

# The Business Environment and Problems of Small and Medium Enterprises in Kosovo

Muhamet Hashani, Myrvete Badivuku - Pantina

MSC. Muhamet HASHANI,  
Dr.Sc. Myrvete BADIVUKU-PANTINA

## Abstract

A good business environment means a catalyst for small and medium enterprises, a good business environment facilitates development and sustainability of small and medium enterprises.

The development of micro, small and medium enterprises (MSME) is very important to the economic development of a country, and intentionally, MSMEs are considered to be amongst the most efficient instruments for economies in transition, because of their production of sustainable economic growth, employment and poverty reduction.

Small and medium enterprises are a generator of new products and technologies; they are a source of new ideas and advanced strategies of management.

Development and sustainability of small and medium enterprises depends on the business environment, which implies a series of social, legal, economic, political or institutional conditions, which are uncontrollable in nature, and affect the organizations' functions.

This study addresses the baseline documents which were taken into consideration by the Government of the Republic of Kosovo in developing economic policies, thereby analysing their advantages and disadvantages.

By analysing reports, statistics on MSMEs and other documents, and further complementing the study by a

research section (business survey), this paper aims at identifying the key problems faced by the MSMEs in Kosovo, and provide adequate recommendations which may be of service in resolving such problems, but also resulting into a better business environment, and economic development in general.

**Keywords:** Enterprise, business environment, micro, small and medium

## 1. Introduction

Micro, small and medium enterprises (MSME) are a source of employment, competition, economic activity and innovation.

MSMEs play their role in the economic development of a country, and foster the entrepreneurial spirit in disseminating skills and abilities, because they are sparse in a wide geographic area in comparison with larger enterprises.

Micro, small and medium enterprises have an important role to play in local and regional development, especially in countries in transition.

The role and relevance of MSMEs is clearly seen in the number of MSMEs and the number of employees in the private sector, where around 63% of employees in this sector are kept by MSMEs<sup>1</sup>.

There is a program adopted by the Government of the Republic of Kosovo 2011 -2014, the first section of which conceives or theoretically guides the policies of economic development<sup>2</sup>.

There are though many other strategic documents developed by various governmental bodies (ministries) or municipalities, most of which are not harmonized with the Program of the Government of the Republic of Kosovo 2011 -2014.

MSMEs in Kosovo are often faced with a number of obstacles, such as limited access to finance, unstable supply of electricity and water, which

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<sup>1</sup> President of the Republic of Kosovo, National Council on European Integration, Report from the Thematic Workshop on trade, industry, customs and taxes, internal market, competition, consumer protection and health care, Kosovo 2020, May 2013, Prishtina, p.36, [http://www.president-ksgov.net/repository/docs/TRT\\_4\\_ALB.pdf](http://www.president-ksgov.net/repository/docs/TRT_4_ALB.pdf), (accessed on 22 August 13)

<sup>2</sup> Republic of Kosovo, Government, Prime Minister's Office, Program of the Government of the Republic of Kosovo 2011 - 2014, [http://www.kryeministri-ks.net/repository/docs/Programi\\_i\\_Qeverise\\_shqip\\_.pdf](http://www.kryeministri-ks.net/repository/docs/Programi_i_Qeverise_shqip_.pdf) (accessed on 30 July 2013)

are rather essential for productive MSMEs, and another obstacle is the insufficient rule of law, which substantially affects the businesses.

There are achievements and progress to be noted in Kosovo in terms of improving the business environment for the MSMEs, but when considering the role and relevance of the MSMEs in the development of a country, one may only conclude that there is much to be done for the MSMEs.

Institutions of the Government of the Republic of Kosovo paint a good image of the business environment, invoking the World Bank Report "Doing Business 2014", which ranked Kosovo amongst the top-five reforming countries in doing business, and taking the 86<sup>th</sup> place amongst the 189 countries evaluated.

Business surveys and economic experts in Kosovo do not see such an improvement in the business environment as presented, since the measurement indicators in the World Bank "Doing Business 2014" report are not indicators that may indeed draw the realistic condition of the business environment, and therefore, the Government of the Republic of Kosovo must seriously address the requirement of improving the business environment, pursuant to realistic indicators, indicators that indeed influence the business environment.

Despite progress noted in several areas of economy, the current state of businesses in Kosovo is not that favourable, starting from the absence of a uniform system (database) for data processing, the confrontation with informal economy, which is a rather dire challenge, and a judicial system that is not efficient in adjudicating economic rights, etc.

## **2. Business environment and doing business in Kosovo**

A good business environment is essential to economic growth and decreasing poverty in a country. The process of starting and developing a business is not only an adventure, it is a real challenge. To support entrepreneurship, one must provide for a favourable business environment.

To facilitate a good business environment, one must refer to strategic management. According to Kume, it is suggested that "the best way of forecasting the future is to recognize the present, in making decisions for the future of an organization, the organizational management must answer

three basic questions: Where are we now? Where do we want to be? How to get there?"<sup>3</sup>

Based on the above, one may conclude that Kosovo Institutions, at central and local levels, must first obtain a detailed overview of the business environment situation, and obtain knowledge on where were are now, and then start thinking of where do we want to be, and further develop a strategic plan for improving the business environment, and implement such a plan, to get to the real improvement of the business environment.

A survey which investigates the growth of small businesses is summarized into the so-called barriers against the business growth. This approach generally assumes that some small businesses are inclined towards growth and have the will to do so, but the external environment inhibits their desire or capacity to increase their growth potentials. In a first sight, evidence shows that the business environment is one of the key factors affecting business growth, especially of small businesses.<sup>4</sup>

Development of clear and effective legislation, provision of easy access to finance, development of entrepreneurial culture, and greater support to businesses, are some of the indicators of such a business environment.

Nevertheless, creating a favourable business environment does not merely mean improvement of business growth potential. A favourable business environment should transform a country into a favourable place to invest and work in.

Small and medium enterprises (NVM) make 99% of European businesses<sup>5</sup>. Their small size renders them very sensitive to changes in industry and environment they operate in, and therefore, it is of vital importance for their welfare to be at the centre of political attention.

Kosovo is failing even in providing minimum amenities for the business. We may only take the example of one-stop shops for registering businesses. These centres only provide for registration of businesses, but not providing

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<sup>3</sup> Kume, Vasilika. Strategic thinking (Menaxhimi Strategjik), Tiranë, 2006

<sup>4</sup> Iraj Hashi and Besnik A. Krasniqi, Entrepreneurship and SME growth: evidence from advanced and laggard transition economies, International Journal of Entrepreneurial Behaviour & Research, Vol. 17 No. 5, 2011 pp. 456-487, Received November 2010, Accepted November 2010, [http://www.researchgate.net/publication/228315226-Entrepreneurship\\_and\\_SME\\_Growth\\_Evidence\\_from\\_Advanced\\_and\\_Laggard\\_Transition\\_Economies](http://www.researchgate.net/publication/228315226-Entrepreneurship_and_SME_Growth_Evidence_from_Advanced_and_Laggard_Transition_Economies), (accessed on 9 December 2013)

<sup>5</sup> See, European Commission, [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/index_en.htm), (accessed on 30 July 2013)

information to businesses. From the investigation we had in several business centres, we saw that information provided in several cases were flawed, and mainly were advice in obtaining licenses, since there are activities which need licensing. There is also a lack of necessary information to codify the activities or sub-activities, namely for businesses with specific activities. Apart from the lack of information as mentioned above, there are many other pieces of information that need to be provided to businesses, but are missing, all as a result of a lack of an integrated system (database) between central and local levels.

The main problem of the Government of the Republic of Kosovo stands in developing strategic documents for the development of the private sector, namely in the absence of accurate data on the number of businesses, activities of such businesses, the number of employees in the private sector, etc. To validate the foregoing, one only needs to view the "Private Sector Development Strategy 2013 - 2017"<sup>6</sup>

Reforms in the business environment are more than necessary, and they must always keep the pace of time. To ascertain the position of Kosovo in the business environment aspect, and the documents it grounds its economic policy-making, we shall present and elaborate on two documents or reports on doing business and the business environment:

1. World Bank "Doing Business 2014" Report, and
2. Small Business Act for Europe (SBA)

### **2.1. The World Bank "Doing Business 2014" Report**

The first edition of the World Bank "Doing Business" Report was issued in 2003, and it contained 5 measurement indicators to reflect the business regulation in 133 economies.

The report has expanded, and it now includes 189 economies, and 10 measuring indicators: starting up of a business, construction permits, electricity, property registration, loans, investor protection, tax payment, cross-border trade, contract enforcement and resolution of insolvency.

Economies are ranked from 1 to 189, on the index of facility of doing business. The ranking in each title is a simple average of sequenced

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<sup>6</sup> Government of the Republic of Kosovo - Ministry of Trade and Industry, "Private Sector Development Strategy 2013-2017", March 2013, p. 10, [http://www.mti-ks.org/repository/docs/2013\\_MTI\\_Strategjia\\_ZHSP\\_Shq\\_\(2\)\\_806808.pdf](http://www.mti-ks.org/repository/docs/2013_MTI_Strategjia_ZHSP_Shq_(2)_806808.pdf), (accessed on 17 Tetor 2013)

percentages, based on ingredient indicators (see data notes for more details).

### 2.1.1. Doing business in regional countries and Kosovo

The World Bank “Doing Business 2014” Report ranks Kosovo in a good position if compared to regional countries, excluding the best ranking possible, since it ranks best in the region in no indicator. In the example of the indicator of property registration, Kosovo ranks 58<sup>th</sup>, which is good, but Serbia ranks 44<sup>th</sup>. In another case, in tax payment, Kosovo ranks 43<sup>rd</sup>, but Macedonia ranks 26<sup>th</sup>. If we compare with Bosnia and Herzegovina, Kosovo is in a better position in all 7 indicators. In comparison with Macedonia, Kosovo only leads in the indicator of property management. In comparison with Montenegro, Kosovo is only better in two indicators. Compared to Serbia, Kosovo is ranked better in 4 indicators, but also in comparison to Albania, Kosovo ranks better in 4 indicators.

The table below reflects the condition of regional countries and Kosovo according to the World Bank “Doing Business 2014” Report.

**Table 1:** Ranking of regional countries in doing business, in 10 indicators of the World Bank “Doing Business 2014” Report. Estimated rankings are only valid until June 2013.

| Country                       | Indicators        |                      |             |                       |       |                     |             |                    |                      |                          |
|-------------------------------|-------------------|----------------------|-------------|-----------------------|-------|---------------------|-------------|--------------------|----------------------|--------------------------|
|                               | Business start-up | Construction permits | Electricity | Property registration | Loans | Investor protection | Tax payment | Cross-border trade | Contract enforcement | Resolution of insolvency |
| <b>Bosnia and Herzegovina</b> | 174               | 175                  | 164         | 96                    | 73    | 115                 | 135         | 107                | 115                  | 77                       |
| <b>Kosovo</b>                 | 100               | 136                  | 121         | 58                    | 28    | 98                  | 43          | 121                | 138                  | 83                       |
| <b>Macedonia</b>              | 7                 | 63                   | 76          | 84                    | 3     | 16                  | 26          | 89                 | 95                   | 52                       |
| <b>Montenegro</b>             | 69                | 106                  | 69          | 98                    | 3     | 34                  | 86          | 53                 | 136                  | 45                       |
| <b>Serbia</b>                 | 45                | 182                  | 85          | 44                    | 42    | 80                  | 161         | 98                 | 116                  | 103                      |
| <b>Albania</b>                | 76                | 189                  | 158         | 119                   | 13    | 14                  | 146         | 85                 | 124                  | 62                       |

**Source:** Data obtained from the World Bank “Doing Business 2014” Report, table developed by authors

### 2.1.2. Kosovo and regional countries ranking in Doing Business

If we sort out Kosovo and regional countries from the general ranking list of 189 countries in the World Bank “Doing Business 2014” Report, we would obtain the following sorting, as presented in the Table no. 2. In this table, the World Bank “Doing Business 2014” report ranks Kosovo in the 86<sup>th</sup> position, out of a total of 189 countries.

**Table 2:** Ranking of the regional countries by 10 indicators of the World Bank “Doing Business 2014” report. Estimated rankings are only valid until June 2013.

| Country                | Ranking |
|------------------------|---------|
| Macedonia FRY          | 25      |
| Montenegro             | 44      |
| Kosovo                 | 86      |
| Albania                | 90      |
| Serbia                 | 93      |
| Bosnia and Herzegovina | 131     |

**Source:** Data obtained from the World Bank “Doing Business 2014” Report, table developed by authors

Ranking of countries in the World Bank “Doing Business” report may change even if Kosovo does not make any progress in terms of the said indicators, since the change may be made by other countries’ progress, thereby changing the overall ranking.

Whatever the relevance of the World Bank “Doing Business” Report, it has pushed the countries to compete in improving the business environment, namely it has incited the policy-makers in countries.

In Kosovo, the Ministry of Trade and Industry (MTI) is the institution basically competent in addressing the business environment. The MTI has guided its policies based on the Doing Business Report indicators, and has undertaken the following measures: elimination of work permits, free of charge business registration, elimination or reduction of the capital

requirement, reduction of import/export documents, and improvement of investor protection, all parts of the reform undertaken by the MTF.<sup>7</sup>

### 2.1.3. Analysis – the World Bank “Doing Business” Report

If we compare the ten indicators of the World Bank “Doing Business” reports in the years 2012, 2013, 2014, we would get the following situation.

**Table 3:** Comparison of World Bank “Doing Business” reports in various years

| Indicators               | Report 2012 | Report 2013 | Report 2014 | Condition, Report 2013 | Condition, Report 2014 |
|--------------------------|-------------|-------------|-------------|------------------------|------------------------|
| Business start up        | 170         | 126         | 100         | -44 ↑                  | -26 ↑                  |
| Construction permits     | 177         | 144         | 136         | -33 ↑                  | -8 ↑                   |
| Electricity              | 122         | 116         | 121         | -6 ↑                   | 5 ↓                    |
| Property registration    | 74          | 76          | 58          | 2 ↓                    | -18 ↑                  |
| Loans                    | 23          | 23          | 28          | 0                      | 5 ↓                    |
| Investor protection      | 176         | 100         | 98          | -76 ↑                  | -2 ↑                   |
| Tax payment              | 48          | 44          | 43          | -4 ↑                   | -1 ↑                   |
| Cross-border trade       | 133         | 124         | 121         | -9 ↑                   | -3 ↑                   |
| Contract enforcement     | 139         | 138         | 138         | -1 ↑                   | 0                      |
| Resolution of insolvency | 86          | 87          | 83          | 1 ↓                    | -4 ↑                   |

**Source:** Data obtained from the World Bank “Doing Business” Reports in 2012, 2013, 2014, table developed by authors

**Business start-up:** starting up a business is not merely registering the business, as erroneously conceived by the citizens, and unfortunately by some of the Kosovo policy-makers. Procedures include pre-registration and registration, and all processes and documentation required by all

<sup>7</sup> Government of the Republic of Kosovo – Ministry of Trade and Industry – Reforms in Doing Business”; [http://mti-ks.org/repository/docs/A4\\_AL\\_FINAL.pdf](http://mti-ks.org/repository/docs/A4_AL_FINAL.pdf) , (accessed on 17 October 2013)

administrative bodies be they at central or local levels, regionally or nationally. Apart from this, they also include possible variations in procedural steps, length and costs within a year<sup>8</sup>.

Table 3 shows that Kosovo has recorded distinct progress in doing business, namely in starting up businesses, consequently jumping from the 170<sup>th</sup> place in the World Bank “Doing Business 2012” Report to the 100<sup>th</sup> place in the World Bank “Doing Business 2014” Report, which means that since 2012, Kosovo has moved 70 positions upwards in the Doing Business list.

The World Bank “Doing Business 2014” Report in its indicator takes the following measurements: Procedures (quantity), duration (days), costs, minimal capital requirements<sup>9</sup>.

A series of procedures for a business start-up are not included in the World Bank “Doing Business 2014” report, such as: procedures taken by enterprises in connecting utilities, including electricity, water supply, gas and waste collection<sup>10</sup>.

**Construction permits:** in terms of construction permits, Kosovo has marked progress and has ranked for 41 positions better in the Doing Business ranking list. It is worth mentioning that in May 2012, the Kosovo Assembly approved a new Law on Construction no 04/L-110<sup>11</sup>. The Law on Construction incorporated the comments of the IFC (International Finance Corporation) and the International Civil Office in Kosovo (ICO).

If this law is better enforced than the other laws, it is expected to eliminate several business barriers, lower the business costs, and simultaneously improve the public health and safety.

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<sup>8</sup> Commission of the European Communities, *Assessing Business Start-up Procedures in the context of the renewed Lisbon strategy for growth and jobs*, Brussels, 2007, [http://ec.europa.eu/enterprise/policies/sme/files/support\\_measures/start-ups/sec\\_2007\\_129\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/files/support_measures/start-ups/sec_2007_129_en.pdf) (accessed on 2 December 2013)

<sup>9</sup> World Bank “Doing Business 2014”, <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB14-Full-Report.pdf> (accessed on 20 December 2013)

<sup>10</sup> World Bank “Doing Business 2014”, *Doing business in South-Eastern Europe 2008*, <http://www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Subnational-Reports/DB08-Sub-SEE-Albanian.pdf> (accessed on 9 June 2013)

<sup>11</sup> Republic of Kosovo, Official Gazette, Law no. 04/L-110 on Construction, [http://gazetazyrtare.rks-gov.net/Documents/Lista%20e%20Ligjeve%20ne%20Fuqi%20\(shqip\)-2.pdf](http://gazetazyrtare.rks-gov.net/Documents/Lista%20e%20Ligjeve%20ne%20Fuqi%20(shqip)-2.pdf) (accessed on 8 June 2013)

In the category of construction permits, the World Bank Report considers the indicators such as procedures (quantity), duration (days) and costs<sup>12</sup>.

If one analyses the business environment in a broader view of physical infrastructure, the construction permit is only a low-weight indicator, when compared with other matters of physical and spatial infrastructure. Poor spatial planning and lack of enforcement of such planning are only some of the barriers in terms of physical infrastructure and a problem for citizens and businesses.

**Electricity:** electricity supply is one of the problems still faced by Kosovo MSMEs. MSMEs mention the high cost of electricity and supply as one of the key problems in their functionality. If one looks at the World Bank “Doing Business 2013” Report, out of 185 countries, Kosovo ranks 121<sup>st</sup>, and in a better position than Albania and Bosnia and Herzegovina. It is characteristic that the electricity category has moved down from 116<sup>th</sup> place in the 2013 report to the 121<sup>st</sup> place in the 2014 report.

The World Bank has taken the following indicators of electricity supply (electricity acquisition): procedures (quantity), duration (days), cost<sup>13</sup>.

If one makes a simple analysis, and take the example of electricity used in the World Bank “Doing Business 2014” Report, one could only conclude that problems of Kosovo businesses are not related to the procedures of acquiring electricity, the time needed or cost, but are related to the price and the lack of electricity supply.

**Property registration:** in the property registration category, the World Bank “Doing Business 2014” Report ranks Kosovo for 18 positions higher than the World Bank “Doing Business 2013” Report. Indicators measured for property registration are: procedures, time and costs.

To register a business in Kosovo, one has to go through 7 procedures, which is the same for Macedonia and Bosnia & Herzegovina, while in other countries of the region, Albania, Serbia and Montenegro, one has to go through 6 procedures<sup>14</sup>.

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<sup>12</sup> World Bank “Doing Business 2014”,  
<http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB14-Full-Report.pdf> (accessed on 20 December 2013)

<sup>13</sup> Ibid.

<sup>14</sup> World Bank “Doing Business 2014”,  
<http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB14-Full-Report.pdf> (accessed on 20 December 2013)

**Credit:** amongst the key challenges faced by businesses, and especially the MSMEs, are loans, which means that loans are an engine of development of MSMEs, and generally the business. The World Bank “Doing Business 2014” Report ranks Kosovo for 5 positions lower than the World Bank “Doing Business 2013” Report. It is somewhat surprising to see Kosovo ranked 28<sup>th</sup> amongst 189 countries covered by the World Bank “Doing Business 2014” Report.

Indicators measured in this category are: weight of the legal rights index (0-10), borrowing information, coverage of public registry, coverage by private offices<sup>15</sup>.

In the credit indicator, the interest rates or return rates are not included, but only procedures for obtaining credit.

One of the main problems faced by Kosovo businesses, and also confirmed by various studies, is the matter of high interest rates and the short repayment terms for such loans, and from this, one can conclude that one of the main failures of the World Bank “Doing Business 2014” Report is that it does not take into consideration the high interest rates, which in Kosovo are more unfavourable than in other regional countries.

**Investor Protection:** The Government of the Republic of Kosovo, or more specifically, the Ministry of Trade and Industry has seriously committed its activities in improving the Kosovo’s ranking in the World Bank “Doing Business” Report, and indeed, in the last 2014 report, the Investment Protection category ranked Kosovo even 2 more positions higher than the previous one, leaping from the 100<sup>th</sup> to the 98<sup>th</sup> position<sup>16</sup>.

If one takes the category of Foreign Direct Investments, there are no indications that such investments have grown, at least not commensurate to the leaps in ranking in the Doing Business Report. To invest in a country, investors necessarily require that such a country has strong rule of law, corruption is combatted and criminalized, and their contracts are honoured.

**Paying taxes:** in this category, Kosovo has recorded a higher ranking in the World Bank “Doing Business 2014” Report, in comparison to the “Doing Business 2013”, from the 44<sup>th</sup> position to the 43<sup>rd</sup> position<sup>17</sup>.

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<sup>15</sup> Ibid.

<sup>16</sup> World Bank “Doing Business 2014”,  
<http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB14-Full-Report.pdf> (accessed on 20 December 2013)

<sup>17</sup> World Bank “Doing Business 2014”,

In comparison to regional countries, Kosovo is better ranked than Bosnia and Herzegovina, Montenegro, Serbia and Albania.

The paying taxes category was estimated with the following measuring indicators: payment (frequency within a year), time (hours per year), profit tax (%), labour taxes and contributions (%), other taxes (%), total taxation level (% profit)<sup>18</sup>.

**Trading across borders:** in terms of cross-border trading, Kosovo has ranked up in the World Bank "Doing Business 2014" Report to the 121<sup>st</sup> place, but when compared with regional countries, one finds that Kosovo is not in the most favourable position.

Measurement indicators taken for the cross-border trade are: export documents (quantity), time for export (days), export cost (US \$ per container), import documents (quantity), time for import (days), costs of import<sup>19</sup>.

**Enforcement of contracts:** in terms of contract enforcement, the most recent World Bank "Doing Business 2014" Report retains Kosovo in the same position it had ranked in the previous "Doing Business 2013" report. In contract enforcement, Kosovo stalls behind regional countries.

To assess the contract enforcement, the World Bank has assessed the following indicators: procedures (number), duration (days), costs<sup>20</sup>.

Contract enforcement is a good element to use in forecasting the Kosovo's economic state, or challenges faced by the businesses. If Kosovo would rank higher in contract enforcement, businesses and investors would necessarily have the confidence that their investments would be safe in Kosovo, and that disputes are rapidly and fairly resolved, in full compliance with the legislation in the Republic of Kosovo.

**Resolving insolvency:** the global economic crisis, or more specifically the Eurozone crisis has affected Kosovo as well, thereby reducing cash at hand, and increasing the insolvency. Despite the economic crisis, the World Bank "Doing Business 2014" Report ranked Kosovo higher, in the 83<sup>rd</sup> place, than the Doing Business 2013 Report, when Kosovo had the 87<sup>th</sup> place.

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<http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB14-Full-Report.pdf> (accessed on 20 December 2013)

<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

<sup>20</sup> Ibid.

Indicators assessed by the World Bank in this category are: Duration (years), cost, recovery rate<sup>21</sup>.

The survey of 150 MSMEs provides answers of MSMEs on the impact of reforms in doing business, as undertaken by government institutions, and out of 150 enterprises surveyed, only 2 enterprises, or in percentage 1.33%, have stated their confirmation of improvement in their business, caused by reforms in doing business<sup>22</sup>.

If one analyses the indicators used to evaluate the reforms in doing business, we would dub the “Doing Business” Report of the World Bank as the “Operational Business Environment”.

## **2.2 Kosovo and other countries in the Small Business Act for Europe**

In the area of private sector development, EU policies towards the Western Balkan and Turkey are coordinated in linkage with the Small Business Act for Europe. Based on regular assessments versus the EU standards, this coordination has resulted into tested recommendations, which reflect national distinctions of countries which are part of enlargement. The Commission proposes that the results of the Small Business Act are used as a mechanism of recommendation for the future activities of SMEs in the region.

The assessment frameworks derives from the list of ten principles of the Small Business Act, reflected below, in 12 policy dimensions, 21 sub-dimensions and 108 indicators. Each indicator is structured around 5 levels of policy reform, 1 being the weakest and 5 the strongest.

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<sup>21</sup> Ibid.

<sup>22</sup> Survey of 150 MSMEs, undertaken by the authors, Kosovo, Prishtina, September 2013

**Table 4:** Results of the Small Business Act in Kosovo, regional countries and Turkey.

| INDICATOR TITLE   | Albania | Bosnia and Herzegovina | Croatia | Kosovo | Macedonia/FYROM | Montenegro | Serbia | Turkey |
|---|---------|------------------------|---------|--------|-----------------|------------|--------|--------|
| <b>I. Create an environment in which entrepreneurs and family businesses can thrive</b>   |         |                        |         |        |                 |            |        |        |
| Teaching entrepreneurship and women entrepreneurs   | 2.46    | 1.79                   | 3.31    | 1.81   | 2.4             | 2.58       | 2.29   | 2.58   |
| <b>II. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance</b>   |         |                        |         |        |                 |            |        |        |
| Bankruptcy and second chance for SMEs   | 3.20    | 3.13                   | 3.07    | 2.99   | 3.40            | 3.64       | 2.76   | 2.99   |
| <b>III. Design rules according to the "Think Small First" principle</b>   |         |                        |         |        |                 |            |        |        |
| Regulatory framework for SME policy-making  | 3.55    | 2.16                   | 3.75    | 2.59   | 3.74            | 3.75       | 4.00   | 4.19   |
| <b>IV. Make public administrations responsive to SMEs' needs</b>  |         |                        |         |        |                 |            |        |        |
| Operational environment for SMEs  | 4.32    | 2.02                   | 3.52    | 3.08   | 4.11            | 3.62       | 3.61   | 3.12   |
| <b>V. Adapt public policy tools to SME needs:</b>   |         |                        |         |        |                 |            |        |        |
| Support services for SMEs and start-ups   | 2.48    | 2.39                   | 3.99    | 1.88   | 2.61            | 2.94       | 3.47   | 4.32   |
| Public Prosecution  | 3.17    | 2.67                   | 3       | 2.83   | 3.5             | 3.33       | 3      | 3.67   |
| <b>VI. Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions</b> |         |                        |         |        |                 |            |        |        |
| SME access to finance   | 3.04    | 3.09                   | 3.54    | 2.17   | 2.96            | 3.07       | 3.83   | 3.72   |
| <b>VII. Help SMEs to benefit more from the opportunities offered by the Single Market</b>   |         |                        |         |        |                 |            |        |        |
| Regulations and technical standards   | 3.06    | 2.63                   | 4.25    | 2.56   | 3.88            | 2.81       | 3.88   | 4.38   |
| <b>VIII. Promote the upgrading of skills in SMEs and all forms of innovation</b>  |         |                        |         |        |                 |            |        |        |
| Enterprise abilities  | 3.3     | 2.5                    | 3.1     | 3.1    | 2.8             | 2.7        | 2.9    | 3.1    |
| Innovations   | 2.51    | 1.89                   | 3.81    | 1.37   | 2.42            | 2.02       | 3.25   | 3.53   |
| <b>IX. Enable SMEs to turn environmental challenges into opportunities</b>  |         |                        |         |        |                 |            |        |        |
| SMEs in a green economy   | 1.86    | 1.29                   | 3.14    | 1.57   | 2.50            | 2.29       | 2.79   | 3.50   |
| <b>X. Encourage and support SMEs to benefit from the growth of markets</b>  |         |                        |         |        |                 |            |        |        |
| SME internationalization  | 3.21    | 2.21                   | 4.00    | 2.14   | 3.79            | 3.29       | 4.21   | 4.64   |

**Source:** SME Policy Index: Western Balkans and Turkey 2012, table processed by authors

Based on the table 4, in 10 principles and 12 policy dimensions, Kosovo ranks last in 6 dimensions, and penultimate in 6 other dimensions. There is a disturbing fact that the dimension of SME access to finance ranks Kosovo last, while ranking Kosovo rather poorly also in the dimension of innovations.

Kosovo has stalled behind other regional countries, and has begun policy development much later than other economies. It has progressed in the SME support framework policies by adopting an SME development strategy. The business registration and starting up is a rather efficient process in Kosovo, including also a rather successful public-private consultation system. In most of other areas, policy development is rather limited, and rather dependant on donor assistance<sup>23</sup>.

In consideration of the table above, more work is required in eliminating top barriers appearing before the private business development in general and SMEs specifically.

The general section of the Small Business Act provides summarizing results, such as<sup>24</sup>:

- Croatia, Serbia and Turkey lead the way in SME policy reforms and convergency with EU acquis.
- Albania, the Former Yugoslav Republic of Macedonia and Montenegro have applied business-friendly policies, but need larger efforts to improve innovation and to provide supporting services.
- Bosnia and Herzegovina and Kosovo still need to develop a comprehensive policy framework for SME support and development of skills, and to ensure better collaboration between central and local levels, and to reduce their reliance on donor assistance.

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<sup>23</sup> Organisation for Economic Co-operation and Development (OECD), SME Policy Index: Western Balkans and Turkey 2012, date of publication 11 December 2012. <http://www.oecd.org/globalrelations/psd/SMEWBalkansTurkey.pdf>, (accessed on 12 June 2013)

<sup>24</sup> Organisation for Economic Co-operation and Development (OECD), Press Release, Western Balkans and Turkey: Business environment improving but further support for SMEs is needed for jobs and growth, Zagreb, Croatia, 23 October 2012, <http://www.oecd.org/globalrelations/psd/SMEWBalkansTurkeyPressRelease2012.pdf> (accessed on 12 June 2013)

### 3. The MSME state in Kosovo

The World Bank “Doing Business 2014” report and the Small Business Act for Europe report reflect on distinguished elements in relation to Kosovo in improving its business environment.

In an effort to complement the World Bank “Doing Business 2014” Report and the Small Business Act for Europe report, we hereby enclose the results of a survey of 150 MSMEs (done by authors). Results of such a survey should allow a complementation of the remaining section of the study titled “Micro-enterprises, small and medium enterprises, and measures taken by the Government of the Republic of Kosovo in improving the business environment”.

#### 3.1. Survey of 150 SMEs

The survey is aimed at presenting the condition of MSMEs in Kosovo, while it focuses on interviewing 150 business located throughout 90% of the territory of the Republic of Kosovo. Initially, the questionnaire was developed as a surveying instrument, recording confidentially and assuring the respondents that such questionnaire would only be used for scientific purpose. The questionnaire was designed to collect information in a view of identifying the main MSME problems, and extracting recommendations for the future.

The objective of this research was to obtain information for the areas: financial resources of the MSMEs, key barriers for the MSMEs, and specifically the reforms in doing business in Kosovo.

The data collection methodology involved three ways of communicating with respondents: a) face-to-face interviews (F2F) 30%, b) email interviews 40% and c) phone conversation interviews 30%. To complete the survey, around 350 businesses were contacted, but many businesses did not agree to participate in the survey, and they were replaced with others, always preserving the sample of survey.

**Table 5:** Data collection methodology (survey of 150 MSMEs)

| <b>Data collection methodology</b>                 | <b>F2F</b> | <b>E-mail</b> | <b>Phone</b> |
|--|------------|---------------|--------------|
| Contacts and refusals / F2F; E-mail; phone         | 47         | 84            | 69           |
| Contacts and answers obtained / F2F; E-mail; phone | 45         | 60            | 45           |
| <b>Total</b>                                       | <b>92</b>  | <b>144</b>    | <b>114</b>   |

The survey sample was representative and proportional. MSMEs were selected based on their regional and municipal distribution, classification of enterprise sizes according to the SME Law (micro-enterprises - 1-9 employees, small enterprises - 10-49 employees, medium enterprises - 50-249 employees), and age of enterprises.

### **3.2. Presentation of results**

The survey of 150 MSMEs provided the following results<sup>25</sup>:

**Investment sources** - the survey finds that the main sources of invested capital are own sources at a rate of 43%, more sources at around 26%, banking loans only at 14%, loans from the family and friends 10%, and others under 10%.

**Loan applications and approval** - from the total of 150 business surveyed, 98 have stated that in the last three years, they have applied for banking loans, of which around 65% of such businesses were approved their applications, 18% were only approved partially, and 17% were rejected their loan applications. One of the reasons for rejecting loan applications was the insufficient collateral. Survey results show that enterprises stating to have obtained banking loans express their dissatisfaction with the high interest rates, and short repayment terms.

**Key problems faced by MSMEs** - the survey of 150 MSMEs shows that the current situation in the business environment and MSMEs is rather alarming, and in this regard, one may also sort the key problems faced by the MSMEs, such as the high interest rates in banking loans, economic policies, informal competition, electricity outages, etc.

**Impact of doing business reforms** - in reply to the question posed to 150 surveyed businesses: "Has there been any improvement in your business due to reforms in doing business?", only 2 businesses, or only 1.33% of 150 businesses surveyed, stated that they have seen improvement in their businesses, due to the doing business reforms.

The findings of this study only confirm that the reforms in Doing Business in Kosovo are merely technical (procedural), and apart from procedural actions, there are no substantial reforms, which would truly facilitate MSME development in Kosovo.

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<sup>25</sup> Survey of 150 MSMEs, taken by authors, Kosovo, Prishtina, September 2013

#### 4. Conclusions

From the materials studied, and the survey of 150 MSMEs, we have come to the conclusion that the MSMEs in Kosovo are confronted with a visibly unfavourable environment, much poorer from other countries in the region, for which we shall present the following conclusions.

Kosovo lacks accurate official statistics on the numbers of active and passive businesses, other statistics on economic development in Kosovo, and it is faced with lack of coordination in data processing between government institutions at central and local levels, and the latter may be sorted as one of the key problems in developing economic policies.

There is a Government Program and Action Plan for preventing informal economy in Kosovo, but nonetheless, no tangible results in reducing informal economy have been seen, and therefore, informal economy remains one of the main challenges in Kosovo. Based on the numbers of employees and numbers of enterprises in formal and informal economy, many studies have concluded rather high figures of the informal economy's presence.

Kosovo does not have any document (or program) clearly and reasonably defining economy policy reforms, thereby referring and implementing good practices recorded in other countries.

The Government of the Republic of Kosovo, and more specifically the Ministry of Trade and Industry is the institution basically mandated to address the business environment. The MTI has guided its policies towards tackling the indicators of the World Bank "Doing Business" Report, and has taken the following steps: elimination of work permits, free of charge business registration, elimination or reduction of the capital requirement, reduction of import/export documents, and improvement of investor protection, part of the five-piece reform undertaken by the MTI.

The Small Business Act for Europe report, which represents the most substantial policy document of the European Union for member states and our countries in the Stabilization-Association process, is a document with 10 principles and 12 policy dimensions, which ranks Kosovo the last in 6 dimensions, and penultimate in the remaining 6 dimensions.

The survey of 150 MSMEs in Kosovo, taken by the authors, reflects the situation of MSMEs in Kosovo, which continuously emphasize their key problems, including high interest rates in banking loans, economic policies,

informal competition, electricity, thereby differing from the World Bank "Doing Business 2014" report.

The Government of the Republic of Kosovo has developed strategic private sector development documents, but such documents remain unenforced or hardly implemented, since they were built upon an inaccurate statistical basis, and lacking proper coordination between institutions at central and local levels.

The unfavourable business environment and the lack of a creative culture of entrepreneurship has brought the situation of an absence of innovative and rapidly developing businesses, which would in turn be key contributors to creating jobs in a developed economy.

## **5. Recommendations**

- ✓ Establish a uniform system (database) of data processing, building on European Union standards, integrating and generating accurate business data.
- ✓ Use various reports such as the World Bank "Doing Business" Report, the Small Business Act for Europe and other MSME promoting documents in developing government policies of economic development, the common denominator of which must be the MSME development in Kosovo.
- ✓ Develop a document (program) coordinating central and local government activity, developed and implemented on the basis of MSME development, and using best practices of other countries.
- ✓ Develop legal infrastructure of establishing a MSME development bank, or establishing a MSME Loan Guarantee Fund.
- ✓ Use all legal infrastructures in the country and at the shortest time possible, lower banking loan interest rates to a reasonable level for the MSMEs, and extend loan repayment terms.
- ✓ The Government of the Republic of Kosovo must take very seriously the provision of uninterrupted electricity to the producing MSMEs
- ✓ Improve efficiency of the judicial system in protecting economic rights.
- ✓ Create an informative system for the business and all parties interested to start up a business, a system which is unique and integrated between central and local levels.

- ✓ Establish an independent commission to oversee implementation of legislation, strategic government policies and other documents related to economic development, with a special emphasis on MSME development.
- ✓ In collaboration and coordination, central and local governments should implement legislation and combat informal economy.

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