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Factors of Doing Business, Case Study Kosovo

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ABSTRACT: Creating suitable conditions for all businesses that are established for the first time, businesses that already operate in all markets (internal and external), as well as those who claim to be created in the near future, are directly or indirectly influenced by proper terms of doing business of each adequate country, with particular emphasis on countries claiming to be newly incorporated into liberal economies (free market economy). Therefore, even Kosovo, in these circumstances and difficult moments of political and economic transition, is making the utmost effort to create favorable business conditions, especially when it comes to new direct investments from abroad and local ones. From this point of view, the main objective of this paper will be the analysis of all these issues related to the creation of the most appropriate conditions for all these factors, and to provide (following analysis and findings from the research conducted) adequate recommendations so that our country becomes more attractive to overseas investors who would help our country in economic growth and reduce unemployment as one of the main government targets.

KEYWORDS : Business, business environment, investments, report of doing business, Kosovo

I.INTRODUCTION

The business environment in Kosovo is difficult, though the authorities are making efforts to improve the situation. In the World Bank "Doing Business" Report for 2013, Kosovo's overall ranking has risen from 126 to 98 (out of a total of 185 countries).

The establishment of the governmental and non-governmental institutional network should enable the coordination of activities of governmental institutions and many non-governmental entities directly related to the development of SMEs in Kosovo as well as the business environment. The functioning of this network creates the necessary development synergies in Kosovo.The support network for economic development in Kosovo should be especially in function of Promoting economic and development policy to create favorable conditions for SME generation, which creates a suitable environment for the implementation of the development strategy, generating programs and development projects:

- Facilitating access to capital and financing resources,
- Facilitating access to the internal and external market and
- Management and entrepreneurial skills development.

Currently in Kosovo, the governmental institutional network is not functionally related to enterprise development, while the non-governmental network is represented with the Kosovo Chamber of Commerce and the Kosovo Business Alliance. In one word, there is a very symbolic level of development and it should be projected and developed almost from the beginning. In this regard, the coordination of work between central, regional and local government is of special importance. Starting from the size of Kosovo, the possibility of communication and certain regional specificities here, a rational solution is needed. This should be based on the need to overcome the bureaucratic procedures and to enable the network to be generative, supporting but also absorbing development initiatives for the business environment in Kosovo.

At the central level, there is a need for a prior orientation of coordination between the ministries rather than the creating any special ministry for regulating the business environment in the country or for small business.

Kosovo has also difficulties in starting a business and cross-border trade. In the Business Environment and Enterprise Performance Survey (BEEPS) held in 2008, business owners had identified corruption, electricity supply, crime, burglary and irregularity as the main obstacles of doing business. Corruption Perceptions Index by Transparency International for 2012, ranks Kosovo in 105th place from a total of 176, the penultimate one from the SE countries. On the other hand, labor regulations are considered very flexible and obtaining permits from tax administration and business permits are less problematic than in other countries in the region.

II.LITERATURE REVIEW

The World Bank's Doing Business Report uses several criteria in scoring and ranking ease of doing business: a) starting a business, b) getting credit, c) protecting investors, d) paying taxes, e) trading across borders, f) enforcing contracts, and g) resolving insolvency. In one of the early theoretical and conceptual works on the contribution of ease of starting a business on growth, noted institutional economists North and Thomas (1973) argued that entry barriers hinder development because they give market power to firms that will lose rent if more efficient technology will be adopted.

Starting a Business - in addition, in a study of 43 countries over the period 2003 to 2005, Dreher and Gassebner (2013) also found evidence that more procedures in starting a business and larger start-up capital do reduce entrepreneurship activities; while van Stel et al (2007) examined data from 39 countries and concluded that higher capital requirement diminishes entrepreneurship rates. Ciccone and Papaioannou (2007) analyzed industry-level data from 45 countries during the 1980s and had similar findings – less time to register a business is associated with more firm entry in industries with expanding global demand. Similarly, Klapper and Love (2010), in an analysis of 91 economies, found that reducing the cost, time and procedures in starting a business do increase firm registration, but only if the reforms are substantial. Also, Ardagna and Lusardi (2010) concluded from an analysis of survey data of more than 470 thousand entrepreneurs who are at the early stages of running a business from developed and developing countries that entry regulation diminishes the benefits of business skills in running a business; and reduces the propensity of individuals with business skills to start a business.

Access to Credit - Schumpeter (1912) was one of the first to make a case for the importance of finance on growth and development, and the likes of Goldsmith (1969) and McKinnon (1973) were some of the notable supporters of the idea. Indeed, recent exhaustive literature reviews by Levine (2005) and Beck and Demirguc-Kunt (2008) conclude that financial development does promotes growth. Ayyagari et al (2007a), using data from about 19,000 firms in 47 developing countries, found that access to finance promotes innovation among firms, while Ayyagari et al (2007b) concluded that better credit information sharing is correlated with larger small and medium sized enterprises (SME) sector using data from 76 countries.

Enforcing Contracts and Good Institutions - Dixit (2009) identified three essentials of an efficient market requiring well-functioning institutions: security of property rights, enforcement of contracts, and collective action. In an often cited work, Acemoglu et al (2001) analyzed data from 64 former European colonies and concluded that quality of institutions is positively correlated with per capita income. Nunn (2007), using industry-level data from 182 sectors in almost 160 countries, concluded that effective contract enforcement promotes comparative advantage on goods where production requires contractual relationships with a third-party.

Property Rights and Protecting Investors - Investor protection is an important factor in determining such variables as ownership concentration in listed firms, size of the capital markets, firms' access to finance, and corporate governance (La Porta et al 2000). Castro et al (2004) modified the overlapping generation's model to explain how investor protection leads to better risk sharing and larger demand for capital, and further leads to growth. The model was empirically tested using data from 49 economies for the period 1967 to 1996. Similarly, an analysis of 170 countries by Haidar (2009) concluded that nations with stronger investor protection grow faster. John et al (2008) argues that investor protection promotes risk-taking for high value investments for firms.

Trading - Evidence on trade inefficiencies, particularly on developing countries, suggests areas for reform that needs to be introduced. A recent study of 101 countries by Portugal-Perez and Wilson(2012) built new trade indicators for these economies. Their simulations suggest how reforms will indeed improve export performance, particularly of developing countries. However, developed and developing countries differ in their required reforms. The study found that developing countries need more infrastructure and regulatory reforms, while information and communication technology reforms will benefit the rich countries more. Hoekman and Nicita (2011), in an empirical analysis using trade indices and data from 104 importing and 115 exporting countries for 2006, concluded that improving logistical performance, e.g. making it easier to move goods through better infrastructure and institutions, will have the most effects on improving trade for developing countries.

Paying Taxes - The World Bank Enterprise Survey found that tax administration is among the top 11 constraints to business while tax rate is among the top five (World Bank 2013). Djankov, Ganser et al (2010), in a survey of mid-sized local firms in 85 countries, found that high tax rates are associated with lower total investment, lower foreign direct investment (FDI), less entrepreneurial activity, and bigger informal sector. Bird (2004) also suggested simplification of tax structure; and argued that tax administration reforms should aim to minimize the probability of non-compliance and maximize the probability of detection and punishment of non-compliance.

Other Indicators of Ease of Doing Business -Bayraktar (2013) used data from the World Bank's Doing Business database from 2004 to 2010 and found that countries with better doing business records have higher foreign direct investment (FDI) inflows. Using the same database but a slightly different time period of 2006 to 2009, Jayasuriya (2011) also found evidence of a positive relationship between doing business performance and FDIs, although the relationship becomes statistically insignificant when the sample is restricted to developing countries. Using an index constructed from the scores of countries in the different World Bank Doing Business measures, Djankov et al (2006) concluded that countries with business-friendly regulations grow faster. Moving from the fourth to the first quartile of business regulations score translate to a large 2.3 % point higher annual economic growth.

III. KEY FACTORS INFLUENCING ON BUSINESS ENVIRONMENT

Business activity is the basic and universal feature of human existence in the future, but we do not yet have a very precise definition of the "Business" concept. Economic dictionaries always tend to describe business as something that concerns only buying, selling or trading alone, but also with the greatest benefit of organizations, and it is clear that the business contains all these concepts and other definitions like this. Such a limited definition would exclude from this concept many jobs and government activities along with many other organizations that are destined to be non-profit organizations. Such a definition would not be correct and broadly supported, given that many new activities and knowledge have been developed by these organizations. Below will be given more extensive definitions that include businesses along with their activities that will focus on the business environment.

According to Skenderi, N., (2015), the main factors influencing the business environment are:

- ✓ Political factor
- ✓ Economic factor
- ✓ Social factor, cultural and demographic
- ✓ Technological factor
- ✓ Legal factor
- ✓ Ethnic factor

IV. BARRIERS THAT HINDER THE DEVELOPMENT OF SMES IN KOSOVO

Based on the periodic research conducted by the Agency for Support to Small and Medium Enterprises, as well as on the basis of research done by other institutions both domestic and international, and also based on my own research there is a consensus wide among all, that the barriers are numerous and of different nature. According to Djankov and Murrell (2004) entrepreneurs are often more affected by corruption and ineffective regulatory frameworks because they do not have the negotiating power with public bureaucracy.

Pissarides' author, Singer, and Svejnar (2003) find that high interest rates and barriers to fundraising are best rated, followed by suppliers who are unable to deliver goods as well as access to land and buildings.

From the Business Registration Agency in Kosovo (ARBK), 2010, Annual Report 2010, MTI, p.21, a wide range of these barriers are listed which should be prioritized when resolving them:

- ✓ Lack of electricity
- ✓ High interest rates
- ✓ High taxes
- ✓ Economic situation in general
- ✓ Disloyal competition
- ✓ Infrastructure
- ✓ Rule of law
- ✓ Access to finance

V. DOING BUSINESS REPORT (TBB)

It is a World Bank study that makes the calculation of key business-to-business indicators of a country. The TBB report serves as a monitoring tool of the annual progress and regression of the 185 states included in the report published since 2003, a report that assesses the microeconomic factors affecting the business environment in the countries of the world. The environment of doing business is one of the indicators of a country's economic situation.Business opening procedures, property registration, dealing with construction permits, contract enforcement, and investor protection are some of the aspects that determine the quality of the environment and doing business. TBB is a valuable opportunity for each country to identify the trend of movement in the various indicators included in the report. The origin of the TBB Report comes from a publication on the rules and procedures in the field of opening a business, and since the first report, the methodology and the indicators change from year to year. The key factors evaluated by TBB for each indicator are the number of necessary procedures, time, cost and legal protection. This means that the Doing Business

Report is based on the regulatory aspect and improvements in the ranking are made by reforms in the legal framework of a country.

For Kosovo, the World Bank published TBB's first report in 2011, where Kosovo was ranked 117th in the world. This ranking was the same for the 2012 report, while the average of the countries in the region is 77th. Such ranking has been rated as alarming for the Government of Kosovo and as a result, the country's improvement in the TBB report is set as one of the country's economic objectives. In the Action Plan of the Kosovo Economic Vision for 2011-2014, also known as the Bansko Plan, it is foreseen that with the reforms undertaken Kosovo will rank in top 40 reforming states in the Doing Business Report by 2014 although one such category exists in the report. This Action Plan, which foresees Kosovo's economic development activities by 2014, largely qualifies for improvement in TBB indicators as indicators of success for the foreseen activities.
USAID and MTI (2017) "Doing Business" is a tool of technical reform that clearly links policy, implementation and measured results. It is useful in the policy and reform assessment process, economic and domestic performance in other international reports and indices.According to the World Bank Reform Report 2008 - 2018, entrepreneurs in many economies continue to face significant entry barriers when they start a business.

Table 1. Starting a business reforms in Kosovo according to TBB 2008 - TBB 2018

Kosovo	
✓ = **Doing Business Reform that Facilitates Doing Business.**	✗ = **Change that makes it harder to do business.**
√ **TBB 2018: Kosovo has made it easier to start a business by simplifying the process of registering workers.**	✗ TBB 2011: Kosovo has made it harder to start a business by replacing the tax number that was previously required with a "fiscal number", for the issuance of which takes longer and it is required that the tax administration initially inspects the business premises.
√ **TBB 2014: Kosovo has made it easier to start a business by creating a single counter for establishment.**	
√ **TBB 2013: Kosovo has made it easier to start a business by eliminating the requirement for minimum capital and business registration tax and restructure the business registration process.**	

Source: USAID and MTI (2017)

Whereas, table 2 lists the World Bank's 2018, 2016, 2012 and 2011 factors of doing business in Kosovo.
Table 2. Indicators of doing business 2010, 2011, 2012, 2013, 2015 and 2016

Indicators	**2010**	**2011**	**2012**	**2013**	**2015**	**2016**	**2018**
Starting a business	113	119	170	126	40	**47**	10
Dealing with construction permits	176	173	177	144	137	**136**	**122**
Registering property	68	65	74	76	31	**32**	**34**
Getting credit	43	32	23	23	24	**28**	12
Protecting investors	172	173	176	100	54	**57**	**89**
Paying taxes	50	41	48	44	64	**67**	**45**
Trading across borders	132	130	132	124	70	**71**	**48**
Enforcing contracts	157	155	139	138	46	**48**	**49**

Source: World Bank 2010- 2018. http://www.worldbank.org/en/country/kosovo

VI. KOSOVO AND REGIONAL COUNTRIES RANKINGS IN DOING BUSINESS

The World Bank, among other things, with this report also presents the economic trend index in Kosovo. The data presented by the recent WB report have been received by 2015. These data are also comparable to the economies of other countries.

The methodology of doing business has some limitations, therefore it generally represents the state of a local limited liability business operating in a major city of the country in question.

The Kosovo Report states:

- the obstacles that are present in doing business;
- the source of these obstacles;
- presents to policy makers the opportunities to design legal reforms to eliminate these obstacles.

Table 3. "Ranking of Doing Business" Overall Assessment, World Bank 2013-2016.

State	2013	2014	2015	2016
Albania	108	68	64	97
Bosnia &Hercegovina	104	107	82	79
Kosovo	81	75	62	66
Macedonia	31	30	14	12
Montenegro	42	36	47	46
Serbia	77	91	68	59

Source: World Bank. 2016, http://www.worldbank.org/en/country/kosovo

After Macedonia lies Montenegro, which is ranked 47th, then 62nd Kosovo, 64th Albania and the worst of doing business in the Western Balkans is Serbia as 68th and Bosnia and Herzegovina is the 82nd in the overall ranking of the World Bank's Doing Business Report, out of a total of 184 states.

VII. CONCLUSION

Lack of development policies and limited access to finance are considered to be some of the barriers that lead to major business difficulties and which may be "contributory factors" to the bankruptcy of many enterprises.

The business environment in Kosovo is difficult, I think it is still in an unfavorable position for the establishment of new businesses, but also for the current situation of existing businesses. Therefore, we have a large number of businesses that declare their closure from the start. This is also "helped" by the fact that government policies, especially fiscal policies, monetary and export-import policies, are not very favorable to businesses, especially if compared to the countries of the region, when some countries have made substantial progress in this regard, although from published data of Doing Businesses Kosovo is ranked in positions and better than previous years, however, it is not a place of complacency.

And, the obvious improvement over these years is that the business environment in Kosovo is improving every day, thanks to the dedication of all institutions and businesses to make the business environment more desirable in the country, making our country to make important strides in the rankings of global countries for the conditions of doing business. The biggest problems are still appearing in obtaining construction permits and enforcing contracts. Kosovo also has difficulties in starting a business and cross-border trade.

Therefore, we recommend that:

• That the country's institutions, of central and local level, I think (despite the obvious improvements in the business environment in recent years), there is still a need for necessary corrections of the legislation for the development of incentive and protection policies in our country, regarding the business registration at the initial stage of their activity.

• Also, for businesses that are developing their business activity, I consider that there should be more incentives in the function of economic policies, especially aid and fiscal support, which means the release or mitigation of tax rates, especially those initially and those that are substantial contributors to their impact on effective employment and growth in local GDP.

- Even through monetary policy, I consider that government and banking institutions should make an improvement of the borrowing conditions for businesses, especially when it comes to interest rates on borrowing, the length of loan repayment, "greis period "up to three years for the start of credit repayment and other conditions.
- Regarding direct foreign investments, my opinion is that our institutions, in particular the political consensus between the ruling parties and those in opposition, should still be doing more in this direction, because their political clashes are pushing the country economically back not just by not having new investments, but also by pushing existing investors out of fear of endangering their financial capital invested in Kosovo.
- I believe that institutions should be more engaged in removing bureaucratic barriers inside and outside the country, at local institutions, as this also makes their complete avoidance from the aim of investing their capital in Kosovo.

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