were very positive and effective, as making it possible that Kosovo is also included in the "Top Five" reformist countries in the world for Doing Business.

6. Conclusions

This paper attempted to present some of the most significant business barriers in Kosovo referring mainly to the World Bank Report of Doing Business. This Report is a useful tool that provides statistics regarding the quality of doing business climate for 190 countries around the world.

Kosovo institutions have used the TBB report as a basic tool for policymaking strategies which focus on facilitating business climate in the country, and make it a very attractive one for potential foreign investors. It is evident that private sector encounters various and traceable obstacles at its very first steps are. There are made significant improvements in the field, based on the Report ranking, though. Nonetheless, state institutions and policymakers have to provide investors and entrepreneurs with efficient systems, processes and procedures. Businesses, on the other hand, have to be competitive, to enable growth by investing in human resources, IT and software (E-businesses) capital, time, energy and innovation.

The Report of the World Bank on Doing Business focuses largely on the regulations and legislative frameworks governing each of the indicators measured in this report. Kosovo has shown great readiness to amend the laws and sub-legal acts to harmonize them with European directives and best international practices. This is one of the reasons why Kosovo has moved up in the scale throughout the years.

We consider that one of the most important goals of an emerging economy, such as ours, is attracting foreign direct investments. Thus, a core element is the improvement of the business climate in the country and be competitive with other countries of the region. Being competitive demands hard, tireless and persistent work by all actors of the sector.

We hold that the aim of Kosovo policymakers and actors of the sector is to remove barriers and to improve the business climate. Acting as such, it becomes easier for local entrepreneurs being successful and meet market demands; it also becomes more inviting to foreign potential investors.

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