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BUSINESS CLIMATE IN KOSOVO

A CROSS-REGIONAL PERSPECTIVE

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2014

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LIST OF ACRONYMS

BIRN	→	Balkan Investigative Reporting Network
CEFTA	→	Central European Free Trade Agreement
CIDA	→	Canadian International Development Agency
EC	→	European Commission
ECMI	→	European Centre for Minority Issues
EU	→	European Union
FDI	→	Foreign Direct Investment
GDP	→	Gross Domestic Product
KAS	→	Kosovo Agency of Statistics
ICT	→	Information and Communication Technology
MDG	→	Millennium Development Goals
MEF	→	Montenegrin Employers Federation
MTI	→	Ministry of Trade and Industry
NGO	→	Non-governmental organizations
RDA	→	Region Development Agency
SME	→	Small and Medium Enterprises
STIKK	→	Kosovo Association of Information and Communication Technology
TAK	→	Tax Administration of Kosovo
UNDP	→	United Nations Development Programme
VAT	→	Value Added Tax

INTRODUCTION

It is widely acknowledged and accepted that the improvement of a business climate - including financial, regulatory, legal, and institutional aspects - has a positive impact on the overall development of the private sector. The impact of private sector development on improving the socio-economic wellbeing of a country is unequivocal. This sector performs efficiently in both small and large scale production, it creates conditions for innovative solutions to technical and operational barriers, and it fosters technological innovation and knowledge transfer.

The private sector has been essential to achieving meaningful development outcomes around the world. This sector constitutes the greatest share of GDP in many developing countries. It is also responsible for around 90 percent of the jobs in the world (World Bank, 2012), and carries the heaviest weight in achieving the first Millennium Development Goal (MDG) of halving the proportion of people living on less than 1 dollar per day by 2015 (CIDA, 2003). Additionally, in many countries the private sector generates a large portion of tax revenues necessary to provide health care, education, and other important public services. Put differently, the private sector represents the main source of economic growth, job creation, poverty alleviation, and government revenues in many developed and developing countries.

Since Kosovo embarked on the road of transition to a market economy, it has continuously faced obstacles of different natures that, in one way or another, have reflected on the business environment and hindered the development of the private sector in the country as a result. In spite of some recent reforms, Kosovo is still ranked 86th out of 189 countries in the Word Bank's 2014 Doing Business Report, worse than all other neighbouring countries except Albania. Macedonia, for instance, ranked 25th, or 61 positions higher than Kosovo. Moreover, Kosovo businesses operate in an environment where unfair competition, corruption, a non-functioning court system, and other detrimental factors, constitute the dominant 'rules of the game'. This unfavourable business climate has been a burden for existing Kosovan businesses (54percent of them experienced decreases in their sales) while at the same time has sent negative signals to potential foreign investors, thus decreasing the inflow of Foreign Direct Investments (FDI) (Riinvest, 2013).

Taking into account the unsatisfactory picture of the private sector in Kosovo, Riinvest Institute determined that a thorough assessment of the business climate should be performed. The Institute, with the support of the European Union Office in Kosovo, decided to conduct a report that aims primarily at providing a clearer picture on: (i) the development of the business environment in the period 2009-2012; (ii) the current status of the business climate; and (iii) the mid-term growth opportunities and potential risks. By covering these three points, it will be possible to track the trend of the business environment over the last several years, and at the same time, to make predictions about the future. Apart from reviewing the existing research, this report relies on a representative survey with businesses, as well as on findings generated from focus group discussions involving non-business actors such as municipality officials, civil society, and other stakeholders.

Over the past several years, there has been extensive empirical work that sheds light on the business climate in Kosovo (For example: Riinvest Institute 2003, 2011, 2013; Kosovo Chamber of Commerce, 2013). However, to authors' knowledge, the existing studies approach this topic from the national perspective, thus presenting only aggregate results. In this report, for the first time, Riinvest Institute studies the issue from a regional level. To be more specific, the Institute surveyed 1,000 businesses – 200 from each of the five economic regions in Kosovo[1]; and at the same time, conducted five focus group discussions – again, one for each region. Benefiting from both the large sample of surveyed businesses on the one hand and from the focus groups' discussions on the other, the Riinvest team generated results for each region, compared and contrasted the regions' responses, as well as looked into whether the results differ from the overall business climate in the country. This report provides specific recommendations for various clusters of actors that can be used in the policymaking process.

The rest of this report is organized as follows. *Section 1* gives an overview of the overall socio-economic situation in Kosovo, and then presents a brief summary of the private sector development in the country. *Section 2* provides a socio-economic summary of the five economic regions in the country, focusing particularly on five SWOT analyses, taken from regional development strategies. *Section 3* provides a general review of the research methodology used to examine the topic of business climate in Kosovo. *Section 4* presents, discusses, and analyses the findings of the survey on the performance of businesses, barriers to doing business, and on relations between businesses and institutions, including Regional Development Agencies (RDAs). *Section 5* presents the findings of five focus group discussions. These findings, which are qualitative in nature, primarily capture barriers to doing business and business-institutions relations. Additionally, this section provides findings evaluating the implementation of priorities included in regional development strategies. *The last section* concludes and provides recommendations on major findings.

1 Region Center includes municipality of Drenas, Fushe Kosove, Kastriot/Obiliq, Gračanica, Lipjan, Pristine, Besiana/Podujeve, and Shtime. Region South includes municipality of Dragash, Malisheva, Mamusha, Prizren, Rahovec, and Therande/Suhareka. Region East includes municipality of Artane/Novoberda, Dardane/Kamenica, Ferizaj, Gjilan, Kacanik, Shtrpce, Viti, Hani i Elezit, Kllokot, Ranillug, and Partesh. Region West includes municipality of Burim/Istog, Decan, Junik, Kline, Peja, Gjakove, and Region North includes municipality of Mitrovica, Skenderaj, Vushtrri, Zubin Potok, Zvecan, and Leposavic.

“Compared to neighbouring countries, Kosovo’s economic performance is not at a satisfactory level, as the GDP per capita is the lowest among them.”

1. KOSOVO AT A GLANCE

Kosovo is a relatively small country located in the South-East Europe. It has a population of approximately 1.8 million, with 50.55 percent male and 49.45 percent female, and 61 percent of people living in rural areas (KAS, 2013). There are 163.2 residents per square kilometre and approximately 297,090 households with 5.9 people each, on average (KAS, 2013).

Kosovo's economic profile does not look very healthy. Kosovo continues to struggle with high rates of unemployment. The Kosovo 2012 Labour Force Survey results (2013) show that around 1.2 million, or two-thirds of the total population, form the working age group (people aged 15-64). Of the total working age group, only 36.9 percent are active in the labour force (438,544 people). From the total number of active people in the labour force, 69.1 percent (302,844 people) are employed and 30.9 percent are unemployed (135,700 people) (KAS, 2013). The same source states that unemployment is much higher for women than it is for men, at 40.0 percent compared to 28.1 percent, respectively. The most discouraging figure is the youth unemployment rate (aged 15-24), which is the highest among all age groups at 55.3 percent (KAS, 2013). Around 63.8 percent of young females and 52.0 percent of young males in the labour force are unemployed (KAS, 2013). The high rate of unemployment among the youth population might have affected to some extent their self-confidence, as they have not been provided an opportunity to demonstrate their skills and talents. As a result, many of them are discouraged and seek to work outside Kosovo. The general high rate of unemployment, moreover, has led to a high poverty rate. In Kosovo, around 34.5 percent of the population lives in poverty, and around 12.1 percent lives in extreme poverty with less than €1 per day (KAS, 2013). The main reason behind these discouraging figures is linked to weak private sector development and low capital investments. The majority of Kosovo businesses provide jobs that require only low-level skills – this also has some effect on the motivation of workers to pursue proper education (UNDP, 2012). Additionally, the few businesses that need advanced skills report that the universities and colleges in Kosovo do not link their curriculum effectively with the skills needed by the market; therefore, students equipped with diplomas from these institutions do not meet their demands.

During 2013, Kosovo's economy is estimated to have grown at a rate of 2.5 percent with a GDP of €5.15 billion in nominal value and €2,794 GDP per capita (IMF, 2013). Compared to neighbouring countries, Kosovo's economic performance is not at a satisfactory level, as the GDP per capita is the lowest among them. According to the World Bank (2014), in 2012 the highest GDP per capita was recorded by Montenegro (€5,275), followed by Serbia (€3,930), Macedonia (€3,545), Bosnia and Herzegovina (€3,429), Albania (€3,091) and the last one with the lowest GDP per capita is Kosovo (€2,708). As a result of the low growth rate, which has been unable to satisfy the country's development needs and to improve citizens' living standards, Kosovo remains the poorest country in the region, and Europe as well.

Similar to previous years, in 2013 Kosovo's economy has continued to face high current account deficit, which is mainly caused by high trade deficit. According to Kosovo Customs (2014), the trade deficit in 2013 is €2.1 billion, recording a decrease from €2.2 billion in 2012. Some of the main trade partners are Italy, Turkey, Albania, Macedonia, India, Germany, Montenegro, and Serbia[2]. During 2013, Kosovo has exported mostly to Italy, with around 25 percent of the total share of exports, and imported mostly from Serbia with 12 percent share of total imports. Apart from geographical proximity and historical factors, an additional reason why Kosovo has mainly engaged in trade with neighbouring countries is the Central European Free Trade Agreement (CEFTA) which was signed in 2006 among Kosovo (with UNMIK as signatory), Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, and Serbia (CEFTA, 2014).

FDI was highest in 2007 (€440.7 million) and has marked a significant decrease every year since. In 2008, FDI reached €366.4 million, in 2009 – €287.4 million, in 2010 – €365.8 million, in 2011 – €393.8 million, in 2012 – €228.6 million (CBK, 2014). Finally, in September 2013, FDI reached €204.9 million. By the end of the year, FDI is expected to have reached €255 million or in other words an increase of 12 percent (CBK, 2014). One of the reasons for the significant decline during the 2008-2010 period can be attributed to the global financial crisis. It is also important to note that the privatization of public enterprises usually brings the largest amounts of FDI; therefore, the decline can be attributed also to end of the largest waves of privatization in the country. However, the same cannot be stated for the 2011-2013 period. The main reasons for FDI decline can mainly be traced to the bad image of Kosovo created by the high level of corruption (Corruption Perception Index ranks Kosovo in the 111th place out of 177 positions with a 33/100 score), extortion, organized crime and bureaucracy, and other similar problems. Regarding the origin of FDI, European Union (EU) countries continue to be the main investors in Kosovo. According to the CBK Balance of Payments Report (2013), in 2012, Turkey surpassed Great Britain, becoming the number one investor in Kosovo with 28.3 percent of total FDI (CBK, 2013)[3].

2 Italy (EXP: 25.0%; IMP: 10.0%), Turkey (EXP: 3.0%; IMP: 9.0%), Albania (EXP: 15.0%; IMP: 5.0%), Macedonia (EXP: 9.0%; IMP: 8.0%), India (EXP: 10.0%; IMP: 1.2%), Germany (EXP: 4.0%; IMP: 11.0%), Montenegro (EXP: 6.0%; IMP: 0.5%), and Serbia (EXP: 5.0%; IMP: 12.0%).

3 Great Britain, in 2011, led with 20.3 percent of the total FDI. Germany came second with around 21.5 percent investment; Switzerland is the third in row to invest in Kosovo with 19 percent; Great Britain with 6.2 percent; United States with 4.7 percent; and Slovenia with 4 percent (CBK, 2013).

Remittances have played a very important role throughout the years in the improvement of wellbeing for Kosovo citizens, as they represent a significant source of income for them. In 2012, a total of 22.4 percent of Kosovo families received remittances from family members who live abroad (KAS, 2013). Incoming figures have remained positive throughout the years with small fluctuations due to the economic crisis in the countries and sectors where Diaspora members live and work. In 2012, remittances were €457 million and represented 9.3 percent of GDP (KAS, 2013). Until July 2013, remittances reached €272.4 million, and until the end of the year, remittances are expected to have reached €632 million (CBK, 2014). These positive sums show that remittances are one of the most important components of the balance of payments and they help decrease current account deficit. Furthermore, remittances help finance and increase consumption in Kosovo since the majority of funds sent are spent on consumables.

Even 15 years after the war, Kosovo's economy still continues to rely on unsustainable sources of growth, such as import of goods, government expenditures, and remittances. According to World Bank (2010), in order for Kosovo to reach Albania's income level (the second poorest country in the Balkans) by 2020, it will need to have an annual growth rate of 10 percent. From 2010 to 2013, Kosovo was not successful in achieving that objective, since the GDP grew each year for only 3.2 percent, 4.4 percent, 2.5 percent, and 2.5 percent, respectively (IMF, 2013). This low macro-economic performance can mainly be attributed to the weak private sector development, which in itself is a mirror image of the environment in which it operates.

1.1. Private sector development in Kosovo

As stated in the beginning of this report, private sector development is of critical importance as it creates enterprises leading to more jobs and empowerment, brings new technology and innovation, and increases the income of the country as a result. Indeed, in many developing countries, the private sector is considered the primary engine of economic growth. Despite its important role, the figures about this sector in Kosovo are not very encouraging, especially when compared with neighbouring countries.

Kosovo has a very low number of newly created businesses, and many of those fail shortly after their establishment. To be more specific, Kosovo's new business density in 2012 (new registrations per 1,000 people ages 15-64) was 1.2 – that is three times lower than neighbouring Macedonia (3.6), for instance (World Bank, 2013). It is noteworthy to mention that 92 percent of Kosovo businesses are micro-enterprises (1-9 employees), mostly family-owned businesses, thus having limited potential for innovation and to reach beneficial economies of scale. The geographic distribution of Kosovo businesses, moreover, is highly unequal. The overwhelming majority (one third of them) are concentrated around Prishtina, leaving other parts of Kosovo less developed.

Similarly, the performance of Kosovo businesses does not appear to be satisfactory. A Riinvest Institute survey (2013) reveals that, compared to the previous year, an average of 54 percent of the existing Kosovo businesses stated that their sales have decreased (a decrease of 34 percent), 21 percent stated that the sales increased (an increase of 22 percent), and 25 percent of them claimed that their sales recorded no changes. Furthermore, the survey reveals that businesses in Kosovo make the bulk of their sales within the country. On average, 89 percent of the total sales are made in Kosovo, whereas the remaining 11 percent are made outside Kosovo.

A range of different obstacles contribute to the unfavourable picture of the private sector. Barriers associated mostly with the unsatisfactory level of law enforcement constitute the major barriers hindering the creation and development of new firms in the private sector. More specifically, Riinvest Institute (2013) reveals that barriers such as unfair competition (driven by tax evasion and informality in general), corruption, organized crime, and a non-functioning court system are perceived as the most serious obstacles by businesses. It is worth noting here that, due to the sluggish performance of the judiciary system, 62 percent of Kosovo businesses, according to the Riinvest survey, claimed that they do not trust courts at all. Other barriers commonly faced by businesses include limited access to finance, high cost of finance (the Kosovo Chamber of Commerce, 2013; MTI 2013), and fiscal barriers (Riinvest, 2013).

Shortly, based on this picture, it appears that Kosovo is struggling to create a favourable businesses climate that would create the preconditions for a healthy and sustainable private sector, which in turn would lead to new competitive businesses, new jobs, and an improvement in the overall socio-economic wellbeing of the people.

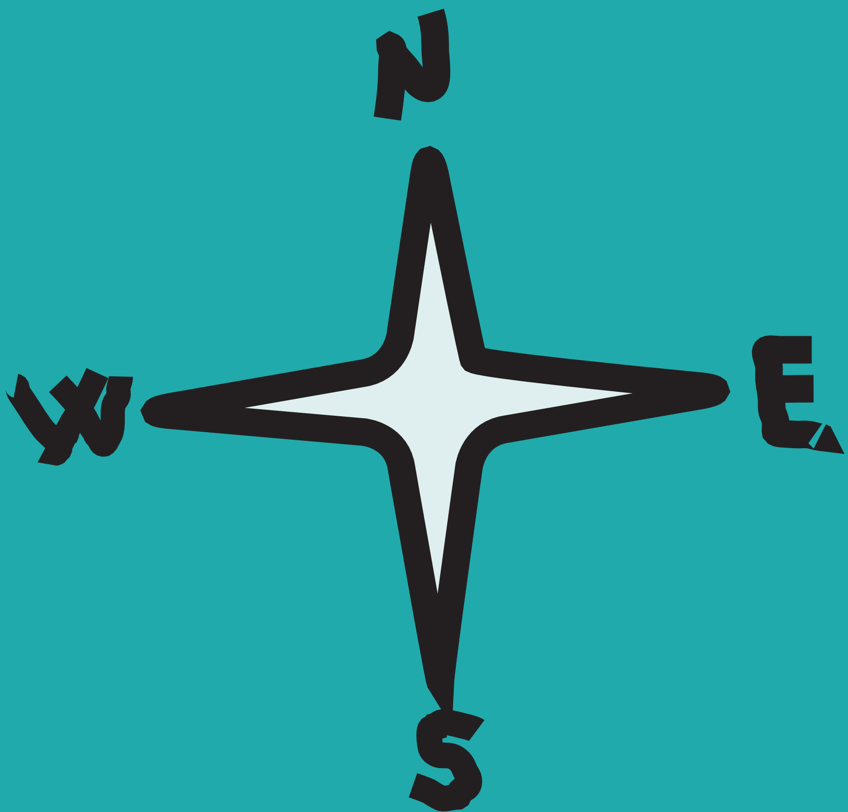
Youth unemployment rate **(aged 15-24)** is the highest among all age groups at

55.3%

The trade deficit in 2013 is **€2.1 billion,** recording a decrease from **€2.2 billion** in 2012.

FDI was highest in 2007,€440.7 million, and has marked a significant decrease every year since.

> Enterprises operating in Kosovo are predominantly male-owned; around 91.5 percent of the businesses in the nation are owned by men, whereas only 8.5 percent are owned by women.



2. PROFILES OF THE FIVE ECONOMIC REGIONS OF KOSOVO

In order to promote regional and rural economic development in Kosovo, a joint initiative comprised of the Government of Kosovo, Associations of Municipalities, and the European Union Office in Kosovo has organized the municipalities into five economic regions (North, East, West, South and Centre). Each region has its assigned municipalities and a Regional Development Agency that is responsible to coordinate, support, plan and facilitate the socio-economic development activities of their regions. This section presents introductory information regarding these five economic regions in Kosovo.

Before presenting region-specific strengths and weaknesses, it is important to note some general information about the five economic regions. Region Centre leads with the largest number of population – 497,907, followed by Region South – 387,828, Region East – 346,559, Region West – 314,894, and Region North – 232,833. The population number for Region North is an approximation, based on the officially registered population of 195,637, and the estimated 40,196 people that live in the 3 northern municipalities populated by Kosovo Serbians (KAS, 2013).

The number of businesses in each economic region and their structure is as follows. Region Centre leads again with the highest number of registered businesses (19,659) followed by Region East (12,441), Region West (9,614), Region South (9,432) and Region North (8,103) (KTA, 2012). As can be seen in Figure 1, Region Centre has the highest percentage 33, followed by Region East (21 percent), Region West (16 percent), Region South (16 percent) and Region North (14 percent).

The structure of the businesses in each economic region is similar to the overall structure of businesses in Kosovo. Micro enterprises with 1 to 9 employees constitute the lion's share in each region (Region Centre - 17,482; Region East – 11,711; Region West – 8,930; Region South – 8,869; Region North – 7,597), followed by small enterprises with 10 to 49 employees (Region Centre – 1,932; Region East-680; Region West – 644; Region South – 520; Region North – 468), medium enterprises with 50 to 249 employees (Region Cenrte – 185; Region South - 41; Region East – 40; Region West – 35; Region North – 34). Large enterprises with more than 250 employees constitute the lowest number in each region (Region Centre – 40; Region East – 10; Region West – 6; Region South – 2; Region North – 3) (see Table 1). This structure of businesses reconfirms once more that the strategy of the central and local government toward private sector development and job creation has mainly assisted the creation of micro-enterprises which employ people with medium to low skills (UNDP, 2012). In addition, the small number of enterprises with more than 250 employees is an indicator of the low level of capital investments in each region.

As per the legal status of businesses, Sole Proprietorships dominate the five economic regions (Region Centre – 84 percent; Region East – 91 percent; Region West – 87.5 percent; Region South – 93.5 percent; Region North – 92.5 percent). They are followed by partnership businesses, which stand at comparable percentages in all regions (Region North – 6 percent; Region East – 6 percent; Region West – 8 percent; Region South – 5 percent; Region North – 6 percent) and limited liability companies, which generally comprise a very small percentage (Region Centre – 6 percent; Region South – 3 percent; Region East – 3 percent; Region West – 3 percent;

Table 1.
Structure of enterprises in each region according to size (in %)

	Micro enterprises (1-9)	Small enterprises (10-49)	Medium enterprises (50-249)	Big enterprises (250+)
Centre	89.0%	9.8%	0.9%	0.2%
North	93.8%	5.8%	0.4%	0.0%
West	92.9%	6.7%	0.4%	0.1%
South	94.0%	5.5%	0.4%	0.0%
East	94.1%	5.5%	0.3%	0.1%

SOURCE: KTA, 2012

FIGURE 1: ENTERPRISES IN EACH REGION (IN %)

SOURCE: KTA, 2012

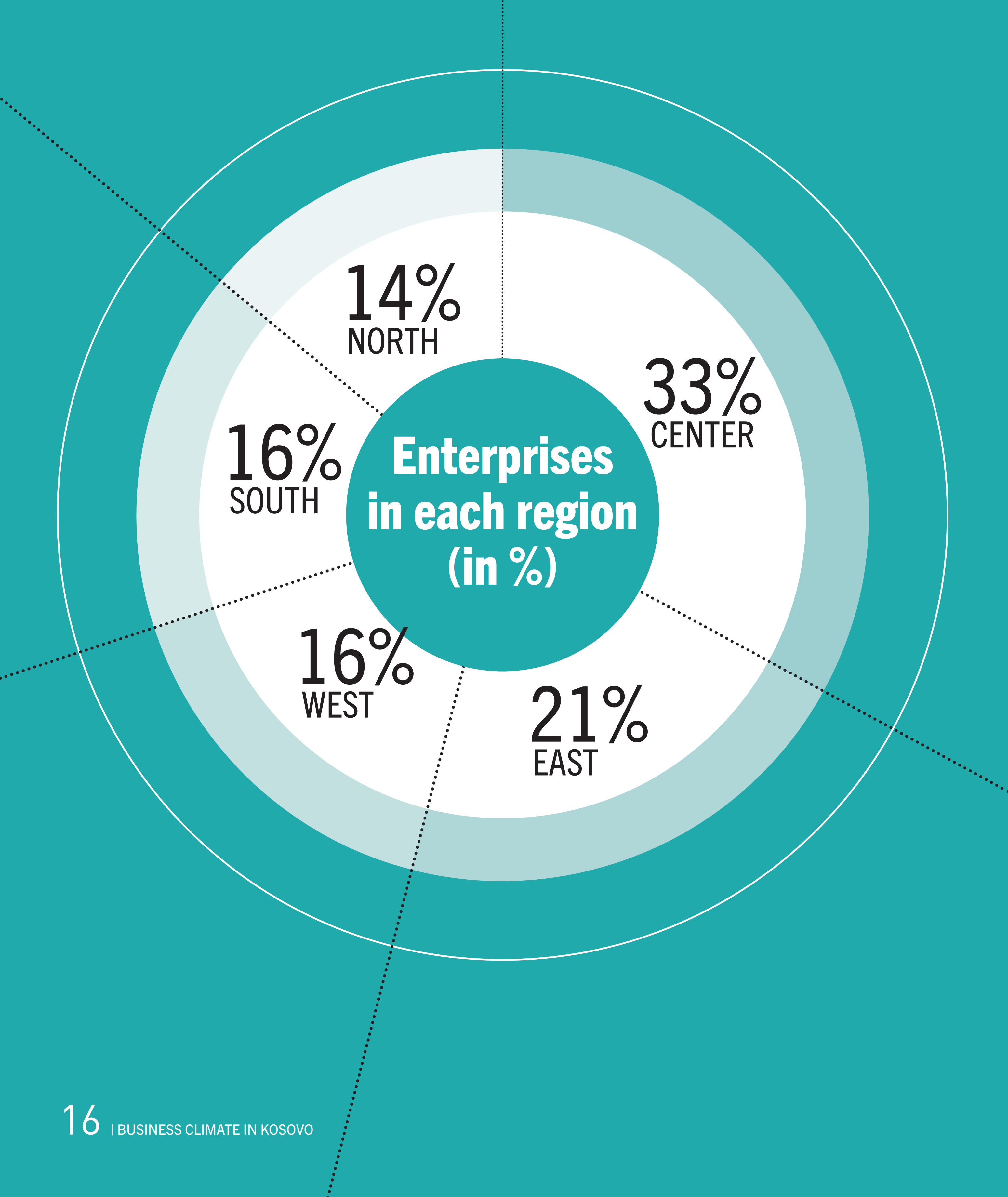


Table 2.
Distribution of enterprises based on the period of establishment (in %)

	Before 1999	2000-2008	2008-2014
Centre	21.0%	53.5%	25.5%
North	22.5%	54.5%	23.0%
West	25.0%	57.0%	18.0%
South	28.0%	48.0%	24.0%
East	26.5%	62.5%	11.0%

SOURCE: AUTHOR'S OWN CALCULATIONS FROM THE SURVEY DATA

Region North – 1 percent). Finally, joint stock companies constitute a negligible proportion – less than 1 percent in most of the regions.

The majority of functioning businesses were established between 2000-2008 (Region Centre – 53.5 percent; Region North 54.5 percent; Region West – 57 percent; Region South – 48 percent; Region East – 62.5 percent). The proportion of businesses established during the periods before 1999 and after 2008 stands at similar levels. The percentage ranges from 21 in Region Centre to 28 in Region South for the former period, and from 11 in Region West to 25.5 in Region Centre for the latter period (for more detailed information, see Table 2).

Enterprises operating in Kosovo are predominantly male-owned. Notably, about 91.5 percent of the businesses in the nation are owned by men, whereas only 8.5 percent are owned by women. The economic region with the lowest percentage of women-owned enterprises is Region East with 4 percent, whereas the region with the highest percentage is Region Centre with around 12 percent (for more detailed information, see Figure 2). The surrounding countries stand along these percentages. For instance, in Montenegro women own no more than 10 percent of enterprises (Montenegrin Employers Federation, 2013). Moreover, the average size of women's enterprises is smaller compared to men's enterprises, as the former, on average, employ about 50 percent less employees than the latter.

The average age of the enterprise owners in Kosovo is 43.5. Meanwhile, it varies from 42.3 in Region Centre to 47.1 in Region West. This range corresponds, to some extent (although skewed to the upper value), with age of entrepreneurs over the world, where half fall between the ages of 25 and 44 (GEM, 2012). Furthermore, when it comes to the educational background of enterprise owners, the Region Centre stands superior – around 42.5 percent – relative to the owners of other regions, where the percentage is around 30.

For the purpose of this study, it is also significant to show the first source of income for the population in each economic region. According to KAS (2013), around 57 percent of people living in Region Centre receive support primarily from other persons, 23 percent stated that a salary or other forms of compensation provided for paid work is the main source of income for them, less than 1 percent stated that the main source of income for them is rent of a house, dwelling, land, stores or through other incomes provided by property investment. Around 6 percent of the people in the same region stated that pension is their main source of income, 5 percent receive social assistance, less than 1 percent receive other types of assistance, such as maternity leave, 3 percent rely on remittances as their main source of income, and 6 percent stated that they have other sources of funding (KAS, 2013). It is important to note that in all five regions, most of the respondents stated that they do not have any personal source of income and are supported by family members with whom they live (for detailed information on each region and numerical representation of data, see Table 3).

Due to the fact that the regions each have specific economic characteristics, it was considered important to create the following sub-sections and present the characteristics corresponding to each region.

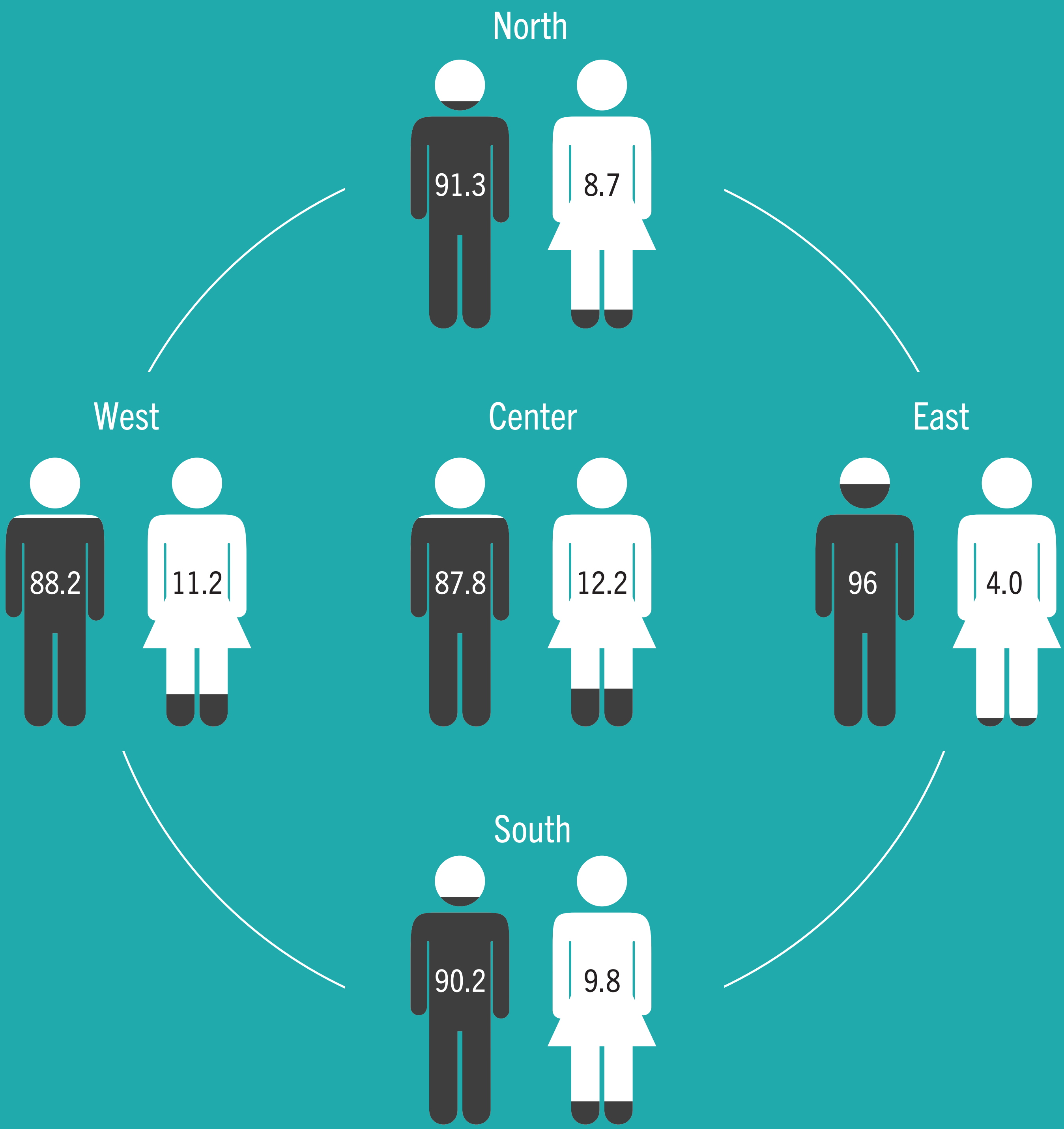
Table 3.
Resident population first source of income by region (in €)

	Work	Property investments	Pension	Social assistance	Other assistance	Remittances	Support by other persons	Other sources
Centre	114,493	2,259	30,614	24,109	1,363	13,306	283,079	28,684
North	39,026	513	16,910	16,449	785	7,464	98,854	12,636
West	75,655	1,312	21,365	15,885	1,733	19,307	160,556	19,081
South	88,599	1,058	21,449	12,954	858	35,926	191,268	35,716
East	72,508	1,188	21,682	15,286	2,363	16,314	188,707	28,511

SOURCE: KOSOVO AGENCY OF STATISTICS, 2013

FIGURE 2: BUSINESS OWNERS BY GENDER (IN %)

SOURCE: AUTHOR'S CALCULATIONS FROM THE SURVEY DATA



The economic activity of **Region North** focuses mainly on trade, and very little in transport and telecommunication, hotels and restaurants, mining, and construction.

Region South is focused in wholesale and retail trade.

Most of the economic activity in **Region Centre** is focused on trade, both wholesale and retail; and services, mainly restaurants and financial institutions.

The economic activity in **Region East** this region is mainly focused in trade, services, accommodation.

Most of the economic activity in **Region West** is focused on agribusinesses due to favourable local conditions and long tradition.

REGION NORTH

Region North covers around 20.36 percent of Kosovo territory. The economic activity focuses mainly on trade, and very little in transport and telecommunication, hotels and restaurants, mining, and construction. Growth potentials are seen in natural resources, tourism, agriculture, and production of alternative forms of energy (RDA North et al., 2010). Some of the main strengths are: advantageous geographical position for economic development and networking; availability of natural resources and tourist potential; ecological cultivation and healthy agricultural produce; cheap labour force; and potential for production of alternative forms of energy. Some of weaknesses include: lack of financial means for sustainable development projects; low utilisation of railway lines; inefficient waste management system; inadequate public services; inconvenient road infrastructure for the economy; insufficient development of SMEs and lack of know-how and experience in EU programs and other international donor programs (RDA North et al., 2010).

REGION SOUTH

Region South covers around 19 percent of the territory. The main economic activity is focused in wholesale and retail trade, with little left to the processing industry, hotels and restaurants, and transport. Sectors with growth potential are tourism, agriculture and food processing industry, particularly vineyards as well as quality fruit and vegetable crops (RDA South et al., 2010). Some of the main strengths are: favourable position; availability of resources related to natural environment, including agricultural arable land and abundant water supplies; relatively educated workforce by competitive rates; rich historical and cultural heritage monuments registered and protected; and tourism development opportunities. Some weaknesses include: significant imbalance of economic structure and inability to transfer labour force among sectors; local government institutions inadequately prepared to support entrepreneurial activities; non-functioning railway system; farmland inadequately used; and low level of production of agricultural commodities and underdeveloped food processing (RDA South et al., 2010).

REGION CENTER

Region Centre covers around 20.5 percent of Kosovo territory. Growth opportunities and potentials for this region are seen in the ore processing industry, food processing, plastics and paper, agribusiness - mainly in production and processing of fruits and vegetables, dairy and animal food, and in ICT (RDA Centre et al., 2010). Most of the economic activity is focused on trade, both wholesale and retail; services, mainly restaurants and financial institutions; and very little in manufacturing (RDA Centre et al., 2010). Some of the main strengths include the presence of natural resources such as lignite, nickel, lead, zinc and iron and thermal waters; infrastructure based on the major routes that cross this zone; geographical position; and bigger market due to larger population size. Some of the weaknesses include major environmental pollution; inadequate environmental management; inefficient public administration and weak law enforcement; and high unemployment and unskilled workforce (RDA Centre et al., 2010).

REGION WEST

Region West covers around 21 percent of Kosovo territory. Most of the economic activity is focused on agribusinesses due to favourable local conditions and long tradition. Besides agriculture, growth opportunities and potentials are seen in the tourism sector due to geographical position (RDA West et al., 2010). Some of the main strengths include the quality of the landscape; availability of development land; plentiful supply of clean water and air; and renewable natural resources available for controlled exploitation. Some of the weaknesses include: low level of experience in sustainable management of natural resources; degradation of the environment; slow process of cross border cooperation; and ineffective management of land use (RDA West et al., 2010).

REGION EAST

Region East covers around 27 percent of Kosovo territory. The economic activity in this region is mainly focused in trade, services, accommodation and very little in production (RDA East et al., 2010). Sectors with potential are rural development in both agriculture and forestry, tourism, and mining (RDA East et al., 2010). Some of the main strengths are: favourable geographical position; existence of natural resources such as thermal water, discoveries of minerals and ores, medical herbs and wild fruits; proximity to Prishtina and Skopje; strong links with Europe through Diaspora and students studying in EU countries. Some of the weaknesses include: insufficient exploitation of natural resources; imbalance in the economic base of the region due to low level of manufacturing businesses; lack of processing capacities; lack of SME support environment; and non-adequate qualification of labour force for the market needs (RDA East et al., 2010).

The core data for this study were collected through a survey involving 1,000 firms – 200 businesses for each economic region in Kosovo.

3. METHODOLOGY

In this section, the Riinvest team provides a general description of the methodological approach used in this study. In order to scan the business climate in Kosovo's five economic regions, the team relied mainly on a survey of businesses and focus groups discussions with regional stakeholders. Combining these techniques, the team collected both quantitative and qualitative data.

The core data were collected through a survey involving 1,000 firms – 200 businesses for each economic region in Kosovo. The businesses were selected from the Tax Administration Kosovo (TAK) database, which included 65,000 active businesses. The database contained sufficient information profiles for each business, including sector, size, and location – based on which the stratification was made. The sample size of 200 businesses per region is large enough to provide statistically significant results at 99 percent confidence level.

The process of designing the questionnaire involved the Riinvest research team as well as experts from the European Union Office in Kosovo. The questionnaire contained three main sections, which focused on: (1) the relations between businesses and institutions; (2) performance and barriers of businesses; and (3) on other relevant questions related to the investment climate in the country. Before the survey was released to be fully conducted, it was initially tested with 50 businesses to see if the questionnaire had visible 'defects' or if certain questions needed to be modified in order to obtain true answers from the respondents. In addition, the team tested the duration time where it revealed that the survey lasted around 20 minutes.

The Riinvest team recruited the best students in Kosovo as enumerators. All of them received a proper training that prepared them for data-collection, questionnaire specification and other requirements. More specifically, enumerators received a survey-specific training manual explaining the importance and the overall goals of the survey. Additionally, clarifications were given for each question included in the questionnaire. Small groups of 2 to 5 enumerators worked under a team leader. The team leader revisited 15 percent of the respondents for each enumerator, ostensibly to thank them for their cooperation. During these visits, selected questions that were considered most crucial to the research were re-asked for verification. Apart from monitoring them in the field, a similar verification process was carried out by phone by the research team and project leader. Around 40 percent of surveys, selected randomly, were re-verified by the Riinvest Institute research team, who called respondents and ensured that answers corresponded to the ones filled in by the enumerators. Additionally, each questionnaire was verified by researchers to check if there was any irrational answer with previous claims. This helped detect and consequently avoid potential defects within the survey.

Once collected, the data was encoded by experienced personnel using EXCEL spreadsheets prepared with the data fields and pop-up tables indicating relevant codes. Next, the data were analysed and pre-interpreted using SPSS to identify responses outside of expected ranges, including potential inconsistencies across variables. Changes were made as appropriate. Additionally, periodic checks were made by the project leader, primarily through comparing variable means and distributions across files, to ensure that the data have not been altered, intentionally or otherwise. The research analyses in this report are predominantly based on descriptive statistics using cross tabulation techniques.

In addition to quantitative surveying, Riinvest Institute arranged five focus groups (one for each region) consisting of 10-12 participants each. The focus group discussions were conducted to: (i) obtain qualitative data – which normally cannot be observed and collected via quantitative surveys; and (ii) capture the perspectives of other business stakeholders. Focus group sessions consisted of various stakeholders, such as municipal directors for economic development, local economic experts, as well as representatives from NGOs, Regional Development Agencies (RDAs), Banks, Business Support Centres, and from other relevant institutions dealing with economic issues.

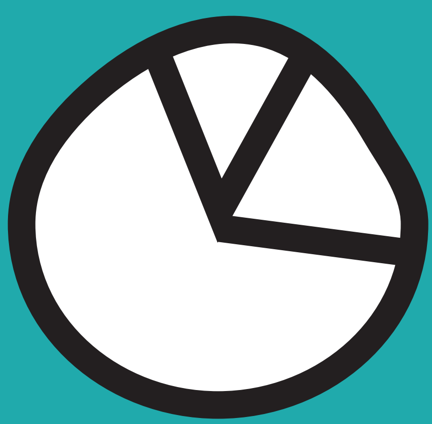
The focus group discussions were structured around questions linked with the potential barriers to doing business, business-institution relations, regional development strategies, and the future of the economic sectors. Questions were asked in a group setting where participants were free to interact with one another. The moderator for each session took a back seat at first, allowing for a type of "structured eavesdropping". Later on, the moderator adopted a more interventionist style, urging debate to continue beyond the stage it might otherwise have ended and encouraging the group to discuss the inconsistencies both between participants and within their own thinking. Disagreements within groups were used to encourage participants to further elucidate their point of view. Every session was tape recorded, transcribed, and thoroughly analysed. The time duration of each focus group session was about two hours.

“

~74%

of businesses

generate less than €50,000 per year. Region South and Region East are mostly made up of small businesses, while big businesses are concentrated in Region Centre.



4. SURVEY FINDINGS

This part of the report presents and analyses the findings of the survey. Specifically, section 4.1 elaborates how the SMEs have performed in the past and their expectations about the future. Sections 4.2 and 4.3 depict the general ranking of barriers to SME development and analyses them by region. Section 4.4 presents a summary of future indicators. Section 4.5 shows the perspective of businesses in relation to institutions.

4.1 SME Performance

The performance of Kosovar businesses has been sub-satisfactory. The outlook, however, appears promising. Following are the findings about the performance of businesses in Kosovo as well as across regions.

The Kosovo market is characterized primarily by small businesses, as measured by the amount of sales they generate. Around 74 percent of businesses generate less than €50,000 per year. Region South and Region East are mostly made up of small businesses, while big businesses are concentrated in Region Centre, which includes the capital city. Region South has the highest number of very small businesses, with 44 percent of businesses generating less than €10,000 in revenue. Only a small fraction of Region South businesses, 12 percent, have above €100,000 sales. Region East is also mostly made of smaller businesses, with 90 percent generating less than €100,000 sales. Region West, on the other hand, is the only region with more than half of businesses falling in the €10,000 to €50,000 category.

Almost half of the businesses generating more than €100,000 in sales are located in Region Centre and Region North. More than half of all businesses generating more than €500,000 of sales in a year are located in Region Centre. The reason why most businesses are located in Region Centre and Region North is the efficiency of having their headquarters located near the capital city for bureaucratic and business procedures. This does not mean that these businesses operate exclusively in the regions where their headquarters are located (for more detailed results, see Table 4).

> **56%**
> of businesses said that their sales have either gone up or stayed the same in the last four years. Over 44 percent said that sales had actually decreased.

For the purposes of this study, business performance has been evaluated based on firm sales, net profit margin, number of employees, and salary trends. Around 56 percent of businesses said that their sales have either gone up or stayed the same in the last four years. Over 44 percent said that sales had actually decreased. Nevertheless, those that experienced an increase in sales did not match the intensity in percentage terms with those that experienced a decline in sales. The average increase in sales for the businesses that are doing better is 18.9 percent over the last four years. The average decline in sales for the businesses that are doing worse is 25.43 percent.

Table 4.
Average of total sales by regions (in %)

Region	0 - 10,000 €	10,000 - 50,000 €	50,000 - 100,000 €	100,000 - 200,000 €	200,000 - 500,000 €	500,000 - 1,000,000 €	1,000,000 or more €
South	44%	36%	10%	5%	3%	3%	1%
East	35%	44%	11%	4%	2%	2%	3%
West	24%	51%	13%	9%	2%	1%	1%
Centre	31%	36%	11%	6%	5%	5%	7%
North	31%	39%	10%	10%	8%	2%	1%
National Average	33%	41%	11%	6%	4%	2%	2%

SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

Table 5.
Sales trend over the last four years (in %)

	South	East	West	Centre	North	Total
Increase	20.50%	28.00%	15.50%	33.00%	39.70%	**27.40%**
Percent Increase	17.66	19.74	22.04	19.68	17.69	**19.05**
Decrease	45.50%	45.00%	52.50%	44.00%	36.20%	**44.60%**
Percent Decrease	28.59	30.05	23.6	23.64	20.58	**25.44**
No change	34.00%	27.00%	32.00%	23.00%	24.10%	**28.00%**

SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

Table 6.
Sales trend for the next four years (in %)

	South	East	West	Centre	North	Total
Increase	33.20%	39.30%	40.40%	46.70%	62.20%	**44.40%**
Percent Increase	22.46	22.08	17.83	18.19	21.18	**20.33**
Decrease	23.30%	33.20%	25.80%	24.40%	12.20%	**23.80%**
Percent Decrease	22.76	20.19	21.38	19.61	14.67	**20.17**
No change	43.50%	27.60%	33.80%	28.90%	25.50%	**31.80%**

SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

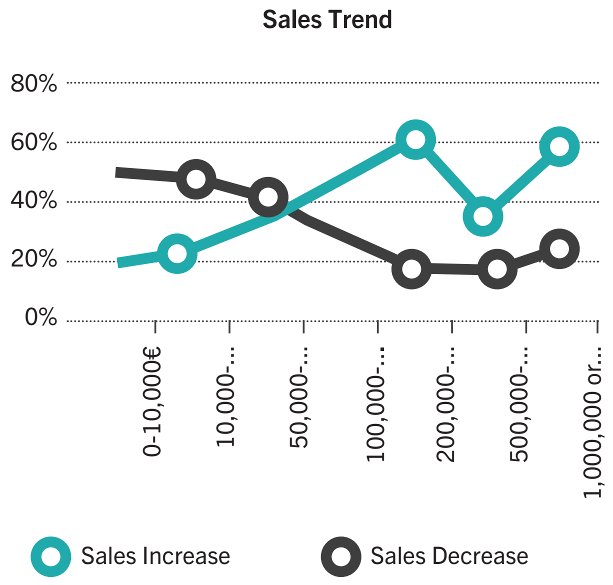
In this regard, Region North and Region Centre have been performing the best, while Region South and Region East, and especially Region West have been performing poorly. Region South has seen the highest number of businesses reporting "No change" or stagnating sales (34 percent), an above average number of businesses that have seen declining sales (45.5 percent), and a very low number of businesses with increasing sales in the last four years (20.5 percent). Region West has also performed very poorly with only a small portion of businesses reporting an increase in sales (15.5 percent), and the rest reporting either a decline or stagnating sales (52.5 percent and 32 percent, respectively). However, for those businesses in Region West that have seen an increase in sales, the rate is the highest in Kosovo, at about 22 percent. The rationale of why these two regions have fallen behind is not easily articulated. Region Centre and Region North, which is where big businesses are located, have seen the greatest increase in sales (33 and 39.7 percent, respectively). However, the downward trend of sales in the last four years does not seem to inhibit businesses from being hopeful about the future. Around 44.4 percent of the businesses surveyed believe that sales will go up in the next four years, and only 23.8 percent believe that they will decline. However, all these figures are not necessarily to be viewed pessimistically, as businesses that have seen no change in sales are not always unsatisfied with their sales. If they managed to stay in business that means it was still profitable for them. In this sense, the numbers can be interpreted in two categories: the businesses that have had their sales increase or no change, and the businesses with decreasing sales (for detailed results, see Table 5).

76.2%
of businesses believe they will be operating at the same or better pace in the future than they are now.

This also means that 76.2 percent of businesses believe they will be operating at the same or better pace in the future than they are now. Around 23 percent expecting a decline in sales, however, is not a figure to be ignored, since it means almost a quarter of businesses expect sales to decline. Still, it is encouraging that almost half the businesses expect not only to maintain the current level of sales, but to improve. It is worth mentioning that Region North is expected to perform best compared to other regions in this regard (for more detailed results, see Table 6).

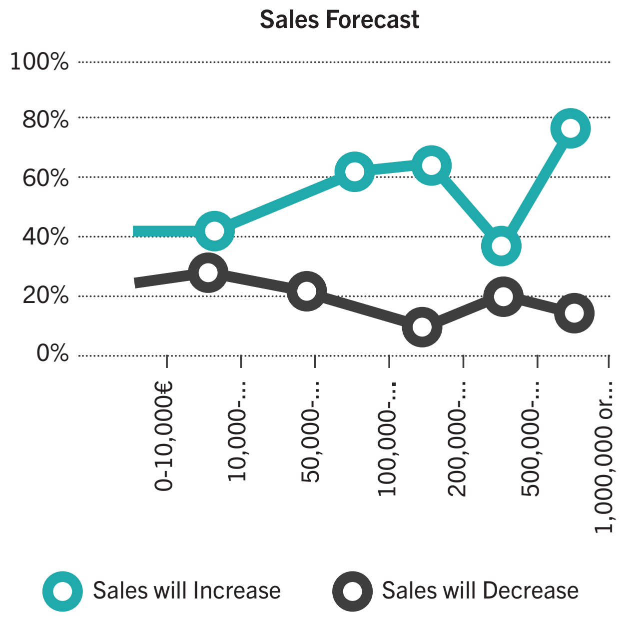
Moreover, small businesses appear to be most hit by the poor performance; it can clearly be seen that the percentage of

Figure 3.
Sales trend based on the size of businesses over the past four years



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

Figure 4.
Sales trend accross businesses over the next four years



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

businesses that have experienced an increase in sales is higher for bigger businesses. Conversely, almost half of small businesses claimed their sales have decreased, while this is progressively lower for larger businesses, with only about 20 percent of big businesses experiencing a decline in sales. This picture tells a story of bigger businesses thriving while small businesses struggle with sales. It means that business activity is being concentrated in a smaller number of larger firms rather dispersed throughout many small businesses. The risk of this is that it harms competition and that in the long run some firms gain a disproportionate advantage on the market. This can potentially, in the long run, be harmful to both big and small business as the economy suffers from lack of competition. This also explains why larger businesses are more optimistic about future sales. The results show an upward trend in business size and sales increase forecast tabulation and a downward trend in business size and sales decrease forecast (see Figure 3 and 4).

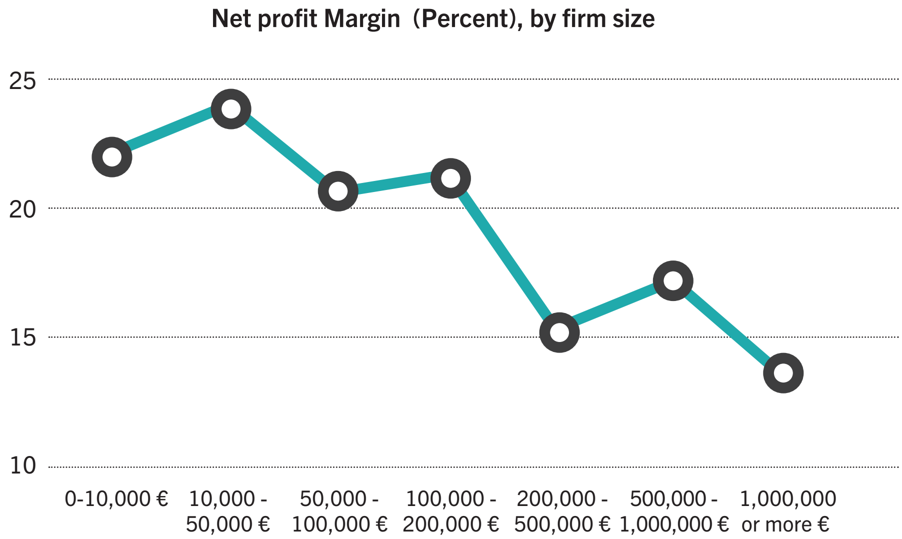
The average net profit margin for Kosovo businesses for the current period is 22.2 percent, with about 70 percent of businesses achieving a net profit margin between 8 and 36 percent. All regions were at a similar level in reporting the average net profit for businesses similar to theirs. A somewhat higher rate of profit is reported by businesses in Region West (24.8 percent). Smaller businesses, despite seeing a decline in sales over the last four years, and demonstrating less optimism about the sales forecast, actually make a higher net profit. A possible explanation for this is that they have smaller fixed costs and are more adaptable in stocking up. Larger businesses have more fixed costs, and although they are doing better in terms of sales trends, their profit margin is narrower. Of course, large businesses are more focused in increasing their capital rather than just short term profit. For more detailed results, see Table 7.

As expected, most sales happen within the region that businesses operate in. About 98 percent of businesses sell throughout Kosovo, while only a small portion of sales is exported beyond the borders. It is concerning that such a small portion of sales is comprised of exports. This is not surprising considering the dominance of the trade sector in the Kosovo economy. Most domestic demand is satisfied by the trade industry which imports products, and the rest from our small production sector. (for more detailed results, see Figure 5).

Currently, the average number of employees for businesses in Kosovo is 6.8. This is a substantial increase from 2009, when the average was 5.8. Region Centre has a disproportionately higher average, by virtue of having bigger businesses located there, especially in the capital city and neighbouring regions. The increase in the average number of employees does not mean that the unemployment decreased. It simply means that the companies that operated in these four years increased their staff; this provides no information about the companies that did not manage to stay in business. If manager expectations are any indicator, this average is to increase 2 points to 8.7 in the next four years - twice the increase for the last four years. In this regard, Region Centre

Table 7.
Net profit rate by firm size (in %)

	Net Profit Margin (Standard Deviation)
South	20.81% (12)
East	22.39% (14)
West	24.73% (15)
Centre	20.1% (12)
North	22.82% (14)
National Average	**22.21% (14)**



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

stands out from the national averages with an average of 9.19 employees per firm in 2009, 10.27 in 2013, and 11.29 in 2017. For more detailed results, see Table 8.

Salaries are an indicator not only of the labour supply, but also of the ability and willingness of companies to pay their employees decently. The average monthly salary that employers pay is €228.3 (Median: 200), and with little standard deviation. The private sector average salary falls very short from the latest (2012) figure for the average public sector salary of €372. The disproportion between private and public sector, driven mainly from the recent salary increases during election periods, might distort incentives of workers to find a job in the private sector.

The average salary increases with firms' size. Small companies with few employees are usually managed by the proprietor/partners, while bigger firms hire managers which bring the average salary up (for more detailed results and for visual representation, see Figure 6).

Most businesses, 52 percent, claimed that there has been no change in the level of salaries in the last four years. Very few of them, 12 percent, have decreased employee salaries, and more than a third, 35 percent, have increased employee salaries in the last four years. Those businesses which were forced to cut salaries, on average, cut almost a quarter of their employees' salaries, 24 percent. For the businesses which did progressively increase their salaries, the average increase was 17 percent. Region Centre and Region North businesses gave the most raises, both in terms of number of businesses that increased their salaries, and the percentage increase (for detailed results, see Table 9).

Table 8.
Average number of employees

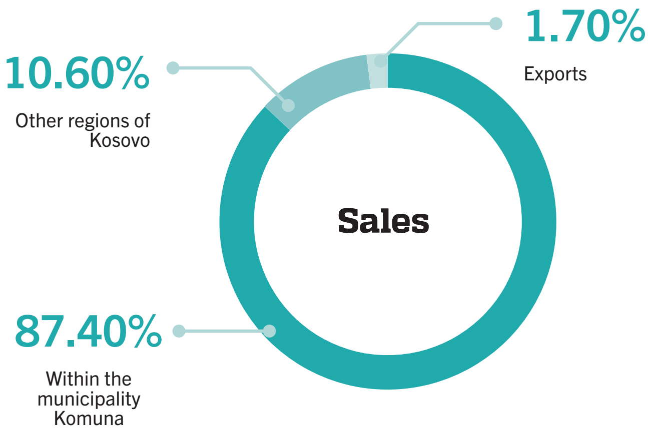
	2009	2013	2017 (forecast)
South	5.55	6.54	7.93
East	6.04	6.86	9.61
West	4.17	4.83	6.82
Centre	9.19	10.27	11.29
North	4.27	5.36	7.77
National Average	5.82	6.78	8.72

SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

Businesses were also asked to anticipate the future trend. Around 46.70 percent of the businesses stated that they will maintain salaries at the same level for the next four years; meanwhile 44.50 percent stated that salaries will increase for around 18 percent. Roughly 9 percent of the businesses surveyed believe that they will be forced to cut salaries in the next four years by around 20 percent. Region Centre appears to be the region with the highest percentage of businesses that expect to cut the salaries down (for detailed results, see Table 10).

Figure 5.
Destination of sales by region (in %)

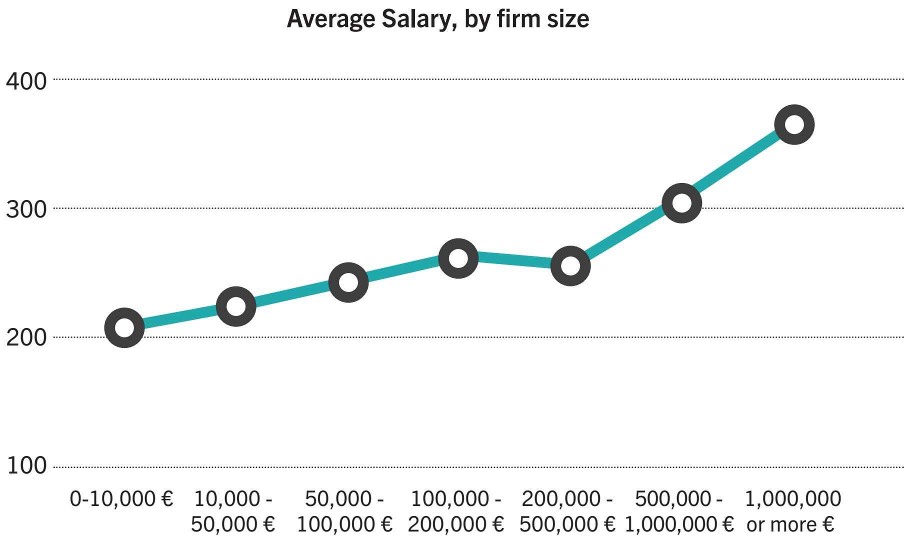
	Within the municipality	Other regions of Kosovo	Exports
South	89.9%	8.2%	1.9%
East	84.8%	12.3%	2.4%
West	90.0%	8.5%	1.0%
Centre	81.0%	16.2%	2.3%
North	91.1%	7.9%	1.1%
National Average	**87.4%**	**10.6%**	**1.7%**



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

Figure 6.
Average salary by firm size (in €)

	Average Salary (Standard Deviation)
South	224.4 (63)
East	228.9 (63)
West	227.1 (73)
Centre	252.1 (85)
North	208.8 (52)
Grand Total	**228.3 (70)**



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

The average monthly salary that business employers pay in Kosovo is

€228.3

The average net profit margin for Kosovo businesses for the current period is

22.2%

52%

of businesses claimed that there has been no change in the level of salaries in the last four years.

Table 9.
Salary trend over the last four years (in %)

	South	East	West	Centre	North	National Average
Increase	33.00%	33.00%	23.00%	43.00%	41.21%	**34.63%**
Percent Increase	16.97	17.1	14.02	19.71	15.47	16.89
Decrease	10.00%	12.50%	18.00%	15.00%	9.05%	**12.91%**
Percent Decrease	24.72	25	24.41	24.29	21.88	24.19
No change	57.00%	54.50%	59.00%	42.00%	49.75%	**52.45%**

SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

Table 10.
Salaries forecast for the next four years (in %)

	South	East	West	Centre	North	National Average
Increase	**29.00%**	**47.50%**	**47.50%**	**50.50%**	**48.00%**	**44.50%**
Percent Increase	17.14	21.61	18.37	18.02	15.82	18.28
Decrease	**8.00%**	**9.50%**	**8.50%**	**13.50%**	**4.50%**	**8.80%**
Percent Decrease	20.42	16.79	21.79	22.2	16.67	20.14
No change	**63.00%**	**43.00%**	**44.00%**	**36.00%**	**47.50%**	**46.70%**

SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

4.2 The general list of barriers to doing business

One of the main pillars of this study is to understand the barriers that businesses throughout Kosovo face. In order to do so, the survey asked 1000 business representatives across Kosovo to indicate the severity of 23 potential barriers to business entry and development in the past (2009), present (2013), and future (2017). Kosovo firms were asked to rate each obstacle in terms of intensity. Scores for each obstacle can range from a minimum of 20 up to a maximum of 100, with higher scores indicating greater level of negative impact to businesses.[4] Detailed definitions for each barrier are provided in Appendix Table A1.

The overall results of the survey indicate that '*high cost of finance*' topped the list of perceived barriers in 2009 with a score of 84.2, followed by '*corruption*' (82), '*unavailability of state subsidies*' (82.3), '*unfair competition'* (80.2), and '*non-functioning judiciary system*' (77.8). The findings also reveal that these five barriers lead the list of perceived barriers in the current period as well, albeit with a slightly lower intensity scores (around 1 point difference on average).

The outcomes for the future of the listed obstacles again show that the ranking of the five top barriers are perceived to remain unchanged; however, the results indicate that their intensity is expected to plummet. To be more specific, '*high cost of finance*' is expected to receive a score of 71.2; '*corruption*' – 71.7; '*unavailability of state subsidies*' – 70.1; '*unfair competition*' – 68.9; '*non-functioning court system*' – 67.9. Table 11 provides the ranking along with intensity scores for other barriers for each time period. Rankings of barriers across economic regions are provided in Appendix Table A2 – A6.

A notable feature of the general ranking is that – within four years – barriers such as '*lack of power availability*' and '*inadequate transportation infrastructure*' have improved the most, with first one scoring an intensity of 70 in 2009 versus 42.8 today; and the former scoring an intensity of 53.5 in 2009 and 44.5 today. Such strong improvement must be attributed to a set of government policies in the past two mandates which have targeted the infrastructure and energy sectors in Kosovo. The following sub-section groups the obstacles based on their nature, provides their results, and analyses them depending on their severity.

4 For each obstacle, the rank given by each enterprise (from 1-5) is multiplied by a weight equal to the rank (also 1 to 5), i.e., the more serious obstacles get a higher weighting). The weighted average is then divided by 5 (the maximum rank) and multiplied by 100 in order to convert the score into a percentage showing how close to the maximum ranking the average rank is. In other words, the score s was calculated as: s=(?wixi/n)*100/5, with wi=xi; s is the score for the intensity of each obstacle, w is the weight , x is the ranking given by each respondent and i=1,2,....,n stands for each respondent.

TABLE 11: THE RANKING OF BARRIERS TO DOING BUSINESS IN KOSOVO (IN INTENSITY SCORES)

SOURCE: AUTHOR'S CALCULATIONS FROM THE SURVEY DATA

Rank	Barrier	Currently	4 Years ago	4 Years from now
#01	High cost of finance	83.7	84.2	71.2
#02	Corruption	81.2	82.0	71.7
#03	Unavailability of state subsidies	81.1	82.3	70.1
#04	Unfair competition	80.1	80.2	68.9
#05	Non-functioning court system	76.2	77.8	67.9
#06	High tax rates	74.8	76.3	64.6
#07	Street crime, theft, and disorder	71.0	72.7	63.4
#08	Problems related to parking vehicles	69.8	70.8	62.8
#09	Small market size	68.8	67.8	60.1
#10	Limited access to finance	65.7	67.5	55.1
#11	High customs tariffs and heavy trade regulations	64.4	65.9	55.7
#12	Limited access to land	61.9	63.5	55.7
#13	Difficulties in collecting debts	60.3	61.1	51.3
#14	Lack of labour motivation	54.2	53.9	47.0
#15	Inefficient tax administration	52.2	54.6	47.0
#16	Unfavourable Labour Law	52.2	53.4	45.9
#17	Lack of educated and skilled workers	47.7	51.6	40.6
#18	Contract violations by customers and suppliers	47.4	49.2	41.3
#19	Inefficient business licensing and permits procedures	47.2	50.9	42.3
#20	Inadequate transportation infrastructure	44.5	53.5	38.5
#21	Extortion	44.1	44.9	40.1
#22	Lack of power availability	42.8	70.0	36.6
#23	Lack of telecommunication facilities	35.9	45.2	32.1

4.3 The detailed analysis of barriers to SME development

This sub-section compares and analyses the rated barriers, which are placed in eight groups, covering:(a) financial barriers, *'high cost of finance', 'limited access to finance',* and *'difficulties in collecting debts'*; (b) informality-related barriers, *'corruption', 'unfair competition',* and *'extortion'*; (c) fiscal barriers*, 'high tax rates'*, *'inefficient tax administration'*, and *'high customs tariffs and heavy trade regulations'*; (d) legal barriers, *'non-functioning court system', 'contract violations by costumers or suppliers'*, and *'unfavourable labour law'*; (e) institutional barriers, *'inefficient business licensing and permits procedures', and* '*unavailability of state subsidies'* ; (f) labour force-related barriers, *'lack of educated and skilled workers',* and *'lack of labour motivation'; (*g) infrastructural barriers, *'lack of telecommunication facilities', 'inadequate transportation infrastructure'*, and *'lack of power availability'*; and (h) other barriers, *'small market size'*, *'limited access to land'* and *'street crime, theft, and disorder'*.

a) Financial barriers

Financial barriers are perceived to be among the most pressing issues by the interviewed businesses. As stated previously, '*high cost of finance*' turns out to be the most problematic barrier in the list of barriers, mostly due to high interest rates charged by financial intuitions. It is more pronounced in Regions South and East. The other two, namely '*limited access to finance*' and '*difficulties in collecting debts*', fall somewhere in the middle of the list. No major differences are found across regions with regards to *'limited access to finance'*, while with respect to *'difficulties in collecting debts'*, it seems that Region North suffers most. It is worth noting that regardless of the fact that they are not perceived to have lessened over the last four years, businesses commonly expect the three barriers to be less challenging in the upcoming years.

> 'High cost of finance' is perceived to be a serious barrier for the creation and development of Kosovan SMEs."

The results of the survey suggest that '*high cost of finance*' is perceived to have been a very serious barrier for the creation and development of Kosovan SMEs in 2009. The intensity for this barrier turns out to be 84.2 in this period. The results also reveal that this barrier still stands at a very similar intensity, albeit with a slight decrease of 0.5 points (83.7). It appears that high levels of interest rates, around 13 percent on average, have constrained Kosovo businesses by not offering them chance to expand their business activity, to generate new jobs, and to reduce high rates of unemployment and poverty levels. To put it differently, it seems that this obstacle has negatively affected the capacity of Kosovo firms to invest in working capital and fixed assets – both of them very crucial for their development. The reason why interest rates stand high in Kosovo is in part due to the fragile judiciary system, lack of competition in the banking sector, and cadastral problems.

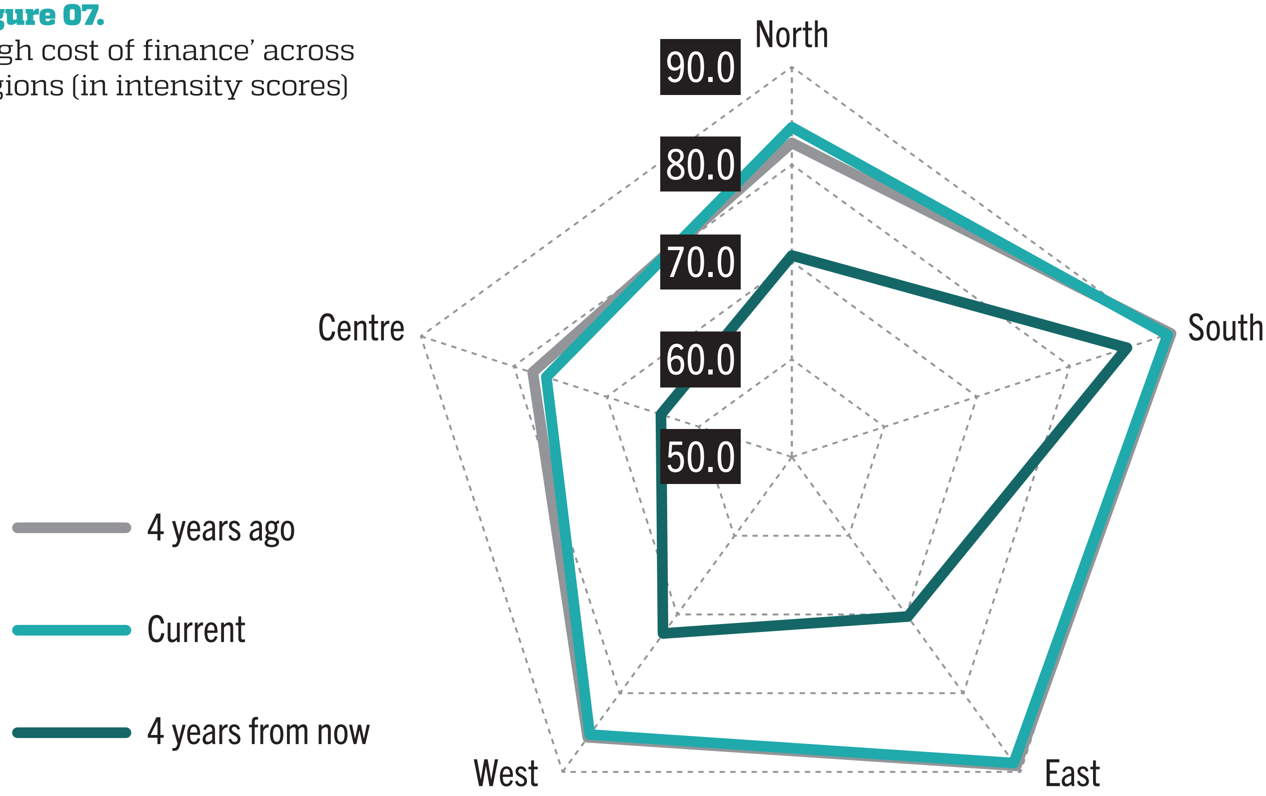
When asked about the expected severity of this barrier in the future (2017), the surveyed businesses appear to be much more optimistic. According to their responses, the intensity is expected to decline by as much as 12.6 points. This positive attitude towards the future of this constraint could be in part attributed to the credited guarantee scheme – which will be launched soon by the government of Kosovo. This scheme is meant to compensate financial institutions for the potential risk that might come from borrowers with a weak credit history or little collateral. That said, the interest rates will most likely move down, hence the optimistic expectations of the interviewed businesses for the future. It might also be that the general expectations of businesses for the future are that the business environment will grow less risky, and as a result of that the interest rates will also decrease.

Besides Region Centre, which resulted in considerably lower intensity values for this barrier vis-à-vis the average of Kosovo in 2009, other regions of the country have received intensity scores that do not differ much from the aggregated average. To be more specific, amongst close-to-the-average-regions, Region South appears to have been the "worst" region with an intensity of 90.9, followed by Region East (89.2), Region West (89.2), and Region North (82.2). On the other side, Region Centre, as said, is perceived to have stood noticeably better in comparison to other economic regions as it took an intensity of 78 points. The great deviation of Region Centre's intensity from the country's average is linked with the greater number of large firms that operate in this region, mainly in Prishtina, to which financial institutions apply more conventional/bearable interest rates. Nevertheless, it is of critical importance for smaller businesses, too, to have access to loans with lower interest rates, as these businesses, by being flexible and innovative, are seen as great contributors to private sector development.

Taking the regional data into account separately shows that businesses share slightly better perceptions for the current period (2013). Again, the order of regions is the same, starting with Region South being the worst in terms of intensity (90.6), and ending with Region Centre being the finest (76.4). Interestingly, the rate of change in the perceptions about the *'high cost of finance'* goes hand in hand with the changing rate of average interest rates for loans in Kosovo, indicating that businesses around Kosovo are very much aware of the changes occurring in the banking sector, especially when it comes to interest rates.

In 2017, with the exception of Region South, '*high cost of finance*' is projected to be less burdensome for the other four economic regions. The data show that the difference between the present results and the expected results in Region South is only 4.4 intensity points. In

Figure 07.
'High cost of finance' across regions (in intensity scores)



SOURCE: AUTHOR'S CALCULATIONS FROM THE SURVEY DATA

other words, over this period the intensity is expected to drop from 90.6 to 86.2 points only. On the other hand, the decrease for the other four regions varies from 12.3 intensity points in Region Centre to 18.5 intensity points in Region East. Of these four regions, for this period as well, Region Centre takes the lead with 64.1 points, followed by East (70.3), North (70.6), and West (72.4) (for visual representation, see Figure 7).

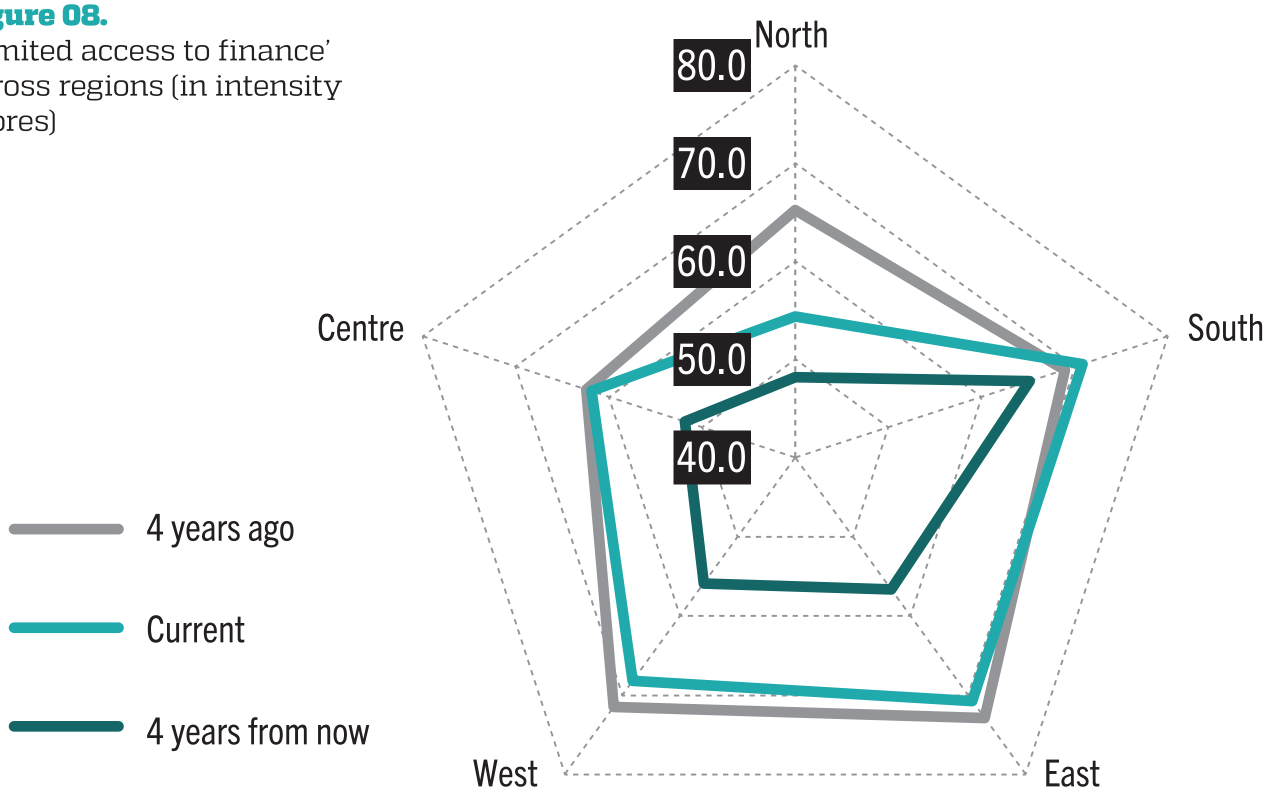
Although generally problematic, in comparison to '*high cost of finance*', '*limited access to finance'* is perceived to be a less pressing issue, especially in the first two periods. To be more specific, the collected survey data reveal that for the past and the present period, this barrier took a score of 67.5 and 65.2, respectively. These scores imply that there is a large portion of businesses that applied for a loan but got rejected, as well a great percentage of them that have not applied due to a fear of possible rejection. The reason why financial institutions are restrictive to businesses is, in part, linked to the inability of businesses to secure collateral that can be easily converted into cash. The intensity scores of this barrier are expected to decline to 55.1 in 2017.The positive outlook of this barrier could be attributed again to the aforementioned guarantee scheme, which will presumably make creditors more tolerant when it comes to their loan criteria.

When the outcomes of the five economic regions are compared, it appears that for the period of 2009, Region Centre and North fall under the country's average with 62.4 and 65.2 intensity points, respectively; whereas Region South, West and East, are positioned above it with 69, 71.5 and 72.8 intensity points, respectively. The results for the present period show that the same obstacle decreased marginally for Region Centre (61.9), Region West (68.2), and Region East (70.7), on the one hand, and quite substantially for Region North (54.4), on the other hand. Interestingly, Region South indicates an increased perceived intensity for 1.9 points in this regard, compared to the past period. This opposite trend could be attributable to a potential statistical error, provided the marginal difference.

Four years from now, the data reveal that '*limited access to finance*' is expected to improve (decrease intensity) significantly in all economic regions, apart from Region South. Region South, for instance, is rated with the highest intensity , at 65.1 points, compared to Region East with 56.7, Region West with 55.9, Region Centre with 51.8, and Region North with 48.2 points (for visual representation, see Figure 8). One potential explanation for the great intensity in Region South could be a link to the fraudulent behaviours of some customers occurring recently in this region – a fact that makes financial institutions become more restrictive towards borrowers.

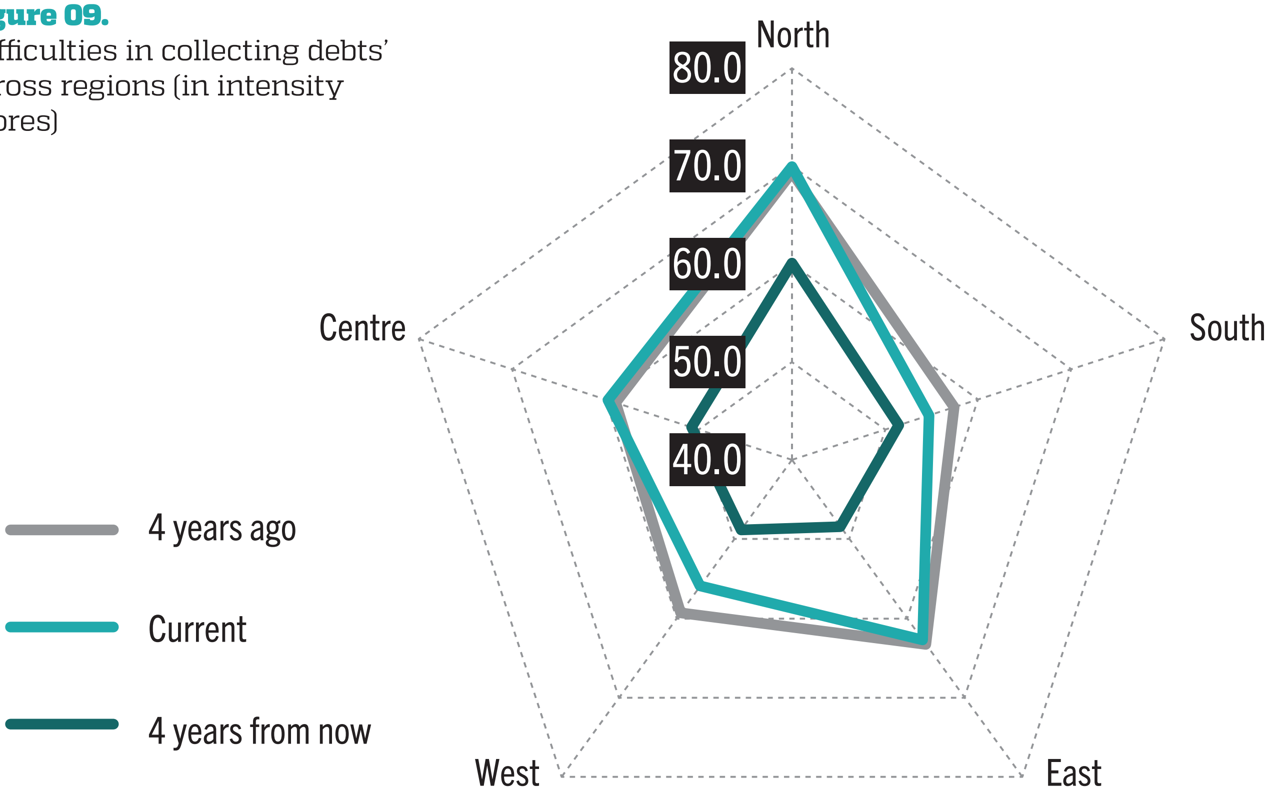
'*Difficulties in collecting debts'* turns out to be less of a concern for Kosovo businesses for all periods included in the survey. More

Figure 08.
'Limited access to finance' across regions (in intensity scores)



SOURCE: AUTHOR'S CALCULATIONS FROM THE SURVEY DATA

Figure 09.
'Difficulties in collecting debts' across regions (in intensity scores)



SOURCE: AUTHOR'S CALCULATIONS FROM THE SURVEY DATA specifically, the data for 2009 suggest that the interviewed businesses rated this obstacle moderately, giving it a score of 61.1. For the following period (2013), businesses improved their rating slightly, giving this barrier an intensity of 60.3 points. Four years from now, the effect of *'difficulties in collecting debts'* on SME development is expected to be less significant according to the surveyed businesses, as the intensity is expected to drop to 51.3 points. If this obstacle will be of a lower intensity, as businesses in the survey predict, SMEs will have more money at their disposal that could be devoted to investments in new technologies, and to the implementation of innovative ideas, which would consequently improve the overall performance of SMEs. In other words, by being assured that the inflow of cash will be predictable, firms will most probably increase their business activities as well as become much more dynamic in terms of generating new sales.

When this barrier is examined across the five economic regions, it turns out that the businesses of Region North have been confronted with more difficulties in collecting debts vis-à-vis the other four economic regions. The intensity of this obstacle in this region is observed to have been around 13 present higher than the country's average (61.1) in 2009. The gap becomes even greater for 2013 and 2017, notably 16 and 17 percent higher than the country's average, respectively. The absence of a functional legal and rule of law system, as a consequence of inter-ethnic tensions, might be the reason why businesses of this area struggle more in collecting their debts. The weightiness of this barrier in other economic regions, on the contrary, does not deviate much from the country's average. Region South appears to have the lowest intensity (57.4 points in 2009; 54.7 in 2013; and 51.4 in 2017), whereas Region Centre the highest, behind Region North (58.9 in 2009; 59.7 in 2013; and 50.8 in 2017) (for visual representation, see Figure 9).

> **'Corruption' and 'unfair competition'** are ranked among the top five most severe barriers.

The general downward trend of intensity in this barrier is most probably associated with the establishment of the Kosovo Permanent Tribunal of Arbitration – which serves as an alternative/non-bureaucratic method of resolving business disputes, including disputes about business-related debts. It also might be related to the fact that the Ministry of Justice has issued 15 licenses for private bailiffs (Professional Court Judgment Enforcement Officers), whose role is to help Kosovo courts resolve business disputes.

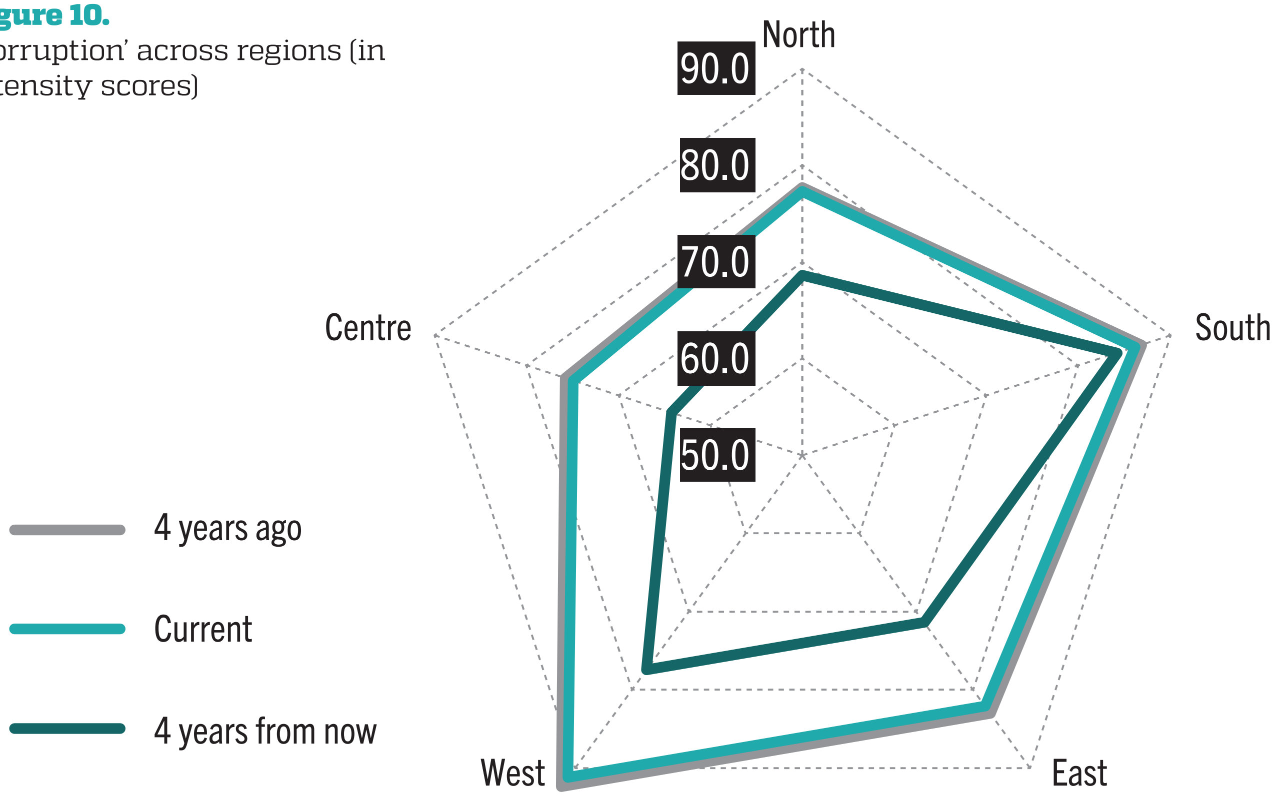
b) Informality-related barriers

Informality-related barriers turn out to be among the most serious issues faced by the surveyed businesses. Of the three barriers of this group, '*corruption*' and '*unfair competition*' are ranked among the top five most severe barriers. Their significantly negative impact on the ease of doing business has remained almost unchanged compared to 2009. The situation seems to be quite similar in all economic regions. Both of them are substantially harmful to businesses as they negatively affect operating costs, increase risk and impede the healthy competitiveness of the market. Over the next four years, these two barriers are expected to decline, albeit not to a level that can be considered not harmful to businesses. On the other hand, despite people's perceptions that extortion is a wide spread phenomenon in Kosovo, businesses in general perceived that it was not a very pressing issue in any of the periods. However, unlike businesses of other regions, businesses of Region West appear to be confronted by this informal practice far more frequently.

Among informality-related barriers, '*corruption*' has been considered as the most severe barrier over the last four years. The results of the survey indicate that this obstacle is rated with 82 intensity points for the period of 2009. The interviewed businesses considered that this barrier has not lessened much, as they indicated only 0.8 points decrease for the present period. The future seems to be encouraging in this respect. Specifically, business responses suggest that the impact of '*corruption*' on SME's in 2017 will be lower compared to the present period for roughly 13 percent. Running a company is essentially a private sector activity oriented towards suppliers and customers, but business activities also require frequent interactions with public officials for various purposes such as customs clearing, building permits, tax and labour inspection etc. The afore-mentioned figures reveal that over the last four years, businesses have been confronted with corrupt public officials and/or inefficient regulations that have made bribery an inevitable act necessary to get things done. In other words, these scores imply that businesses have to set aside a large portion of their resources to pay direct private benefits to public officials in order to secure certain government services. These bribes can be considered an additional 'unofficial tax' to businesses, and consequently an additional burden that prevents them from growing. It is noteworthy to mention that corruption is acknowledged as a widespread phenomenon by every credible source, not only by those capturing the perceptions of businesses. For instance, in 2013 Kosovo scored a Corruption Perception Index (CPI) of 33 (0 – most corrupt; 100 – least corrupt) and was ranked 111^{th} in the rankings of 177 countries released by Transparency International – that is worse than Macedonia which is ranked 67^{th}, Montenegro (also 67^{th}), and Serbia (72^{nd}).

When the five economic regions are analysed with regards to '*corruption*', it appears that Region West and South have had the highest intensity over the past four years, in comparison to other economic regions. This barrier took an intensity of 92.4 points for the period of 2009 in Region West and 86.9 points in Region South. These intensities indicate that '*corruption*' in these two regions is more prevalent compared to the other three regions. On the other

Figure 10.
'Corruption' across regions (in intensity scores)



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

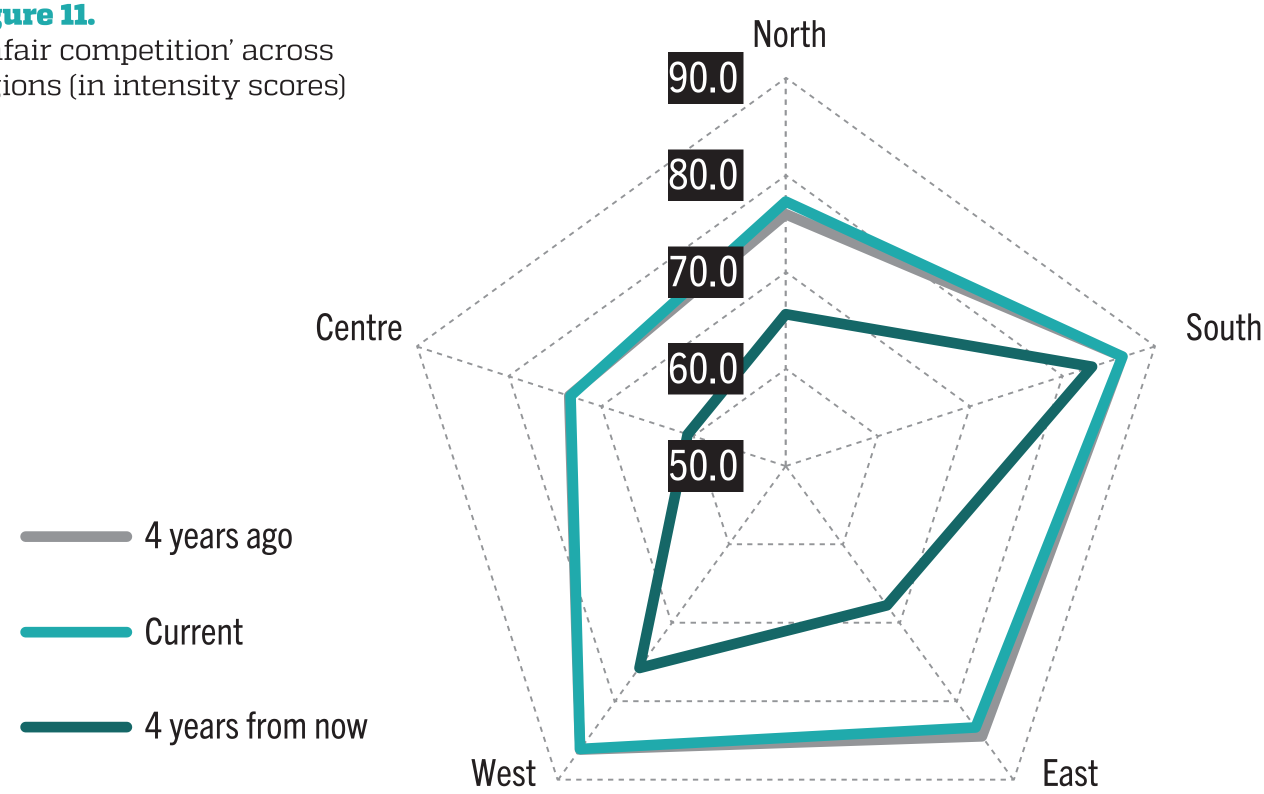
hand, of the other three regions, the businesses of Region Centre seem to have been less constrained by '*corruption*' in 2009 as this barrier received a score of 75.8. The other two regions fall in between, with Region East getting 83 points and Region North 77.7 points. The intensity of '*corruption*' decreased for 2013, but the decrease was almost negligible (around 1 intensity point in each region), indicating that businesses are still struggling with this barrier.

Four years from now, the intensity of this barrier is expected to decrease, compared to previous periods, albeit at a very slow rate (Region Centre – 64.2; Region North – 68.6; Region East – 71.4; and Region West – 77.4). Only Region South makes an exception in this regard, since the interviewed businesses expect it not to differ significantly from the present period (84.2 intensity points) (for visual representation, see Figure 10). These generally positive expectations might be attributable to the local elections held at the end of 2013, which brought new people into power, generally perceived as less corrupt and more willing to fight corruption. In addition, the positive outlook might stem from the fact Kosovo has recently strengthened its legislative framework, launched investigations, and strengthened its cooperation with EULEX (Progress Report, 2013) – each an important action in the fight against corruption.

> "Unlike businesses of other regions businesses of Region West appear to be confronted by extortion far more frequently."

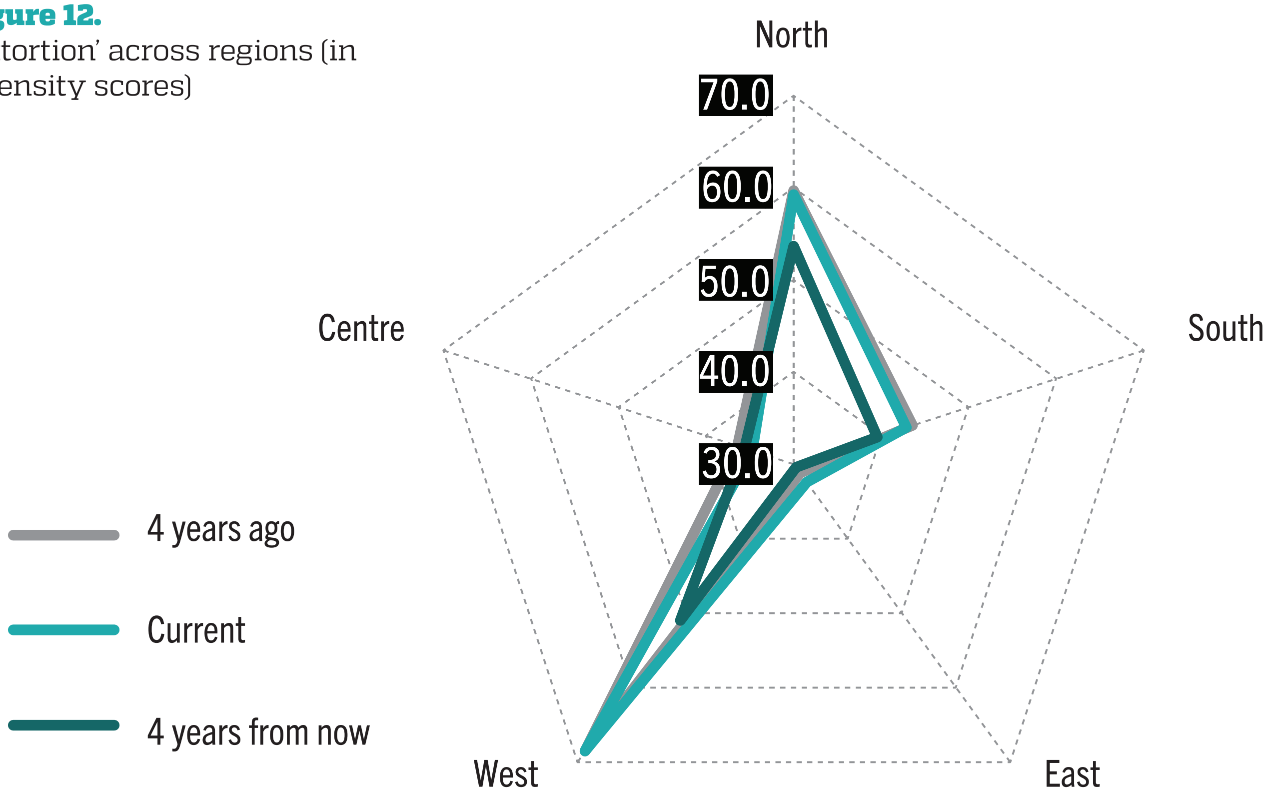
'*Unfair competition'* caused by tax evasion and other informal practices is very harmful for the development of private sector. It creates such a climate that prevents new, legal, and innovative firms from growing and creating new jobs in the market. Additionally, it sends concerning signals to foreign investors, deterring them from investing in Kosovo. Unfortunately, it seems that this phenomenon is very pronounced in the Kosovo market. The results reveal that '*unfair competition'* has significantly constrained the growth and development of businesses in the last four years in Kosovo. The businesses surveyed placed a very high intensity to this barrier by rating it with 80.1 points for the past period and 80.2 points for the current period. On the other hand, for the period of 2017, according to business respondents, the intensity of this obstacle is expected to decrease to 68.9 points. The generally high intensity across years might be partially due to the low number of inspectors, weak punishments, and due to the general culture of doing businesses in the country. According to the World Bank (2012), politicians have a stake in the prevalent unfair competition through direct inclusion, for the purposes of pushing forward their personal interests held in various Kosovo businesses.

Figure 11.
'Unfair competition' across regions (in intensity scores)



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

Figure 12.
'Extortion' across regions (in intensity scores)



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

The intensity of this barrier turns out to be different across the five economic regions. Of all regions, Region Centre is rated with lowest intensity for periods 2009 and 2013, 73.5 and 73.4, respectively, which is around 8 percent less than the national average for each corresponding year. This might be partly due to the larger number of inspectors working in this region. Conversely, Region South stands worst in the country when it comes to projections for 2017, with an intensity of 86.5 points for both periods – which is about 8 percent above the average. The other regions fall in between, with very slight differences in intensities for the first two periods – around 1 intensity point difference.

The businesses that expect this barrier to decrease the most in 2017 are those of Region Centre, who rated it with 15.5 intensity points less, followed by Region East with 12.8, Region North with 11.6 and Region West with 10.4. Not so optimistic about the improvement of this barrier are the businesses of Region South, who expect it to drop for 3.3 intensity points only (for visual representation, see Figure 11).

Data for the three periods covered by the survey show that Kosovan SMEs, on average, have not been prone to '*extortion*' and will not be in the future. The businesses, more precisely, gave 44.9 intensity points to this potential barrier for 2009, 44.1 for 2013, and 40.1 for 2017. Regardless public rumours about the high level of extortion that Kosovo businesses are asked to pay, businesses themselves appear to have opposite perceptions at least in this survey.

When the data were disaggregated based on the five economic regions, it turns out that businesses of Region West have dealt with substantially more extortion relative to the national average and so will in the future. Notably, the difference of intensity between Region West and national average results in roughly 53 percent for 2009, 55 percent for 2013, and about 27 percent for 2017 (for visual representation, see Figure 12). It seems that the competent bodies in this region, those of Peja and Gjakova in particular, have been failing to provide the necessary security to businesses; therefore, threats of violence, such as extortion, have become a regular practice to extract payments from businesses belonging to this region, thus making it hard for them to develop their operating activities.

c) Fiscal barriers

Fiscal barriers are thought to be moderately challenging by the interviewed firms. Apart from '*high tax rates',* which is ranked 6th in the general ranking of barriers, '*high customs tariffs and heavy trade regulation*' and '*inefficient tax administration'* ended up in the middle places (1lth and 15th, respectively) of the list. Region Centre stands, to some extent, better vis-à-vis other regions. The three fiscal barriers are believed to be of a lesser intensity four years from now. Only businesses of Region South make a distinction in this regards, especially when it comes to *'high tax rates'* and *'inefficient tax administration'*; they appear to be not so optimistic about the future of these barriers compared to other regions.

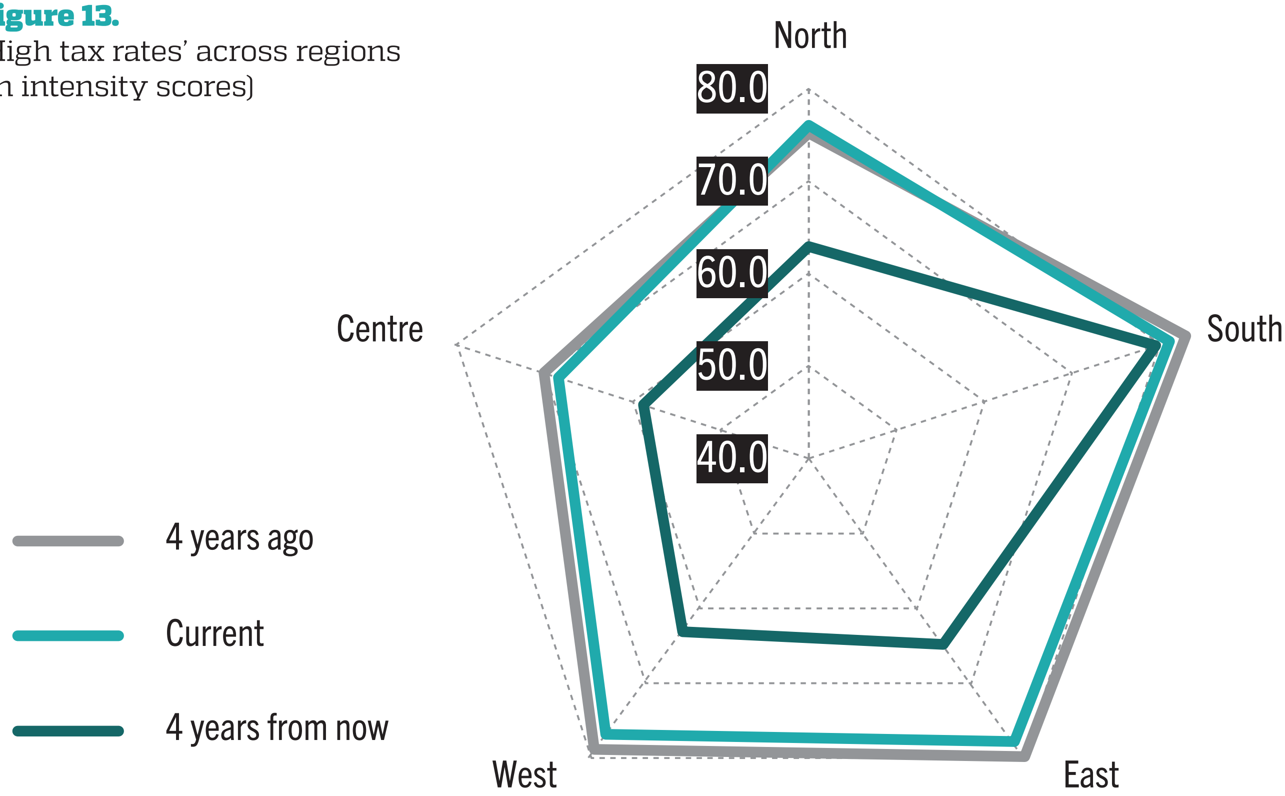
'*High tax rates'* tops the list of fiscal constraints in all the periods taken into account in this study. This fiscal obstacle received an intensity score of 76.3 for the period of 2009, dropping slightly to 74.8 in the next period (2013). This marginal decrease might be partially associated with the reforms implemented at the end of 2009 that halved taxation on profits – but not sufficiently enough to improve perception as several other taxes have increased during this period (amongst others VAT). For 2017, the businesses expect, though ambitiously, that this barrier will further decrease by roughly 14 percent, receiving an intensity score of 64.4. The high intensity scores appearing on the survey results are in part due to the arbitrary interpretation of obscure tax regulations, selective tax levies and associated extortion by the tax administration. These "dishonest" practices were increasingly present, especially over the recent years as the Government has felt pressure to meet its revenue forecasts in order to be able to bear the heavy involvement in capital investments.

A breakdown of the data for '*high tax rates*' by regions reveals that for 2009 the intensity scores varied from 70.1 in Region Centre to 82.9 in Region South. Region North leans more towards the lower value with 72.5; whereas Region East (79.8) and Region West (78.9) leans towards the upper value. Four years after (in 2013), it appears that the severity of this barrier has not lowered as the intensity scores decreased negligibly; not more than 2 points in each economic region, indicating that it is still a major challenge obstructing the development of firms. In 2017, however, the severity of this barrier is forecasted to lessen in four economic regions, besides Region South (for visual representation, see Figure 13). The pessimistic expectations of the businesses of Region South suggest that the unfair practices resulting in indirect taxes are sort of deeply embedded phenomena which cannot be eradicated very easily.

Although the tax administration is thought to be rather inefficient in general, the listed barrier of '*inefficient tax administration*' is considered not so serious from the perspective of businesses for all periods. The intensity scores reveal that, in 2009, it was deemed to have stood at 54.6, followed by a decrease of 52.2 in 2013. Four years from now, it is anticipated to decrease further, receiving an intensity of 47 points.

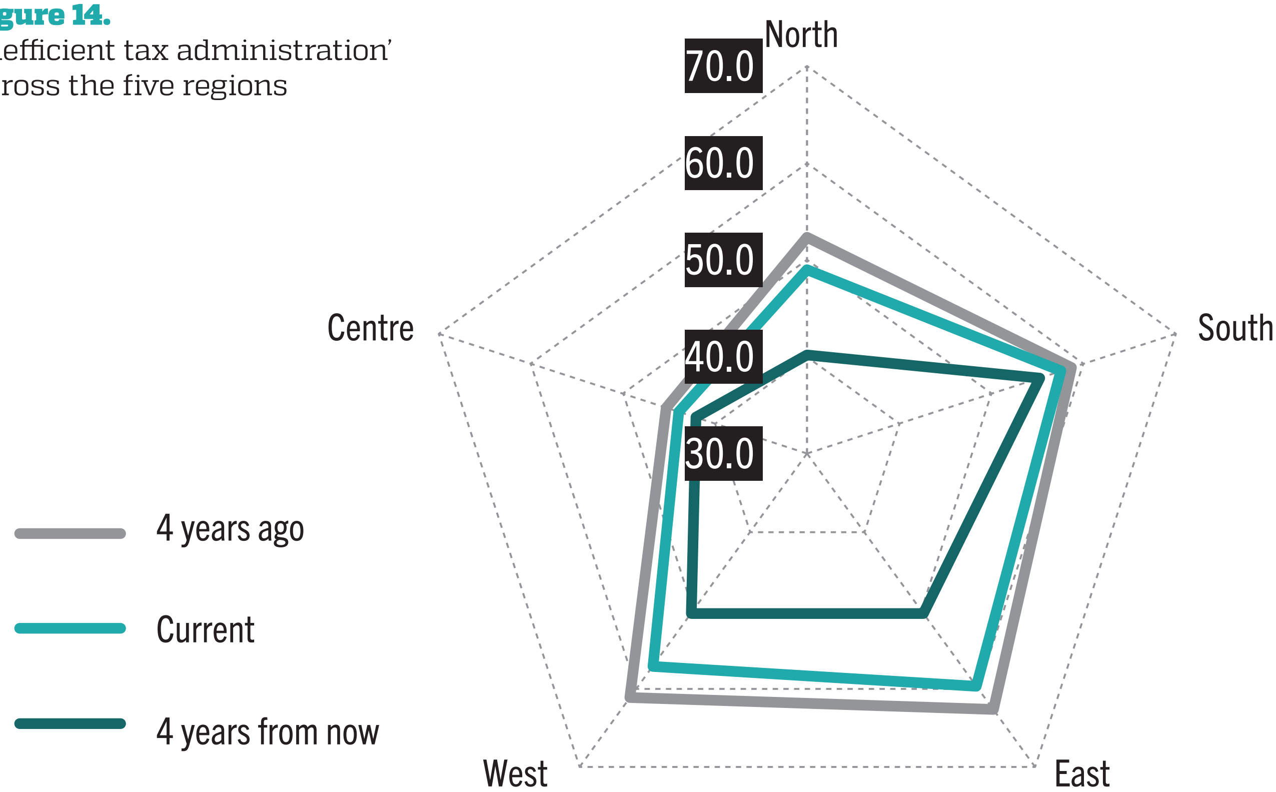
A breakdown of results by region reveals that the impact of this barrier on businesses varies from Region Centre, where it receives the lowest intensity scores in each time period (45.3 for 2009, 43.9 for 2013, and 42.1 for 2017) to Region East, where it receives the highest intensity (62.7 for 2009, 59.7 in 2013, and 50.4 in 2017). Region West and Region East stand close to Region South in terms of intensity scores, although the change of severity over years is not very significant in the latter. Region North, on the other hand, is positioned closer to Region Centre in this aspect; meaning that this barrier has been less of a concern for their businesses, and so will be in the future (for visual representation, see Figure 14).

Figure 13.
'High tax rates' across regions (in intensity scores)



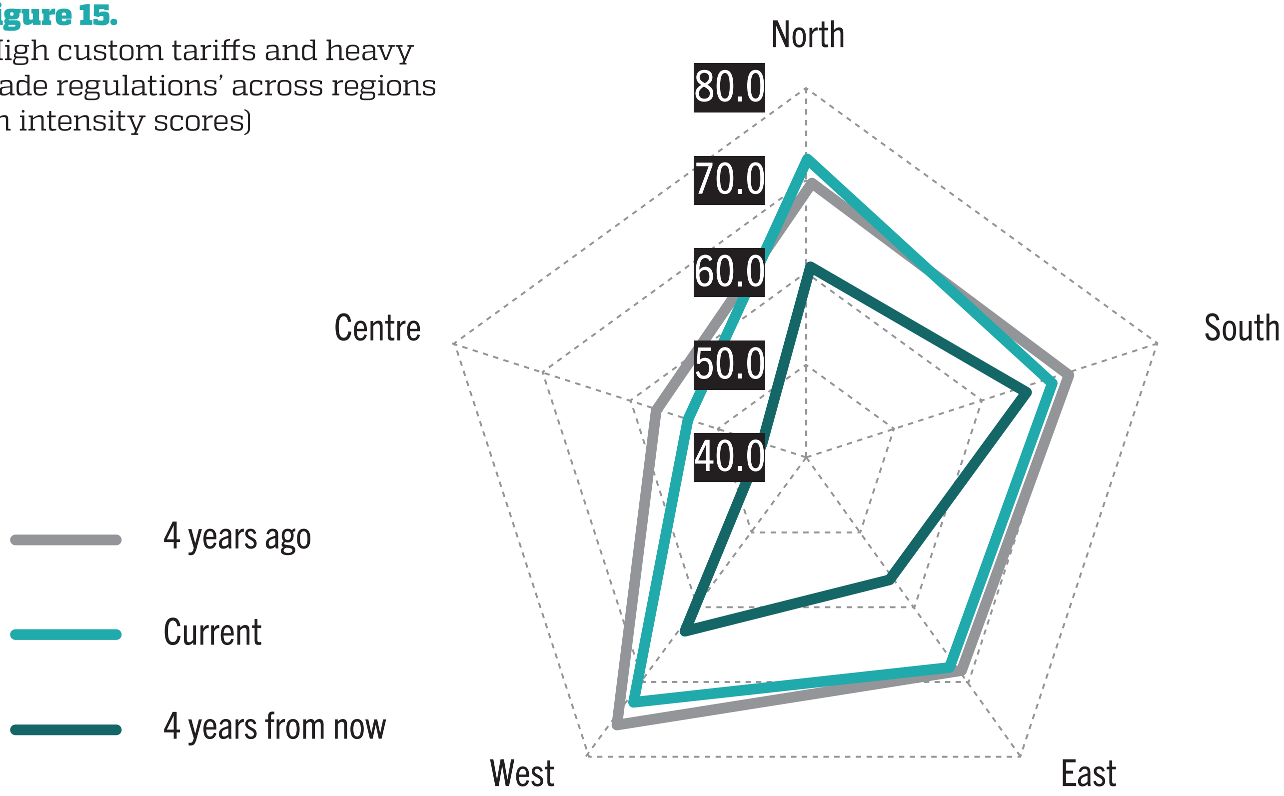
SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

Figure 14.
'Inefficient tax administration' across the five regions



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

Figure 15.
'High custom tariffs and heavy trade regulations' across regions (in intensity scores)



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

'*High custom tariffs and heavy trade regulations*' results in a moderate challenge to businesses in all periods of the study. More specifically, the interviewed businesses throughout Kosovo gave it an intensity of 65.9 points for 2009 and slightly less weight for 2013, namely 64.4. This score demonstrates that costs associated with clearing imports, application of import regulations, foreign barriers to entry, and other countries' tariffs, be it for political or economic reasons, impede the development of Kosovo firms. Exporting firms in Kosovo (those that export at least 10 percent of their products and/or services) rated this constraint with around 10 intensity points more for 2009 and 2013. This is intuitive considering the fact that exporting firms are more likely to deal with obstacles posed by custom officials, and thus more likely to bear the costs associated with it. On the other hand, the interviewed businesses considered that this currently perceived obstacle will be less serious four years from now, giving it an intensity of 55.7 points.

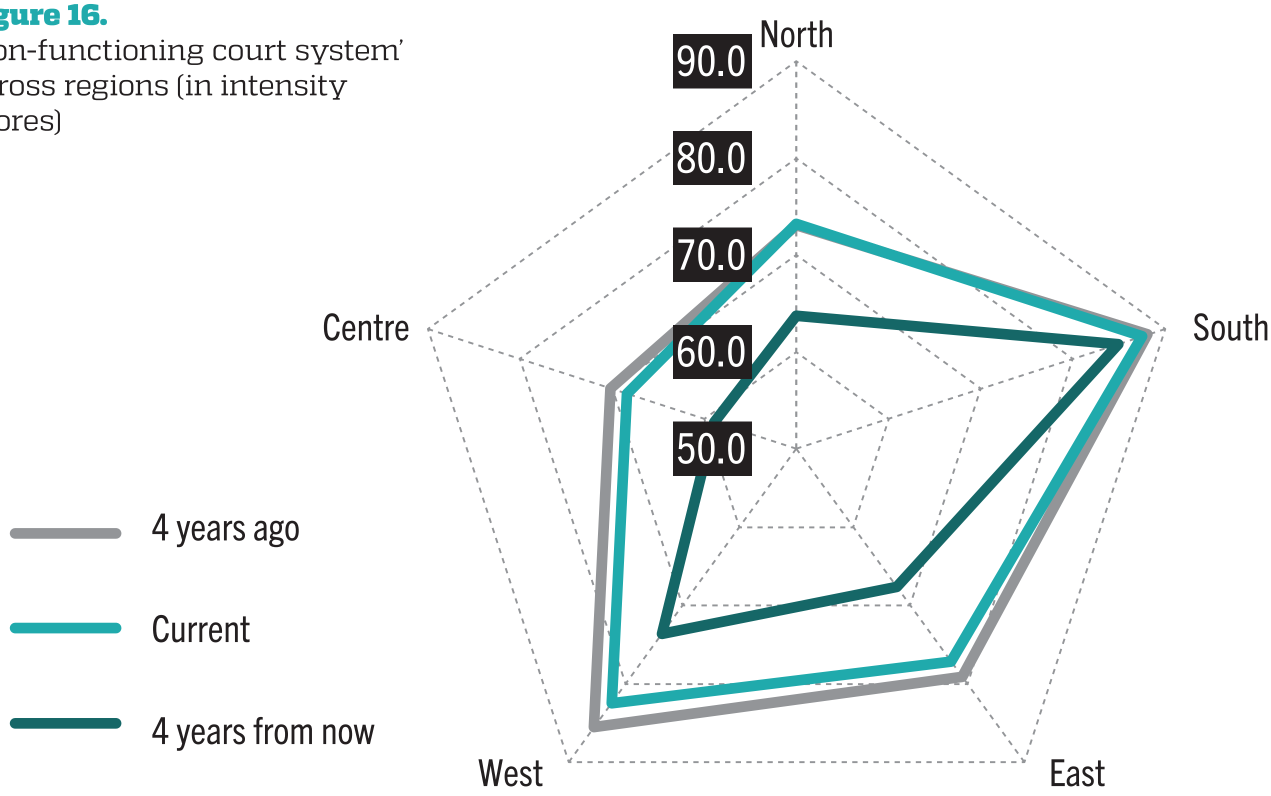
When results are disaggregated based on region, it turns out that four of them, namely North, South, East, and West, receive higher intensities than the national average for each period included in the study. Only Region Centre stands below the national level in this regard. Of the areas standing above the national average, Region West suffers most from this obstacle, taking 75 intensity scores for 2009, 72.6 for 2013, and 63.2 for 2017. On the other side, Region Centre receives 56.8 intensity points in 2009, 53.9 in 2013, and 45.4 in 2017. An interesting result appears in Region North. In contrast to other regions, the intensity scores in Region North increase from 2009 to 2013 by 3 percent, from 69.8 and 72.3. It seems that the deterioration of trade relations between Kosovo and Serbia, caused by the attempts of the former to impose reciprocity measures in 2011, more significantly affected the businesses of this area (for visual representation, see Figure 15).

d) Legal barriers

Besides *'inefficiency of courts system'* which is deemed to be a very problematic barrier (5th in the list of general barriers), *'unfavourable labour law'* and *'contract violations by customers or suppliers'* are perceived to be less serious by businesses (apart from those of Region West), thus ending up in the lower part of the general ranking. Despite the fact that the intensities of these barriers have not changed much over the last four years, in 2017 the three barriers in all regions besides Region South are projected to receive lower intensity scores; in other words, they are expected to be less pressing issues.

The court system is perceived to be unreliable and unsatisfactory. The results of the survey suggest that *'non-functioning court system'* tops the list of legal barriers with an intensity score of

Figure 16.
'Non-functioning court system' across regions (in intensity scores)



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

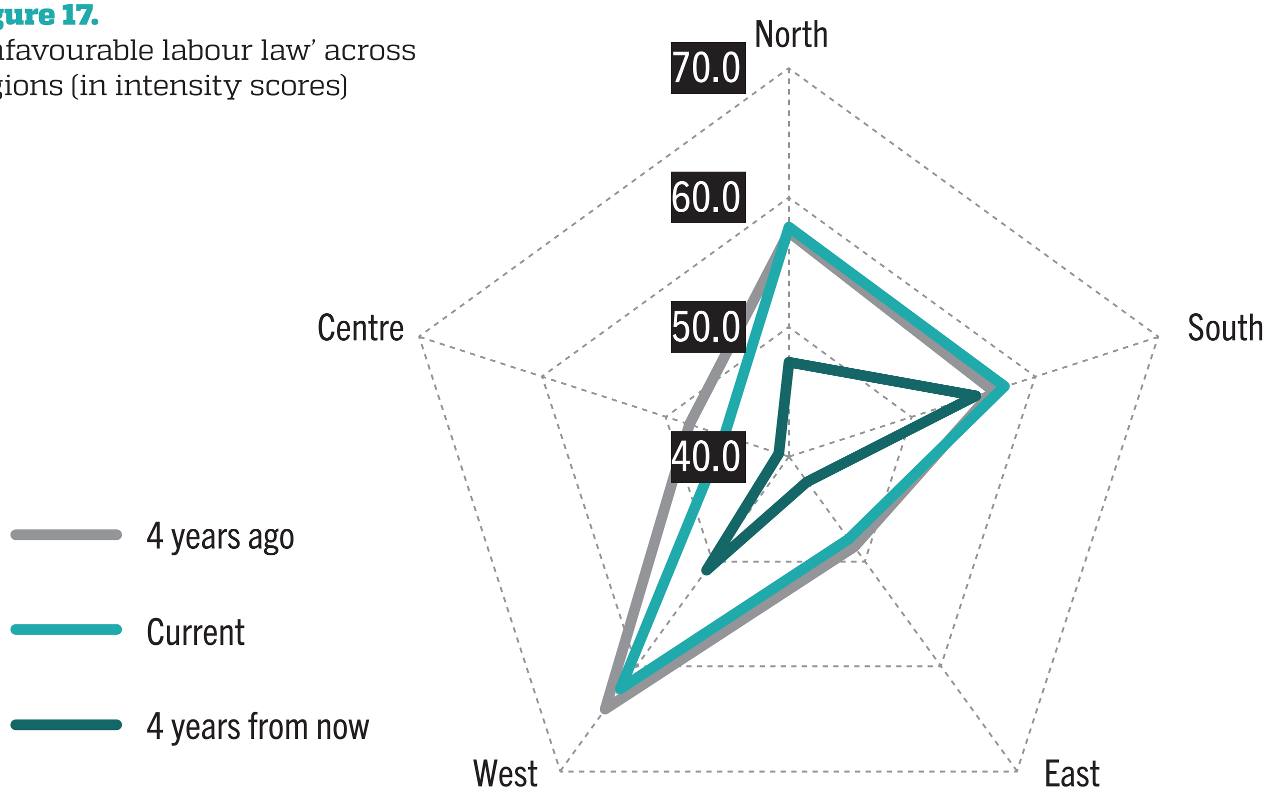
77.8 for the period of 2009 and a slight improvement, less than 2 percent, for the period of 2013. This score indicates that Kosovo courts are not functional enough to ensure the security of property and the enforcement of contracts, which are of a crucial importance for investment, trade, and the overall growth of the private sector. To be more specific, the Commercial Court is to be blamed primarily, considering that it is the primary institution responsible for resolving economic and commercial disputes between legal entities. A report conducted by the US Department of State (2013) confirms this weaknesses prevailing in the Kosovo court system. According to this report, one of the main constraints to dispute resolution is the backlog in the entire court system. Compared to the current period, the expectations of the interviewed businesses about this barrier in the next four years appear to be much more positive (67.9 intensity points). This is in part due to the fact that recently established commercial arbitration has started to be widely used by businesses as a substitute for courts.

> The businesses of Region South seem to be mostly affected by the inefficiency of courts.

The data vary across the five economic regions. The businesses of Region South seem to be mostly affected by the inefficiency of courts. They rate 'non-functioning court system' with scores of 88.1 and 87.5 for the period of 2009 and 2013, respectively. Surprisingly, unlike in other cases, the businesses of this region turn out to be less optimistic regarding 2017 as they gave a score of 84.9 points. It appears that businesses in this region are disappointed to the extent that they believe that no reform could be impactful enough to improve the deteriorated system in the near future. On the other hand, the businesses of Region Centre turn out to be the least affected by this obstacle compared to other regions. The data show that this obstacle is ranked with a score of 70.2 for 2009, 68.4 for 2013, and 58.9 for 2017. Region West leans towards the upper assessment with an intensity of 85.5, 82.4, and 73.6 points for 2009, 2013, and 2017, respectively; meanwhile Region North leans towards the lower outcome with an intensity of 73.1, 73.2., and 63.7 points for 2009, 2013, and 2017, respectively. Region East falls close to the national average for each period (for visual representation, see Figure 16). According to these results, creating an efficient court system remains one of the biggest barriers to the SMEs operating in Kosovo.

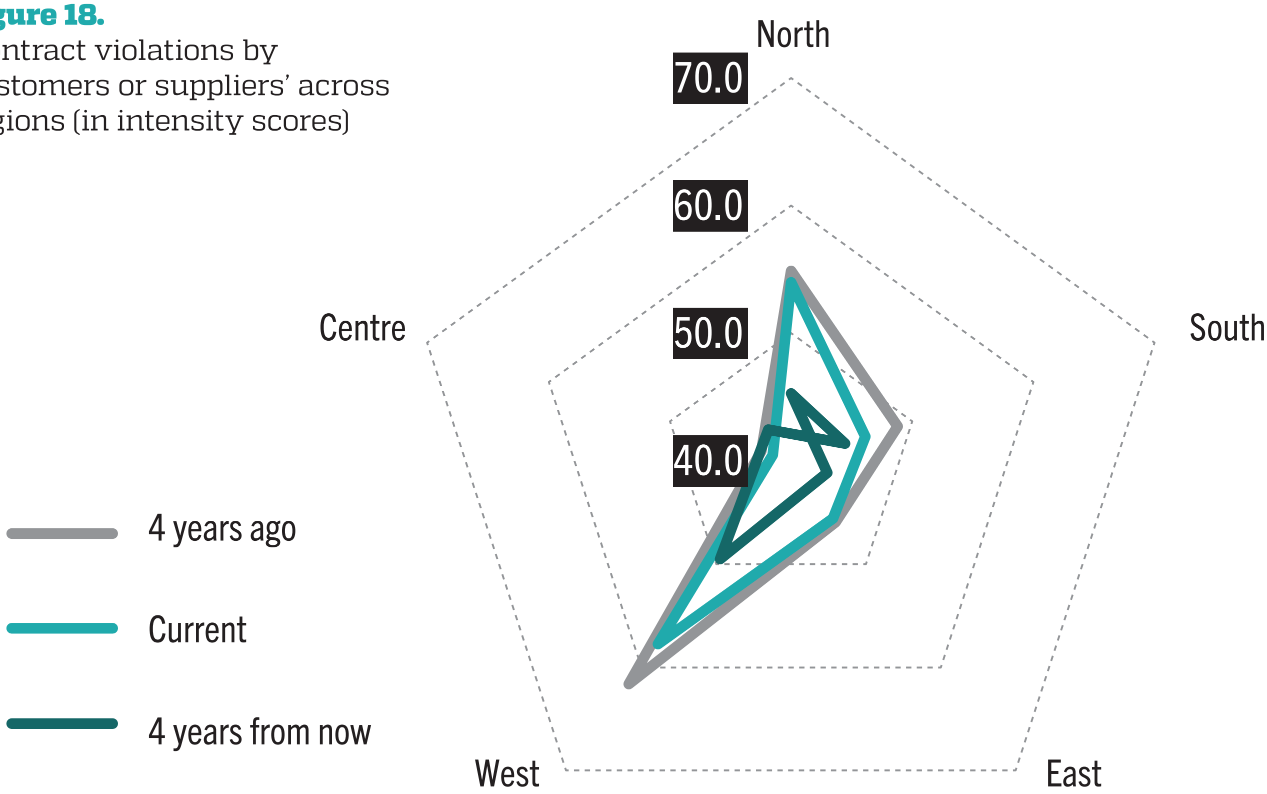
Unlike '*non-functioning court system*', '*unfavourable labour law*' presents a very minor obstacle to businesses. The intensity for 2009 and 2013 is 52.3 and 53.4, respectively. Although the Kosovo labour law has been prone to criticism, the results seemingly

Figure 17.
'Unfavourable labour law' across regions (in intensity scores)



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

Figure 18.
'Contract violations by customers or suppliers' across regions (in intensity scores)



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

show that Kosovo firms have not been affected that much. However, this does not mean that they are satisfied with the legal framework. The low scores might be a result of the labour inspectorate that failed to guarantee its enforcement due to: the low number of inspectors, insufficient number of cars, lack of communication technology, and insufficient budget (GAP Institute, 2012). The interviewed businesses expect the severity of this barrier to drop four years from now by about 14 percent.

When it comes to regions, the results also show that the barrier of *'unfavourable labour law'* do not present any severe obstacle to the interviewed SMEs. Besides the businesses of Region West, which consider this barrier to have had a score of 64.1 in 2009 and 62.1 in 2013, the businesses of other regions give it a score below 60 in all periods (for visual representation, see Figure 17).

The listed barrier of '*contract violations by customers or suppliers*' is deemed to be less problematic relative to the two above-mentioned legal barriers. It receives an intensity of no more than 50 points in all periods covered in the study. Because the market where Kosovo firms operate is very small, it seems that businesses have created high-trust relations with their suppliers and customers – a fact that, to some extent, substituted the need for contracts, hence the low score. However, it is worth mentioning that trust and informal relations would not be able to substitute contracts if Kosovo seeks to grow its markets.

A breakdown of the results by region reveal that firms of Region North, South, East, and Centre stand better relative to firms in Region West. On the one hand, the intensity for the former four regions is less than 55 for all time periods. On the other hand, the businesses of Region West find contract violations to be midway way between being a minor obstacle and a moderate obstacle to their operational activities. More specifically, the interviewed firms perceived this obstacle to have had a score of 61.6 in 2009 and 57.9 in 2013, but they expect it to move down to 49.5 in 2017 (for visual representation, see Figure 18).

e) Institutional barriers

The two institutional barriers are rated as such so that they end up at two opposite poles of the general ranking list: on the one hand, *'unavailability of state subsidies'* is perceived to be amongst the most serious barriers, whereas *'inefficient business licensing and business permits'* among the least serious ones. The former improved somewhat moderately since 2009 and it is expected to improve considerably in 2017, apart from Region South, where projections of businesses are not so optimistic. The positive change of the latter over the three periods of the study is of a similar magnitude, with no major differences across regions.

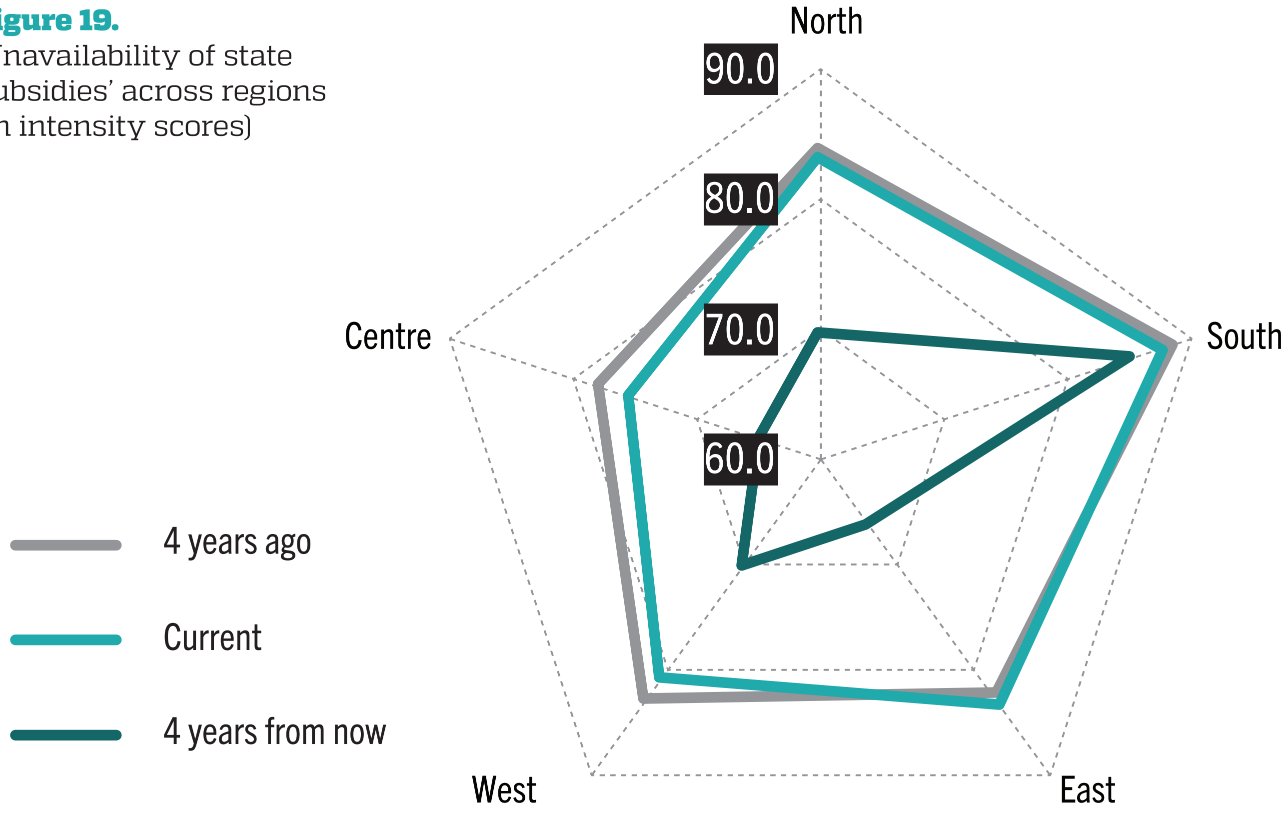
The results of the survey suggest that '*unavailability of state subsidies*' was perceived to be a very severe obstacle for Kosovan SMEs in 2009. The intensity score for this barrier resulted in 82.3 points in this period. In addition, the results reveal that the severity of this barrier has not decreased notably since that time. It receives a score of 81.1. When asked about the severity of this barrier four years from now, the interviewed firms appear to more enthusiastic compared to now. According to their responses, the intensity is expected to decline to 70.1. The high intensity of this barrier indicates that Kosovo firms need to receive some support from the state as they are not competitive enough to compete with firms exporting to Kosovo – which in many cases benefit from state subsidies. As a matter of fact, the ratio of imports to exports in Kosovo is around 10:1 (Kosovo Agency of Statistic, 2013). Note that this barrier might be overrated, bearing in mind the tendency of businesses to have higher expectations for subsidies. Unavailability of state subsidies' is perceived to be amongst the most serious barriers.

'Inefficient business licensing and permits procedures' is considered to be a minor obstacle by businesses

When regional results for the period of 2009 are analysed, it appears that, with the exception of Region Centre – which takes 78.2 points - the other four regions receive intensities above the national average for 2009. Of the four above-national-average regions, businesses of Region South turn out to suffer the most from this obstacle as they rate it with a score of 88.4. The results in 2013 do not differ much from those of 2009 (about 1 intensity point in each region); again, Region Centre stands best in this regard, while Region South stands worst. Apart from the businesses of Region South, the businesses of other regions have positive expectations about the intensity of this barrier. The intensity of Region South is expected to drop for no more than 2 intensity points compared to the current period, while it drops for more than 10 intensity points in the other four regions (for visual representation, see Figure 19).

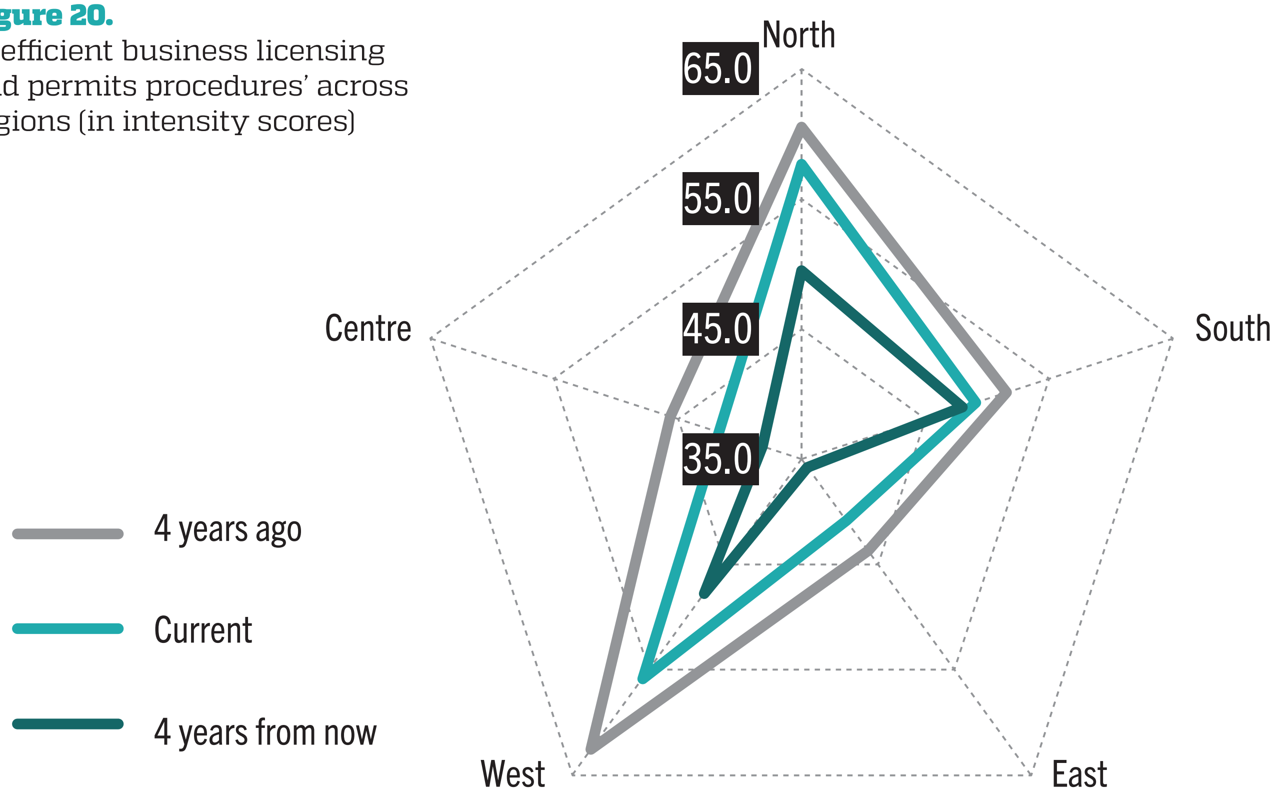
'*Inefficient business licensing and permits procedures*' is considered to be a minor obstacle for businesses by the interviewed businesses. According to their responses, the intensity of this barrier in 2009 stood at 50.9, whereas it now stands at 47.2. Regarding the future period, they expect it to drop to 42.3 intensity points. The downward trend of this barrier is partly linked with the recent establishment of one-stop shops in 26 municipalities of Kosovo, which are entitled to routinely issue business registration and fiscal numbers for a shorter time period. It also can be attributed to the reforms taken in 2013 that led to: the removal of minimum capital requirement and business registration fee, the elimination of requirements for validation of construction projects and reduction of building permit fee, and finally to the creation of a notary system contributing to the combination of procedures for legalizing sale and purchase agreements (World Bank, 2014). It is worth noting that as a result of these reforms, according to the World Bank's Doing Business Report (2014), in regards to 'starting a business', Kosovo improved its ranking by 26 positions compared to 2013

Figure 19.
'Unavailability of state subsidies' across regions (in intensity scores)



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

Figure 20.
'Inefficient business licensing and permits procedures' across regions (in intensity scores)



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

(from 126th to 100th out of 189 countries). Moreover, it stands 16 places higher compared to 2013 with regards to 'dealing with a construction permit' (from 152nd to 136th) and17 positions higher when it comes to 'registering a property' (from 75th to 78th).

Regions West, North, and South received intensities greater than the national average in 2009. To be specific, the exact intensity for these regions is as follows: Region West, 62.6; Region North, 60.5; and Region South, 51.6. On the other hand, Region East and Region Centre turn out to receive scores lower than the national average; the former received a score of 43.7 whereas the latter received a score of 45.6. In the following period (2013), Region North tops the list with an intensity of 57.7, followed by Region West with 55.8, Region South with 49.1, and Region East and Centre with around 41 intensity points. In the future, the intensity in Regions West, South, and North is expected to range from 48-50, whereas in Regions East and Centre is expected to be lower than 39 (for visual representation, see Figure 20).

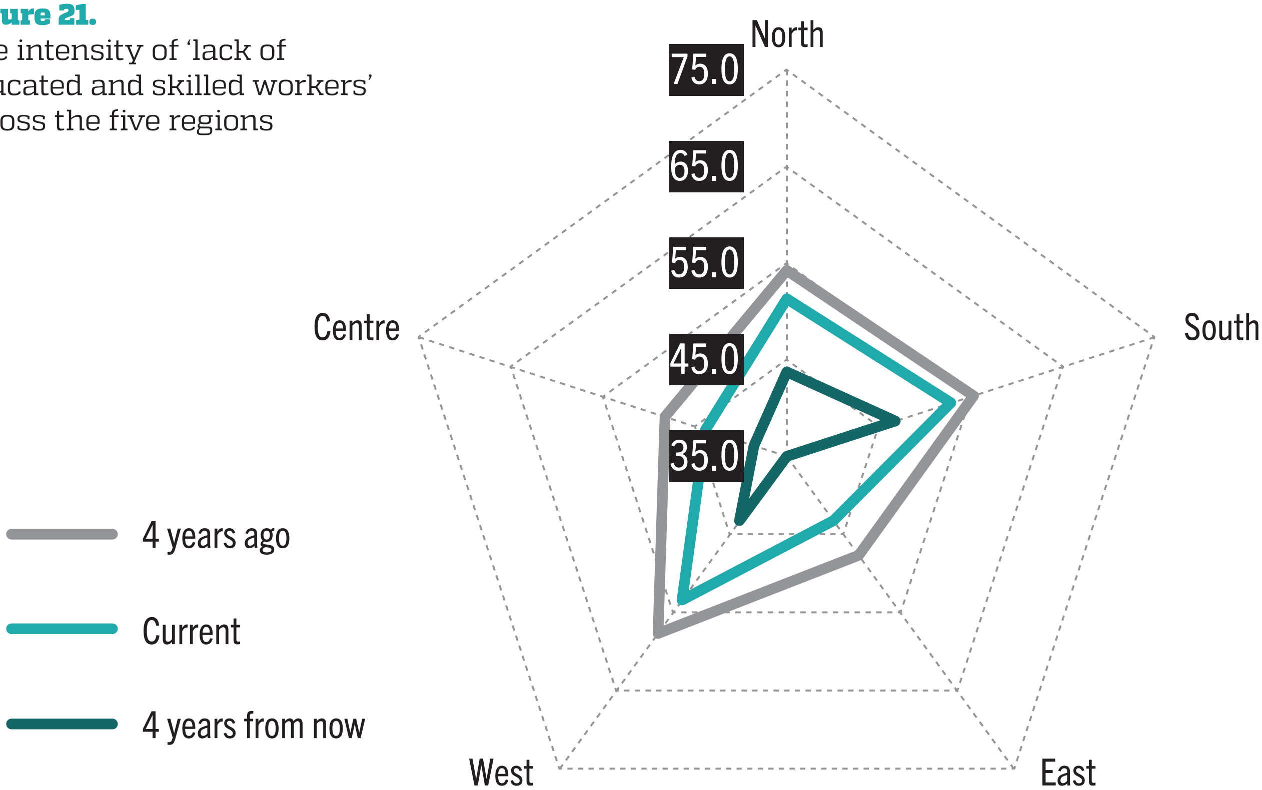
f) Labour force barriers

Labour force barriers turn out to be among the least serious barriers in the current period. A notable feature of this group of barriers is that *'lack of labour motivation'* worsened slightly from 2009 to 2013, instead of improving, as was the case with other groups of barriers. Projections of businesses are that these constraints will improve in all economic regions, especially in Region East.

Survey results indicate that businesses in Kosovo seem to have less concern with the '*lack of educated and skilled workers*' in the labour market over the last years (intensity: 51.6 in 2009 and 47.7 in 2013). Four years from now, according to businesses, it will be even less of problem (40.6 in 2017). A slightly higher intensity appears when only corporates are taken into account. This difference was somewhat expected, considering that corporates are larger and require more sophisticated skills. Nevertheless, this barrier is generally perceived as less intense by the interviewed businesses. One might expect this barrier to be of a higher intensity, provided that our educational institutions are weak and consequently cannot prepare the new students; however, it seems that Kosovo businesses are still at the level where only low skill workers are needed. Labour force barriers turn out to be among the least serious barriers in the current period.

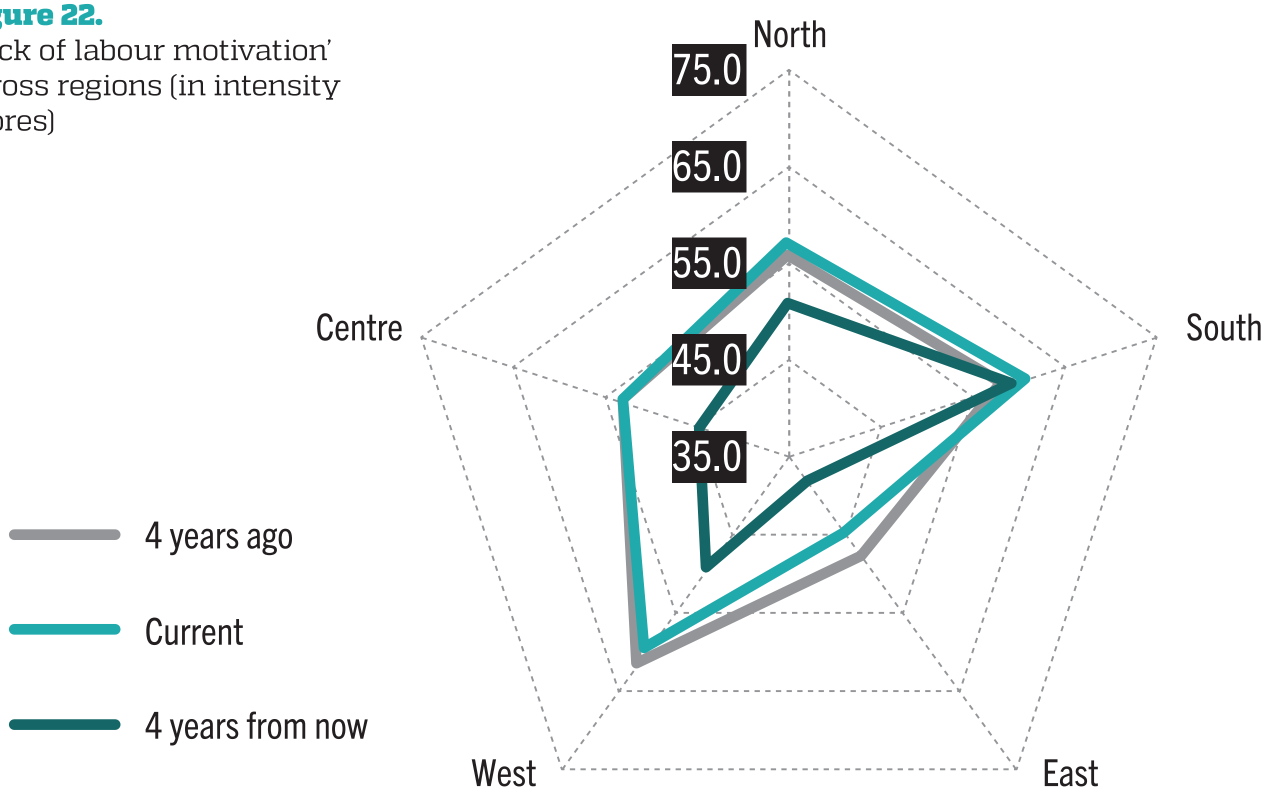
Businesses of Region Centre consider labour force barriers as least intense, whereas businesses of Region West consider them the most intense. The former businesses rate it with a score of 48.3 for the period of 2009, 43.8 for 2013, and 38.6 for 2017; while the latter with 57.7 for the period of 2009, 53.4 for 2013, and 43.3 for 2017. No major differences are found across the other three regions; their results fall close to the average (for visual representation, see Figure 21).

Figure 21.
The intensity of 'lack of educated and skilled workers' across the five regions



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

Figure 22.
'Lack of labour motivation' across regions (in intensity scores)



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

'*Lack of labour motivation*', on the other hand, appears to be a more severe barrier compared to the barrier of tackling the educational level and skills of workers, albeit both are not amongst the serious barriers. The intensity varies from a score of 53.9 in 2009 to a score pf 54.2 in 2013. When it comes to the future period, businesses tend to be optimistic, as they expect it to drop to 47 intensity points.

The labour force of Regions East and Centre seem to be more motivated in comparison with other regions. For the first two periods (2009 and 2013), this barrier received an intensity of around 45 in the former and 53 in the latter. Four years from now, it is expected to decline by around 7 intensity points in each region. The workers of Region West and Region South seem to be not so motivated. The scores for these regions range from 58 to 61 in the first two periods. The main causes for the lack of labour motivation in these two regions are associated with the low level of compensation and extended hours of work (in many cases without any day off). However, the businesses of Region West tend to be more enthusiastic about the future period, as they rate it with a score of 49, unlike businesses of Region South who rate it with 10 intensity points more. Region North falls close to the national average; perhaps 2 intensity points difference from this average for each period included in the study (for visual representation, see Figure 22).

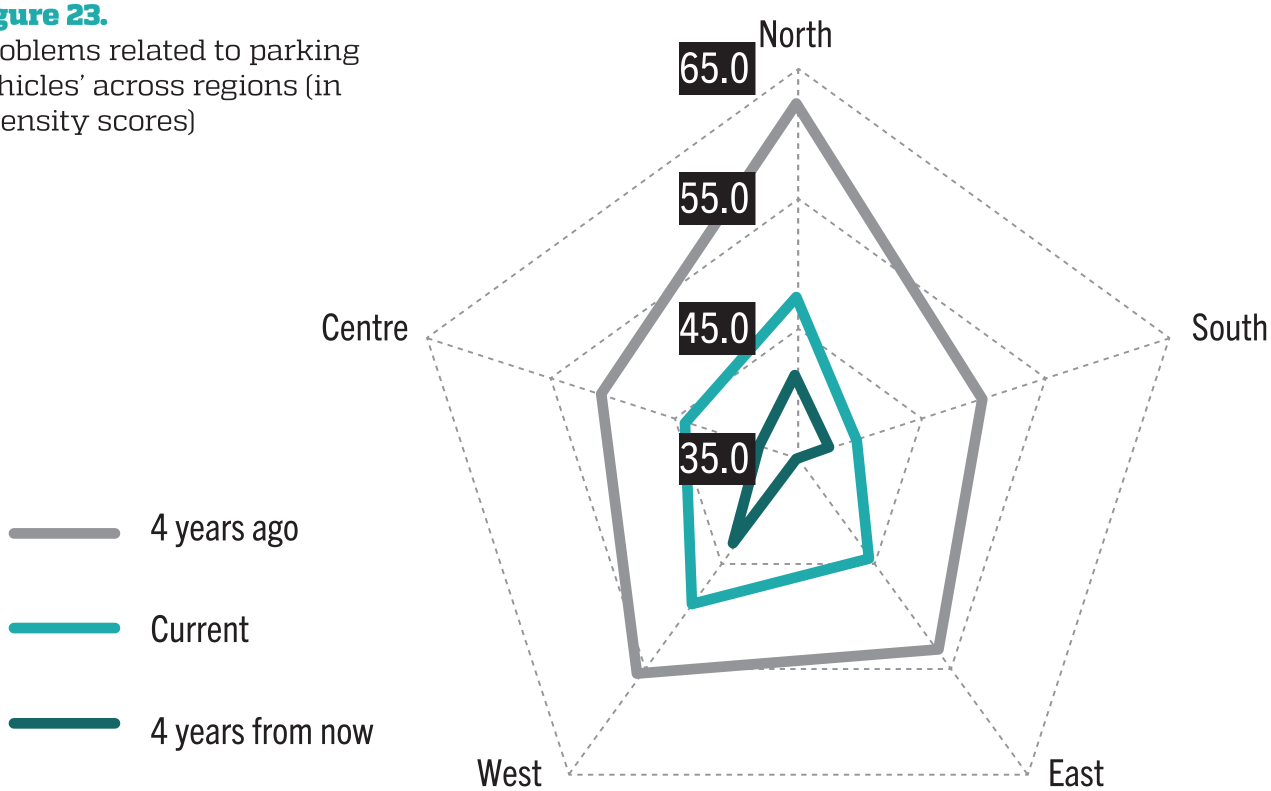
g) Infrastructural barriers

Infrastructural barriers are commonly perceived to be very minor obstacles to SMEs in Kosovo in the current period. A distinguishing feature of this group of barriers is that compared to 2009 '*lack of power availability*' and '*inadequate transportation infrastructure*', in particular, have marked the greatest improvement. Four years from now, none of them is expected to be harmful to businesses. No major differences are found across regions.

Infrastructural barriers are topped by '*problems related to parking vehicles*'. The results of the survey, more specifically, indicate that, the intensity of this barrier for the past period turns out to be 69.8, followed by a very slight increase of 1 intensity point in the following period (2013). This score is not surprising given that an overwhelming majority of Kosovo businesses are both micro and concentrated in city centres, where there are severe parking shortages. When it comes to the future period, similarly with other barriers, the interviewed businesses projected it to be less intense obstacle to doing businesses – giving it an intensity of 62.8.

The intensity ranges from 70 to 75 points for Region North, South, Centre, and West for the first two periods (past and current). Region West receives a considerably lower intensity score, with over 10 points less. Apart from the businesses of Region South which

Figure 23.
'Problems related to parking vehicles' across regions (in intensity scores)



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

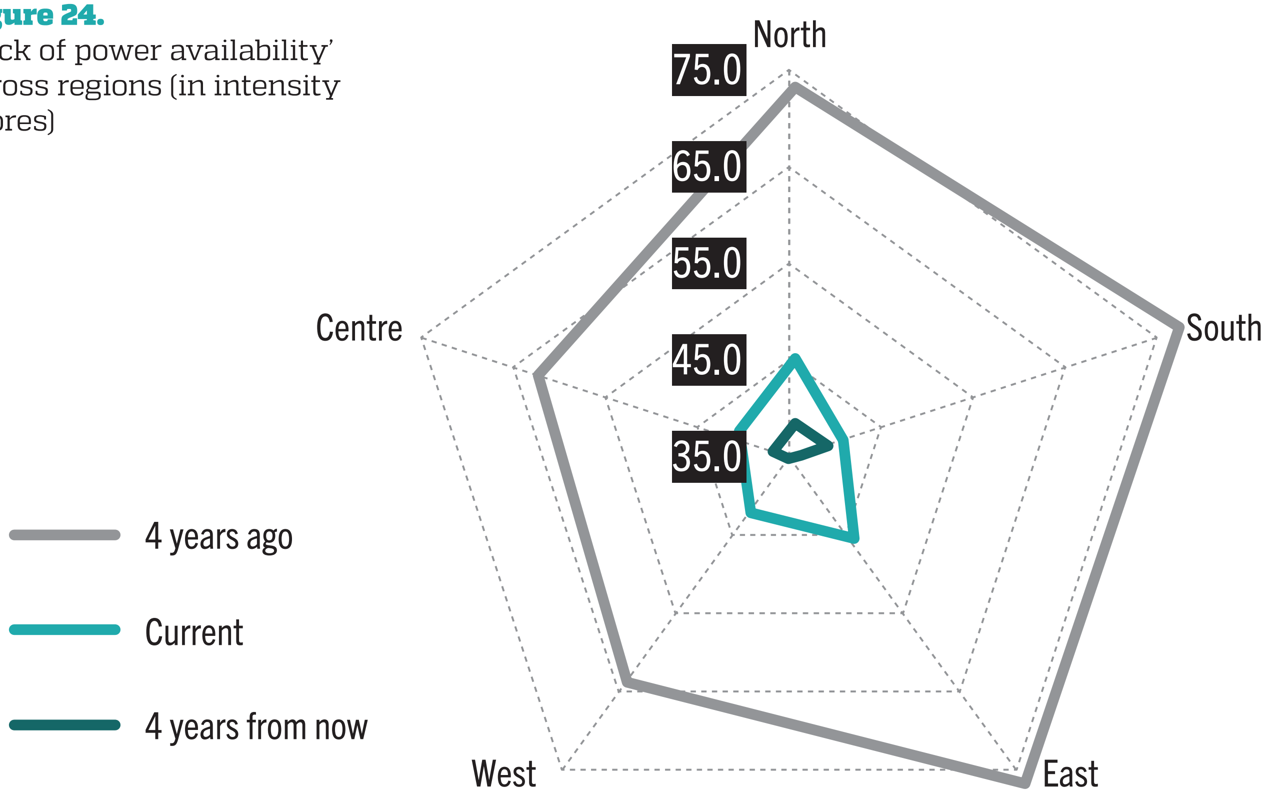
expect that no improvement will occur in removing this barrier (73.1 for 2017), the businesses of other regions assumed that it will be a less severe obstacle. Indeed, the businesses of Region East projected it to have an almost negligible effect on their performance (for visual representation, see Figure 23).

'*Lack of power availability*' is the barrier that marked the best improvement over the last four years in Kosovo, as it is thought to have decreased by approximately 40 percent, from a score of 70 in 2009 to 42.8 in 2013, indicating that less power cuts have occurred. There are a few underlying reasons that have led to a more reliable power supply. First, a new lignite mine was opened in 2010-2011, which improved the supply for the existing generation plants Kosova A and Kosova B (KOSST, 2013). Second, the same source indicates that there have been investments that improved the system and consequently reduced transmission losses – in 2012 transmission losses accounted for 1.99 percent of gross consumption. Third, due to improvements in billing and collections of electricity charges, commercial losses almost halved, from 31 percent in 2006 to 18 percent in 2012 (Tetra Tech, 2013). The effectiveness and efficiency in billing and collection of electricity reduced (to some extent) the unnecessary consumption of "illegal" users, thus increasing power availability in the whole country. Given the great improvement for such a short period of time, businesses have had the tendency to be very optimistic about the future, evaluating it with no more than 45 intensity points. Less interrupted power supplies will further decrease operating costs to businesses as they will not have to pay for alternate expensive power sources.

It is worth noting that neighbourhoods and communities of Kosovo are categorized in three different categories (A-B-C), depending on the level of electricity payments. In other words, the most reliable customers fall into "A category" and are subject to fewer hours of electricity blackouts, while the least reliable ones fall into "C category", thus receiving less hours of electricity supply. Given this fact, the severity of this barrier appears to be different across regions, particularly for the past period. For 2009 Region Centre stood best with a score of 63.1, while Region North stood worst with a score of 73.8. For 2013, the intensities for the five economic regions fall around 42. Four years from now, it is expected to be insignificant to businesses of all regions, as none of them is expected to take more than 39 intensity points (for visual representation, see Figure 24).

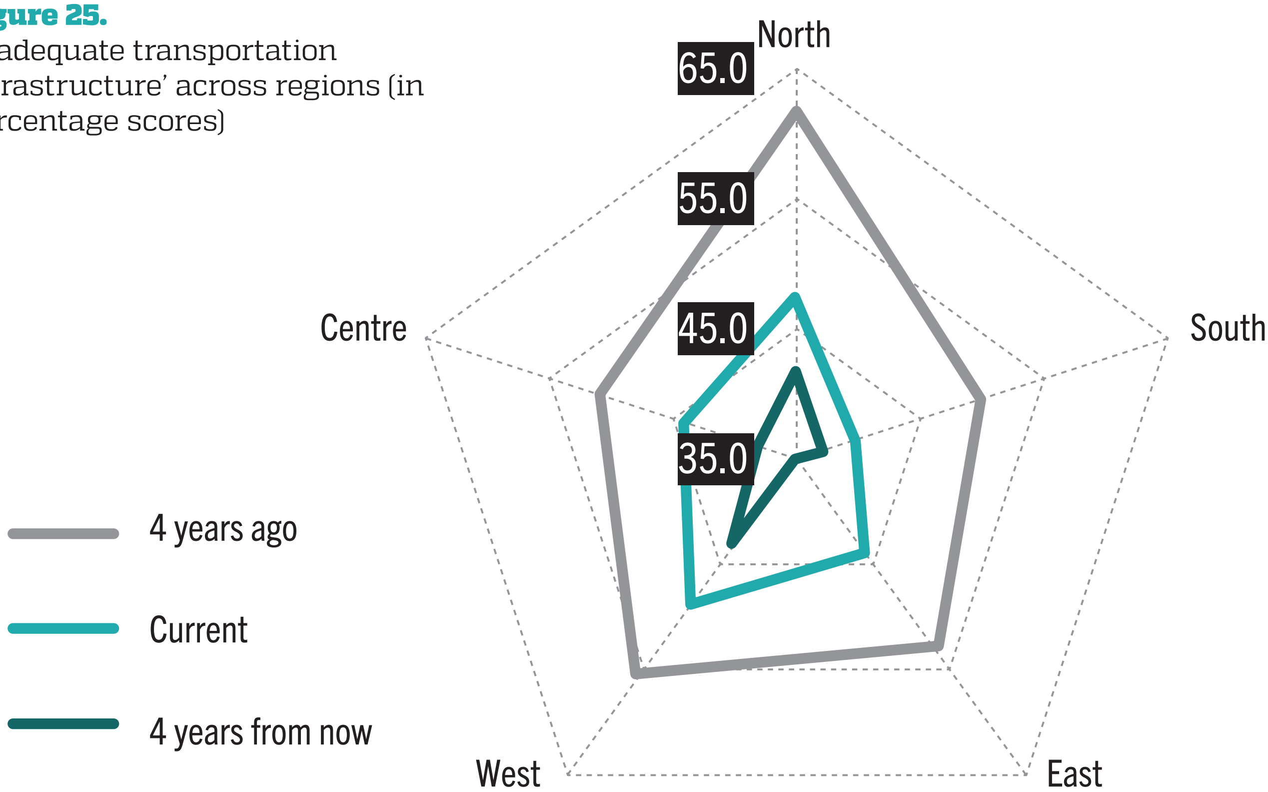
'*Inadequate transportation infrastructure*' is currently deemed to be the least intense obstacle by the interviewed businesses. They rated it with a score of 44.5. Four years ago, it is perceived to have been a more severe obstacle (53.5), although not at the level of the parking-related barrier. That is because the government of Kosovo as well as local governments embarked on major road investments over the last four years. In 2013, the budget allocated for roads

Figure 24.
'Lack of power availability' across regions (in intensity scores)



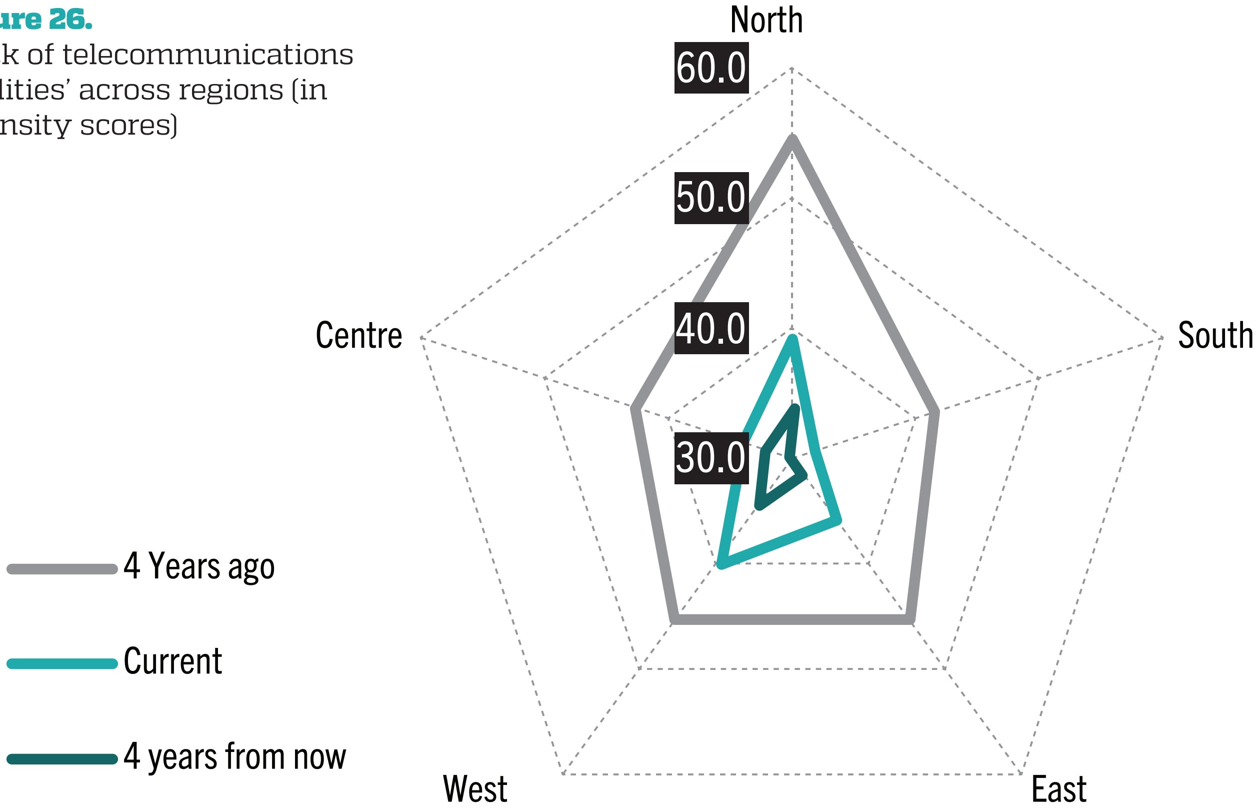
SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

Figure 25.
'Inadequate transportation infrastructure' across regions (in percentage scores)



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

Figure 26.
'Lack of telecommunications facilities' across regions (in intensity scores)



SOURCE: AUTHOR'S CALCULATIONS FROM THE SURVEY DATA

accounted for roughly 22 percent (around €357 million) of the total budget (GAP, 2013). In the previous years (2010-2012), the investments on roads had been even higher. For instance, the construction of the highway to Albania, though the contract has never been made public, is supposed to have cost over €1 billion – that is about one quarter of the country's current GDP. The focus of government investments predominantly on roads apparently has had some positive impact on the interviewed businesses.

Four years from now, the intensity is expected to drop further, reaching a score of 38.5. Provided that Kosovo businesses are micro and generally focused in their local markets, it is understandable that transportation infrastructure has not been a very pressing issue over the last several years and will not become one in the near future.

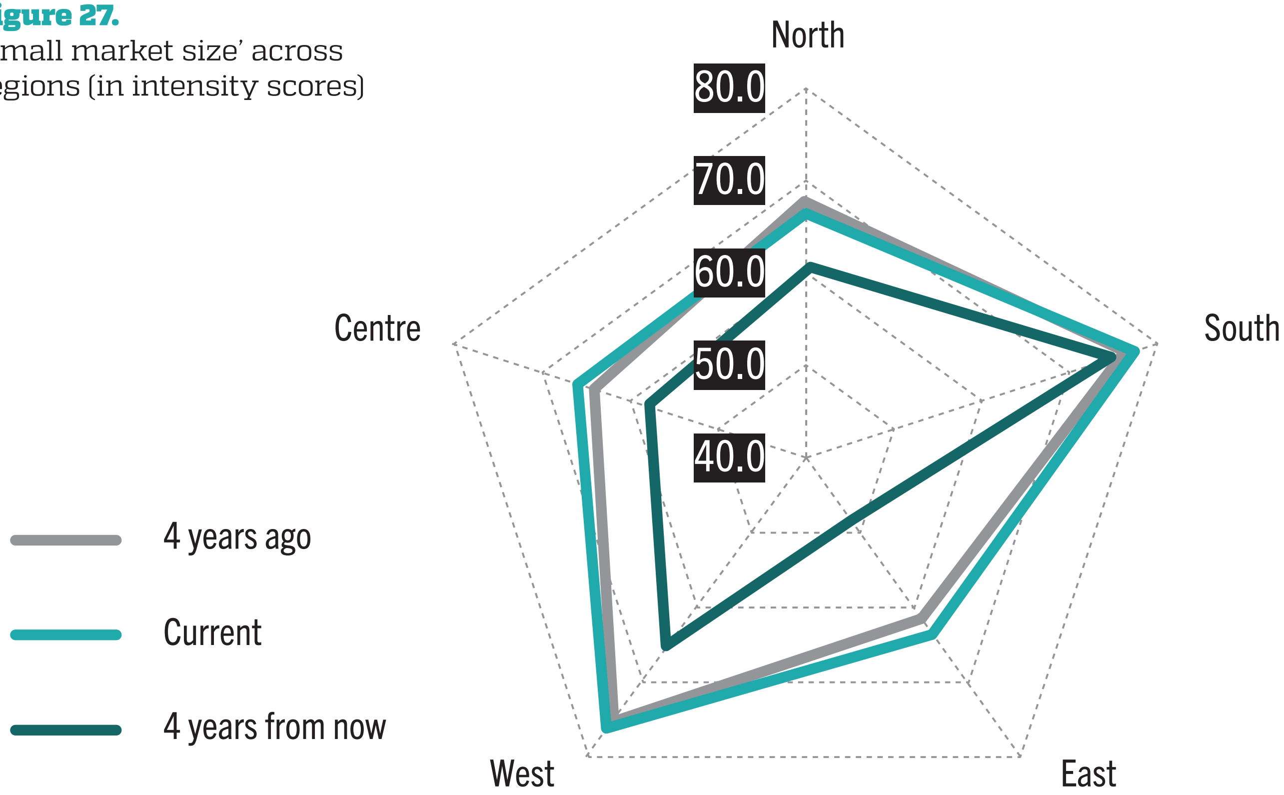
Firms of Region North appear to have less adequate transportation infrastructure across different periods compared to other regions (62 for 2009, 47.5 for 2013, and 41.7 for 2017). Other regions seem to be more developed in terms of transportation infrastructure; hence, none of them received scores more than 55 in any of the periods (for visual representation, see Figure 25).

Finally, '*lack of telecommunication facilities*' has been considered a very minor obstacle over the last four years, and it is expected to be even less of a concern for businesses in the future. Region North appears to have had problems with telecommunication facilities in the past; however, they have been avoided to a large extent now according to businesses. In other regions, on the other hand, it seems that it has not been an obstacle over the last four years, nor will it be in the future (for visual representation, see Figure 26). Kosovo stands close to developed countries in terms of internet. Kosovo Internet penetration based on users is around 76 percent, and is similar to developed countries (77 percent) (STIKK, 2013). Moreover, Kosovo mobile operators have continuously improved their services in terms quality (e.g. 3G lunched by IPKO by the end of 2013), as well offered more price-convenient packages for businesses, hence, the improving trend of the intensity of this barrier over years.

h) Other Barriers

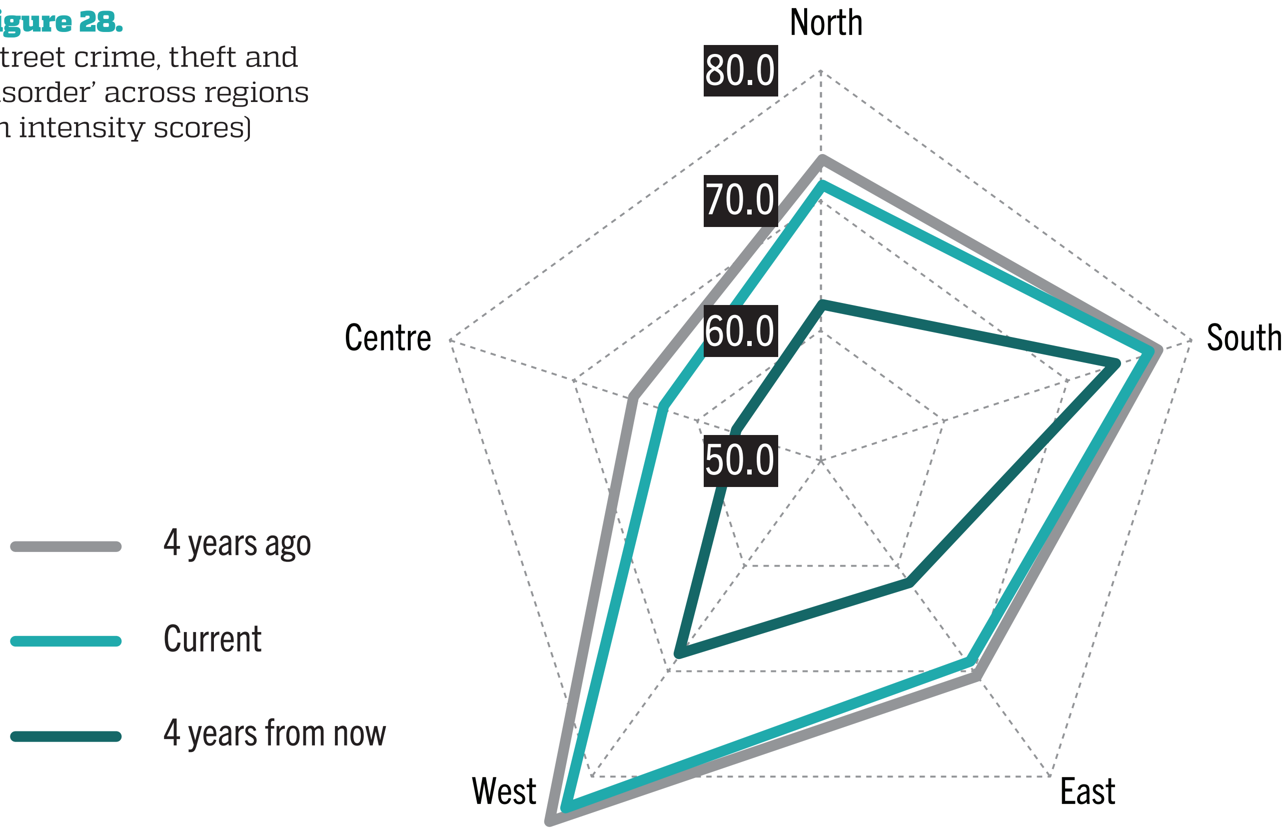
'*Small market size*' is commonly perceived to be a problematic obstacle for the development of SMEs in Kosovo. Evaluations of businesses for the first two periods (2009 and 2013) reveal that intensities stand at 67.8 and 68.8, respectively. On the other hand, in 2017 it is expected that the severity of this barrier will fall drastically, taking an intensity of 60.1. In a small, regionalized country with a small market, and which is surrounded by countries imposing different trade barriers, it

Figure 27.
'Small market size' across regions (in intensity scores)



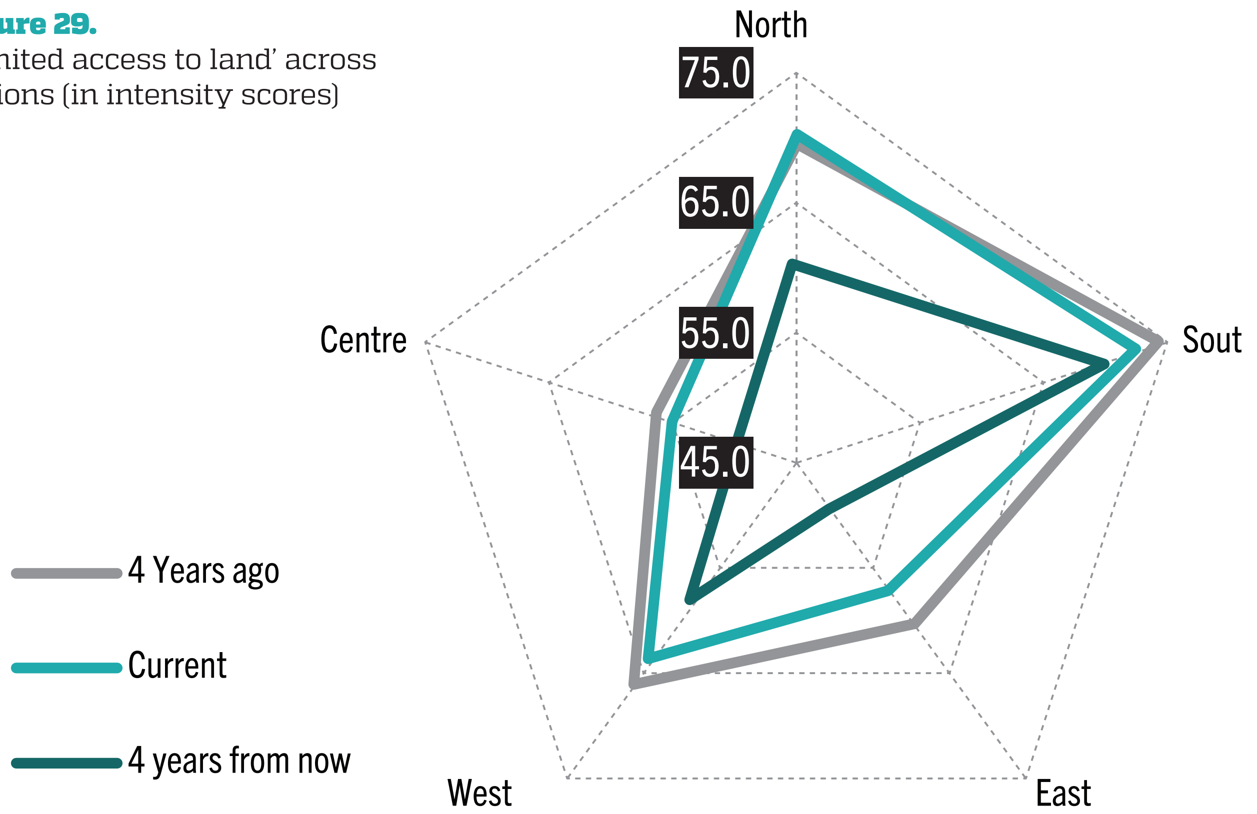
SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

Figure 28.
'Street crime, theft and disorder' across regions (in intensity scores)



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

Figure 29.
'Limited access to land' across regions (in intensity scores)



SOURCE: AUTHOR'S CALCULATIONS FROM THE SURVEY DATA

is very challenging for firms to be large and integrated enough to enjoy economies of scale, as well as numerous enough to ensure effective competition.

A breakdown of the data for *'small market size'* by region reveal that businesses of Regions East and Centre seem to have been less confronted by this obstacle, compared with the national average in 2009; the difference is about 5 percent. Presently, this barrier seems to be more intense, as it increased by two intensity points. In the future, the severity of this obstacle is expected to drop by about seven intensity points in Region Centre, and about 14 intensity points in Region East.

On the other hand, Regions West and South stand above the national average for each time period, with regards to this obstacle. The difference in intensity ranges from 8 to 13 percent depending on the region and period taken into consideration. Finally, Region North receives scores that fall close to national average for this constraint (for visual representation, see Figure 27).

The barrier of '*street crime, theft and disorder*' is perceived to have had a negative impact on Kosovo businesses over the last years. The questioned businesses assessed it with an intensity of 72.1 for 2009 and 71.0 for 2013. In principle, crime environments can have many adverse repercussions to businesses. This kind of environment may lead to higher cost of doing business, because of the need to employ different forms of security. This in turn diverts investment away from business development and productivity improvement, and may lead to a less than optimal operating strategy.

Moreover, it may lead to loss of output because of condensed hours of operation, mainly through avoiding night shifts. Again, as in the case of other barriers, businesses expect '*street crime, theft and disorder*' to be less of an obstacle in the future, giving it 64 intensity points for 2017.

Businesses of Region West turn out to be most affected by this barrier, as it receives an intensity of 85 for 2009 and 83.7 for 2013, followed by Region South (77.7 for 2009 and 77 for 2013), Region North (73.5 for 2009 and 71.6 for 2013), and Region East (70.5 for 2009 and 69.6 for 2013). On the other hand, Region Centre stands relatively better as it receives 65.3 intensity points for 2009 and 62.5 for 2013.

Businesses of Region West appear to be more optimistic about the future of these negative phenomena, giving it 15 intensity points less for 2017. Region North comes next with 9.7 intensity points less, followed by Region East (7.5 less intensity points), Region Centre (5.6), and Region South (2.8) (for visual representation, see Figure 28).

'*Limited access to land*' is perceived to be a moderately impactful barrier to doing businesses. It receives an intensity of 67.5 for 2009, 65.2 for 2013, and 55.1 for 2017. A breakdown of results by region reveals that Region South leads the list of regions in each time period included in the study (74.6 for 2009, 72.7 for 2013, and 70.1 for 2017), while Region Centre bottoms it (56.4 for 2009, 55.3 for 2013, and 49.6 for 2017). Region North falls close to the leading Region in terms of intensity, while region East and West fall close to the national average for each time period (for visual representation, see Figure 29).

4.4 Summary of the future of businesses and their barriers

This sub-section provides a summary of results that aim to forecast the performance of businesses and their barriers to doing business in 2017. Specifically, Table 12 looks at the differences between the actual year and expectations for 2017 on business performance measures and aggregated groups of barriers, both at national level as well as at regional level. Indeed, the differences at the regional level are computed merely for the purpose of comparing the five economic regions with country averages; therefore, Table 12 provides only the magnitude of dissimilarity between the national averages and regional averages. Also note that due to the absence of comparable data on sales and salaries for the actual year, the difference between periods of these two measures could not be generated, but only the figures about the future. Detailed explanations of the methodology are provided below the summary table.

With regards to sales, on average, 91.2 percent of the interviewed businesses expect that in 2017 they will either remain the same or will increase their sales. When regions are compared with the national average, it appears that the proportion of businesses expecting to grow or stay the same is the highest in Region North (4.3 percentage point higher); on the other hand, the lowest percentage appears in Region Centre (4.7 percentage points lower). Other regions stand close to the national average (less than 1 percentage point difference) in terms of expected turnovers in 2017.

With respect to 2017 employee salaries, the results of the survey indicate a similar proportion as in the case of turnovers. Notably, 87 percent of the interviewed firms predict that their employee salaries will either stagnate or increase in 2017. When variations across regions are analysed in this regard, it turns out that the proportion of businesses that expect to increase employee salaries or keep them the same is lower in Region West and Region Centre compared to the national average – 5.1 and 2.1 lower, respectively. On the other side, again Region North appears to be most optimistic with regards to the trend of salaries. Specifically, the proportion of businesses that expect employee salaries to increase or stay stagnant is by 3.9 percentage points greater than the national average, followed by Region South with a positive difference of 2.9 percentage points. The proportion in Region East is similar to the national average (0.4 percentage points lower).

The aggregated results for Kosovo indicate that the number of employees is expected to increase by 1.9, on average. Results across the five economic regions do not vary much from the national average. The surveyed firms of Region Centre turn out to be slightly more conservative in this regard, as they expect to employ on average 0.9 employees less in comparison to the average of the overall firms in Kosovo.

In contrast to Section 4.3, these barriers are interpreted into group averages. Note also that, unlike in the case with future performance measures, here the downward arrow in the table signifies that the business climate is expected to improve; the upward arrow signifies the opposite.

Generally, the six groups of barriers are expected to be less pressing in 2017 at the national level. Of these barriers, financial barriers are perceived to mark the greatest positive change, as opposed to the actual year; around 11.7 intensity points lower. Comparing it with the regional results on this barrier, it turns out that the surveyed firms of Region South are least optimistic, as this barrier receives 6 intensity points more than the national average, while firms of Region East are more optimistic (5.1 intensity points less).

"Over **50%** of businesses considered the municipality services to be either 'very poor' or 'poor', while roughly **22%** claimed the opposite."

At the national level, informality and fiscal barriers are expected to drop by around 8 intensity points each. Again, Region South turns out to be the least enthusiastic about the potential lessening of these barriers. The difference between the intensity in this region and the national average for both groups of barriers is roughly 5.5 intensity points. On the other side, Region West appears to be the most optimistic region with regards to financial barriers. The difference between the intensity scores in this region and the national average is 6.1; while, Region West appears to be the most enthusiastic region with respect to informality-related barriers (3.2 intensity points difference).

At the national level, businesses expect legal, institutional, and infrastructural barriers to decrease on average by 6.9, 7.9, 5.3 intensity points, respectively. Once again, the intensity for the three groups of barriers Region South differs noticeably from the national average. The difference is 4.7 intensity points for legal barriers; 6.1 intensity points for institutional barriers; and 3.6 for infrastructural barriers.

TABLE 12: A SUMMARY OF RESULTS ABOUT THE FUTURE PERFORMANCE OF BUSINESSES AND BARRIERS TO DOING BUSINESS

	National Average (A)	Δ (A) – Region Centre (B)	Δ (A) - Region East (C)	Δ (A) - Region South (D)	(A) - Δ Region West (E)	(A) - Δ Region North (F)
Growing and 'no change' businesses (sales)*	▼ 91.2	▼ 4.7	▼ 0.7	▲ 0.8	▲ 0.3	▲ 4.3
Growing and 'no change' businesses (salaries)**	▲ 87.0	▼ 2.1	▲ 0.4	▲ 2.9	▼ 5.1	▲ 3.9
Number of Employees***	▲ 1.9	▼ 0.9	▲ 0.8	▼ 0.5	▲ 0.1	▲ 0.5
Financial barriers****	▼ 11.7	▲ 0.1	▼ 5.1	▲ 6	▼ 0.3	▲ 0.7
Informality-related barriers	▼ 8.1	▲ 1.1	▼ 0.8	▲ 5.3	▼ 6.1	▼ 0.8
Fiscal barriers	▼ 8	▲ 1.3	▼ 3.1	▲ 5.8	▼ 2	▼ 3.2
Legal barriers	▼ 6.9	▲ 0.8	▲ 1	▲ 4.7	▼ 2.6	▼ 1.2
Institutional barriers	▼ 7.9	▲ 0.9	▼ 3.3	▲ 6.1	▼ 1.5	▼ 2.8
Infrastructural barriers	▼ 5.3	▲ 0.5	▼ 3.3	▲ 3.6	▼ 1.7	▼ 0.8

* The figure in Column (A) of this raw represents the average percentage of the Kosovo businesses who either expect to grow or to stay the same in terms of sales in 2017; the figures in columns from (B) to (F) of this raw represent the difference between column (A) and the average percentage of businesses of every region who expect to grow or stay the same in terms of sales in 2017.

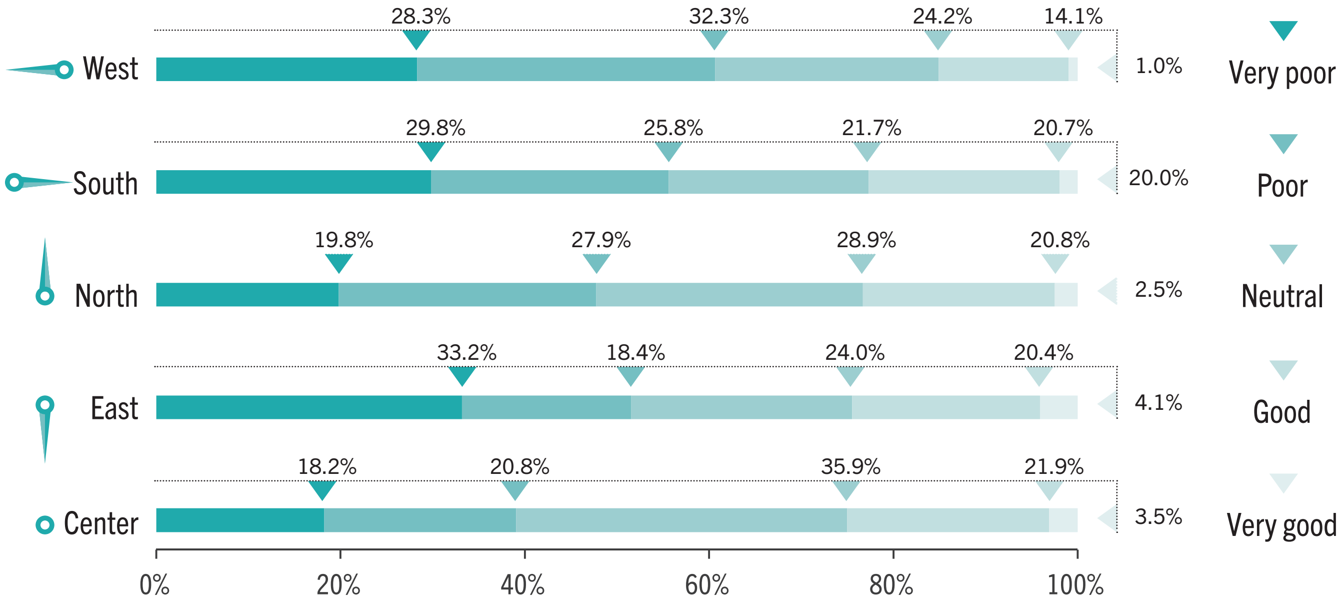
** The figure in Column (A) of this raw represents the average percentage of the Kosovo businesses who either expect to grow or to stay the same in terms of salaries in 2017; the figures in columns from (B) to (F) of this raw represent the difference between column (A) and the average percentage of businesses of every region who expect to grow or stay the same in terms of salaries in 2017.

*** The figure in Column (A) of this section denotes the difference between the current number of employees and the expected number of employees in 2017 at the national level; the figures in columns from (B) to (F) of this raw represent the difference between column (A) and the difference between the current number of employees and the expected number of employees in 2017 in each region.

**** The figure in Column (A) of this raw denotes the difference between the average intensity of the financial barriers in 2013 and 2017 at the national level; the figures columns from (B) to (F) of this raw represent the difference between column (A) and the difference between the average intensity of the financial barriers in 2013 and 2017 in each region. The same equation holds for other groups of barriers in this table.

FIGURE 30: PERSPECTIVES OF BUSINESSES ON THEIR MUNICIPALITY SERVICES (IN %)

SOURCE: AUTHOR'S CALCULATIONS FROM THE SURVEY DATA



SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

4.5 Perspectives of businesses on local and national institutions

This sub-section provides the perspectives of businesses with regards to the services provided by their municipalities, central government, and RDAs. In addition to that, it provides businesses' insights with respect to the impact of these institutions on SME growth and their openness to businesses.

The surveyed businesses were asked to rate the services provided by their corresponding municipality. The aggregated results show that over 50 percent of them considered the services to be either 'very poor' or 'poor', while roughly 22 percent claimed the opposite. The rest (about 29 percent) were neutral in this regard. Due to ineffective and inefficient staff members, municipalities across Kosovo are facing difficulties in regards to the capacity to absorb the competencies that have been transferred to them, as well as difficulties to absorb donor funds (Schultze-Kraft, 2013). In addition, according to Kosovo Local Government Institute (2012), ambiguity in executing duties and responsibilities in most of the cases is a barrier for reaching greater functionality and efficiency in providing services in Kosovo municipalities. The same institution states that much remains to be done in improving financial planning, and managerial or absorbing capacities of municipalities.

> "The highest percentage of businesses who thought that the support by municipalities has not contributed to the growth of SMEs is in Region East."

A breakdown of results by region reveals that businesses of Region West seem to be least satisfied with the services delivered by their corresponding municipality vis-à-vis other regions. Over 60 percent of them indicated that the services are either 'very poor' or 'poor', whereas no more than 15 percent claimed that the municipality services are either 'good'; or 'very good'. The rest of the surveyed businesses were neutral. Region West is followed by Region South, with about 56 percent of businesses perceiving municipality services as either 'poor' or 'very poor', around 23 percent 'good' or 'very good, and the rest considering the services neutral; Region East ('poor' or 'very poor' – about 52 percent, 'good' or 'very good' – approximately 24 percent, and neutral – about 24 percent); Region North ('poor' or 'very poor' – about 48 percent, 'good' or 'very good' – approximately 23 percent, and neutral – around 29 percent); and Region Centre ('poor' or 'very poor' – 39 percent, 'good' or 'very good' – around 24 percent, and neutral – around 27 percent) (for visual representation, see Figure 30).

Moreover, the majority of the surveyed businesses, near 78 percent of them, stated that the support (e.g. subsidies, tax reliefs) given by their municipalities over the last four years have not contributed to the growth and development of SMEs. On the other hand, nearly 7 percent of them disagreed with the assertion and about 16 percent had no idea if it has had any impact during this period. It might be that businesses comprising the latter percentage are not aware of any concrete support by their municipalities, hence their refusal to take a stance in the survey. Let alone some agricultural businesses that have benefited, municipalities generally do not allocate grants or subsidies to SMEs, nor do they apply any significant tax reliefs. This is most likely a result of lack of political will by public officials in municipalities as well as insufficient budgets.

A comparison of results across regions reveals that the highest percentage of businesses who thought that the support by municipalities has not contributed to the growth of SMEs is in Region East; they comprise around 90 percent, followed by Region South with about 85 percent, Region West with roughly 76 percent, Region Centre with about 73 percent, and Region North with 64 percent. The remaining percentage for each region comprises those who believed that the support by municipalities have had a positive impact on SME growth and those who don't have any stance on this relation.

It is worth noting that the firms with no stance dominate this group of businesses. In the case of Region East, for instance, only 2 percent of the questioned businesses claimed that there has been a positive impact on SME growth (for visual representation, see Figure 31).

A similar question was asked to businesses, now attempting to examine the support provided by the government. Similar to the case of municipalities, on average, around 78 percent of the surveyed businesses agreed with the idea that the government has not had any positive role in the growth of SMEs in their region over the last four years; around 6 percent disagreed, and the rest (16 percent) preferred not to take any stance in this regard. It is not surprising, given that over the last several years the government of Kosovo, apart from subsidies provided to agricultural businesses, has not been very supportive to SMEs in terms of the provision of subsidies. Lack of financial support by the government is inhibiting businesses to become competitive vis-à-vis importers, hence the export import ratio of 1:10. Note that these results, however, should be cautiously interpreted as sometimes the expectations of SMEs to receive financial support are unrealistic.

Of businesses who took a stance with regards to the aforementioned question, limited liability companies turn out to be the largest group to recognize a positive impact (15 percent), followed by partnerships and individual businesses (6 percent each). This, to some extent, demonstrates that some of the larger companies may have benefited the most from the government (through receiving tenders, for instance), hence their positive attitude towards this institution.

The distribution of responses across regions, taking into account the support of the government to SMEs, significantly corresponds with the distribution of responses taking into consideration the support of the municipality to SMEs; the answers may differ by no more than 3 percentage points (for visual representation, see Figure 32).

The results of the survey suggest that a very small proportion of the surveyed businesses are invited by their municipalities when the latter drafted business-related policies. More specifically, more than 93 percent of the surveyed businesses stated that they never received any invitation from their municipality, whereas less than 6 percent received an invitation at least once during the year. This figure suggests that public debates are rarely organized by municipalities, thus indicating that the decision-making process is usually highly centralized in the sense that no other stakeholders partake. In principle, low involvement of businsses in decision-making processes may lead to decisions that do not address the most crucial needs of the businesses.

> "Around 68 percent considered their corresponding RDA to be either 'very poor' or 'poor'." More than 93 percent of businesses stated that they never received any invitation from their municipality in drafting business-related policies."

A breakdown of results by number of employees at a firm reveals that businesses consisting of a greater number of employees have been invited more frequently by their municipality when business-policy related policies have been drafted. More specifically, more than 24 percent of businesses with more than 50 employees have been involved in decision-making processes in their municipalities – that is about 18 percentage points more than the Kosovo's average. Although businesses with less than nine employees comprise the largest proportion of businesses in Kosovo, it seems they have been neglected by their municipalities as only 5 percent of them were invited to participate in policy-making processes related to businesses. Further results about each business category (in terms of number of employees) are provided in Figure 33.

Municipalities of Region Centre, East and West seem to be least inclusive when it comes to drafting business policies. 94.5 percent of the interviewed businesses in each of the three regions have never been requested to participate in any policy-making process related to them, while only 5.5 percent have been requested. The results of the survey show that municipalities of the other two regions, South and North, do not make a difference in this regard. Precisely, only 9 percent of the surveyed businesses belonging to the former have been invited by their municipalities, while around 8 percent of the businesses belonging to the latter region (for more detailed information, see Figure 34).

FIGURE 31: PERSPECTIVES OF BUSINESSES WITH REGARDS TO THE IMPACT OF THEIR MUNICIPALITY ON SME GROWTH (IN %)

SOURCE: AUTHOR'S CALCULATIONS FROM THE SURVEY DATA

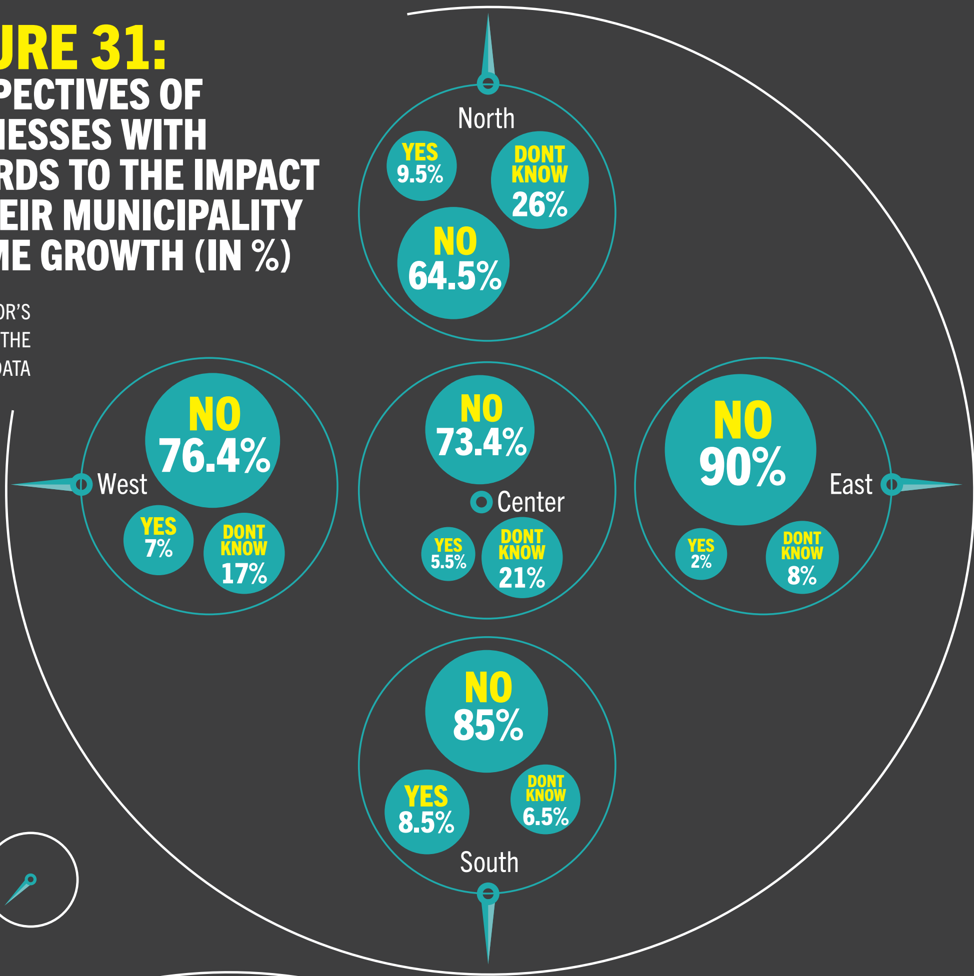


FIGURE 32: PERSPECTIVES OF BUSINESSES ON THE SUPPORT OF THE GOVERNMENT TO SME GROWTH (IN %)

SOURCE: AUTHOR'S CALCULATIONS FROM THE SURVEY DATA

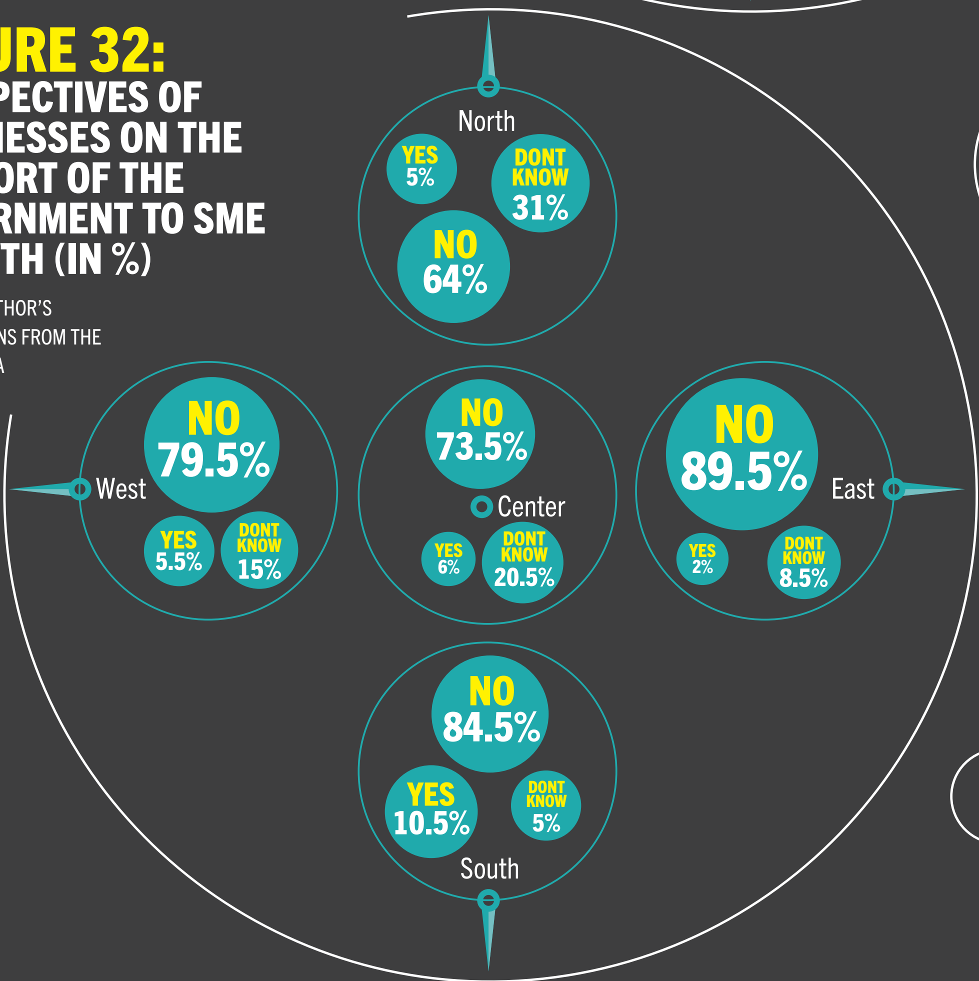


FIGURE 33: INVOLVMENT OF BUSINESS IN DRAFTING BUSINESS-RELATED POLICIES (BY FIRM SIZE, IN %)

SOURCE: AUTHOR'S CALCULATIONS FROM THE SURVEY DATA

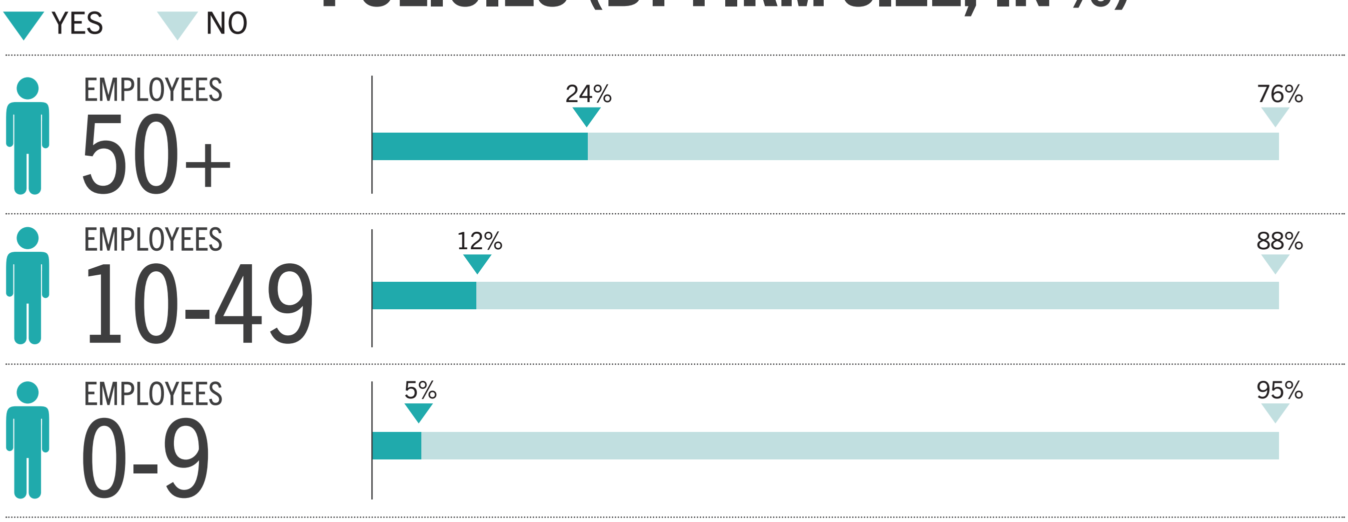


FIGURE 34: INVOLVMENT OF BUSINESSES IN DRAFTING BUSINESS-RELATED POLICIES (BY REGIONS, IN %)

SOURCE: AUTHOR'S CALCULATIONS FROM THE SURVEY DATA

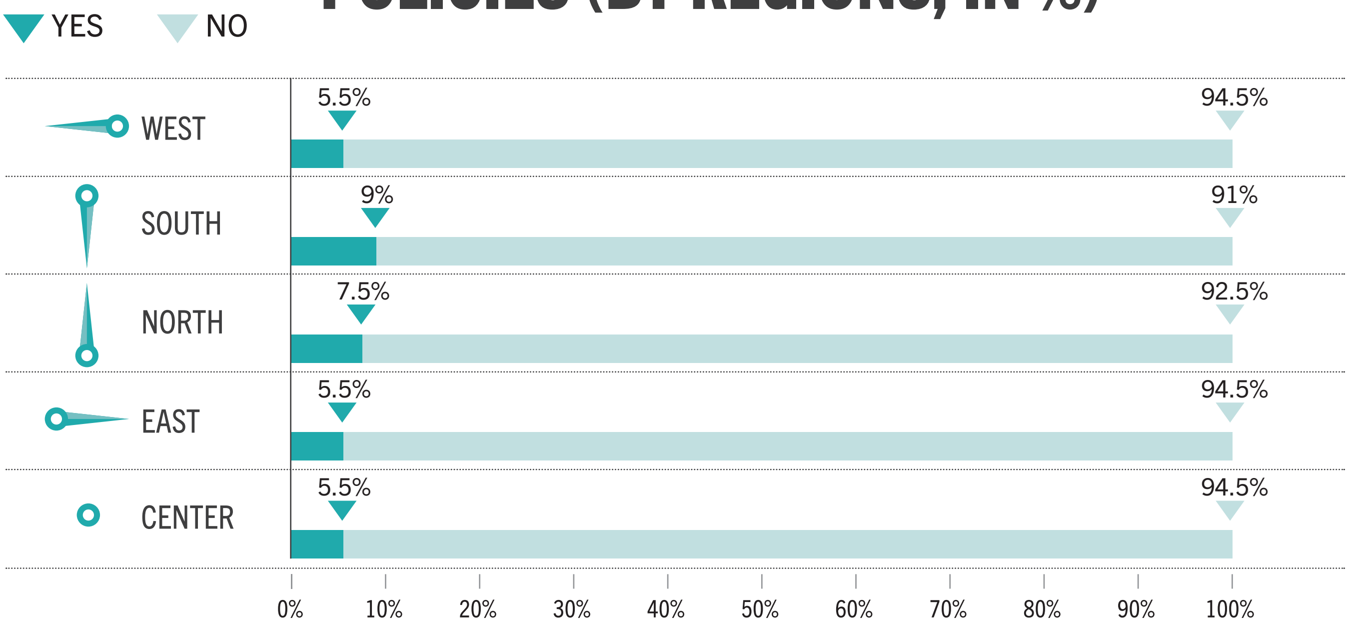
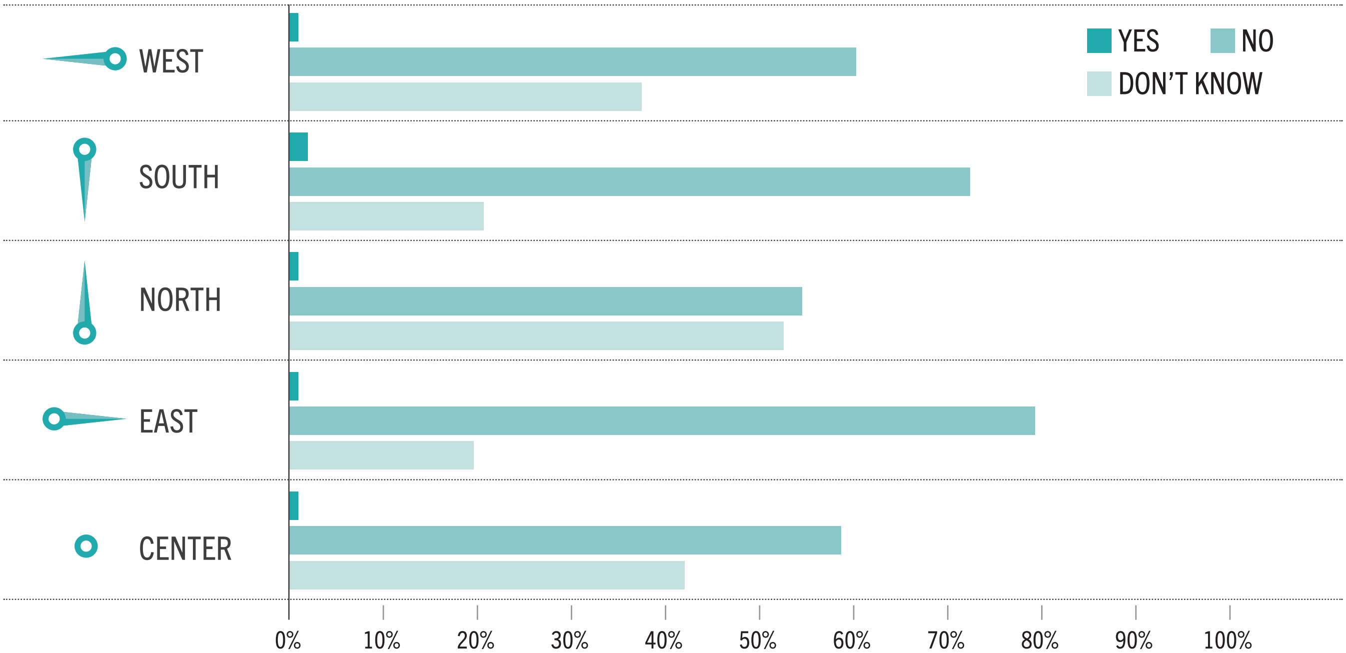


FIGURE 35: PERSPECTIVES OF BUSINESSES ON THE SUPPORT OF THEIR RDA TO SME GROWTH (BY REGIONS)

SOURCE: AUTHOR'S CALCULATIONS FROM THE SURVEY DATA



When businesses were asked about the services of the corresponding Regional Development Agency (RDA), the bulk of them, around 68 percent, considered their corresponding agency to be either 'very poor' or 'poor'; whereas eight percent responded 'good' or 'very good'. The remaining portion, comprising about 24 percent of the interviewed businesses, resulted in neutral responses. It is worth noting that these results should be interpreted with caution for two main reasons. First, 308 of 1000 businesses returned missing values, as these businesses refused to answer this question, mainly for the fact that they had never heard of such agencies. Second, it is likely that many of those who took a neutral position did so for the sake of not skipping the question; otherwise they would have fallen under the category of missing values as well. These results could be interpreted to surmise that RDAs have been mostly self-oriented, and not active enough to assist businesses with their services. It may also be that their services indirectly affected businesses, since RDAs cooperate mostly with public officials in municipalities and not with the businesses themselves.

> Region South is the region with the largest percentage of businesses who considered RDA services to be 'very poor' or 'poor' relative to other regions.

Region South is the region with the largest percentage of businesses who considered RDA services to be 'very poor' or 'poor' relative to other regions. In more specific terms, about 76 percent of the surveyed businesses in Region South are of the belief that the services of their RDA are 'very poor' or 'poor'. Close in this regard seems to be Region East, as around 74 percent of the surveyed businesses in this region share the same opinion, followed by Region Centre with about 69 percent, Region West with 59 percent, and Region North with 56 percent. The proportion of businesses who consider their RDA services to be either 'good' or 'very good' ranges from 2 percent in Region North to around 8 percent in Region South. The smallest proportion of businesses who took a neutral position appears in Region South (about 22 percent), while the largest proportion in Region Centre (about 36 percent).

Only 2 percent of all interviewed businesses think that their RDA contributed to the growth of the country's SMEs over the last four years, while 64 percent claimed that they have not, and around 34 percent don't know. The responses of businesses in each region are very close to the national average, see Figure 35.

78%

of the surveyed businesses agreed with the idea that the government has not had any positive role in the growth of SMEs in their region over the last four years.

93%

of the surveyed businesses stated that they never received any invitation from their municipality.

“Riinvest Institute arranged five focus groups (one for each region) with non-business actors such as municipality officials, civil society, and other stakeholders.”

5. FOCUS GROUP RESULTS

Following the interpretation and analysis of survey results, the report commences with focus group results that provide the perspectives of municipal directors for economic development, local economic experts, as well as perspectives from representatives from NGOs, Regional Development Agencies (RDAs), Banks, Business Support Centres, and from other relevant stakeholders. This section is organized as follows. Section 5.1 provides the findings of five groups of potential barriers to doing business across economic regions in Kosovo. Section 5.2 presents the opinions of focus group participants of each economic region regarding the role of institutions (central government, local government, and RDA) towards the development of businesses. Section 5.3 presents focus group data that quantitatively evaluate the implementation of regional development strategies. Section 5.4 presents the perspectives of focus group discussants in relation to the potentials of Kosovo's economic sectors.

5.1. Barriers to SME growth

This sub-section provides the findings of five focus group discussions on the barriers to doing businesses and their impact on SME development. The groups of barriers discussed are the following: *labour-force barriers, infrastructural barriers, financial barriers, legal barriers, and fiscal barriers.* Note that the order of these barriers does not represent their severity.

a) Labour-force barriers

When asked to express their opinion on whether the labour force of their region satisfies the demands of SMEs. Nearly all participants taking part in focus group discussions expressed major concerns about the level of labour force. According to them, there are a great number of people in the labour force who are equipped with university diplomas, but they lack the very basic skills to do a certain job properly. One respondent from Region West stated, "*Kosovo is producing lots of people with higher education, but it is not producing people that can do their job right. The curriculum of schools/universities is not designed to meet the demands of businesses."* Another respondent from Region West put it this way: *"We have to make a distinction between the quantity and quality of the labour force. The problem is with the latter."*

It is mentioned in almost all of the groups that this obstacle is somewhat more emphasized to businesses that require some sort of technical skills. For instance, one respondent from Region Centre stated, *"...some new start-ups in the IT sector struggle to find certified and skilled IT experts; as a result, they have to pay for the trainings of almost every new employee. This in turn increases the cost of doing business."* The same discussant continued, saying that the additional cost associated with trainings makes the IT businesses operating in Kosovo less competitive compared to similar businesses operating in our neighbouring countries.

A number of discussants from Region North brought up another problem which is not associated with the skills of employees, but with their motivation and willingness to work. According to them, despite the high level of unemployment in Kosovo, those who manage to get recruited in certain jobs are not very motivated to accomplish their given tasks. One respondent from Region North claimed, "*Lack of work ethic is a great deficiency of our society. There should always be a manager or owner to constantly supervise their employees, otherwise their productivity and their outcomes would not be at a satisfactory level.*" The participants of this region reported that the main causes for lack motivation are the inability of employers to provide decent salaries, and remittances flowing from Kosovan diaspora.

"We have to make a distinction between the quantity and quality of the labour force; the problem is with the latter."

Furthermore, concerns over the lack of professional schools that provide applied courses have been mentioned in almost all focus group discussions. The participants said that, in spite of some attempts to establish some professional schools, nothing worth mentioning has been undertaken in this regard. One respondent from Region East stated, *"...as a result of the absence of well-functioning professional schools, businesses could barely find a proper welder, not to mention any other specific technician."* To illustrate the need for professional schools, one participant from Region South claimed, *"...currently, in our region we do not have any centre that can 'educate' even truck drivers."*

Participants in almost every discussion were of the opinion that there should be a coordinating institution that provides information on the demands of the job market; otherwise students will continue making wrong choices. According to one participant, *"Kosovans predominantly go to study law or economy schools without being aware that the labour market in Kosovo is full of people with these characteristics."*

Some discussants taking part in the focus group of Region South had the tendency to look at the bright side of the labour force in Kosovo. They pointed out the fact that we have the cheapest labour force in the region. One participant said, "*labour force is sufficiently cheaper…I don' know if there is any other region that has such a cheap labour force.*"

Generally, participants of every focus group shared the idea that the current labour force in Kosovo does not possess the necessary skills. Yet, all of them have a positive outlook, predicting that it will improve in the coming years.

b) Infrastructural barriers

The majority of participants from every focus group have been appreciative of the government's investments in roads over the recent years. They claimed that a great deal of work has been done to improve urban roads as well as roads connecting major urban areas. For instance, one discussant from Region North said, *"Regarding road infrastructure, it has been improved recently; there exists an appropriate infrastructure for the development of businesses."* The fact that there are some roads to be finished in the near future also pleased some participants, especially those of Region North and Centre. One participant from Region North pointed out, "*The road between Mitrovica and Prishtina can be simply called a highway. We are almost done with it and hopefully it will help the growth of businesses in the near future."*

Among focus group discussions, there were participants who held negative views over the country's investments in road infrastructure. First, there were a few who stated that Kosovo's investments in infrastructure have not been based on a feasibility study, but rather are done on an ad-hoc basis. For example, one discussant from Region West stated, *"…the problem with capital investments [referring to roads] stands on the fact that they are done without any feasibility study."* Another respondent from Region East claimed, *"Investments in roads are done on an ad-hoc basis, meaning that the group of citizens who put more pressure on public officials managed to benefit from them in terms of roads."* Second, there were few others from Region East who considered that there is still room for improvement, particularly when it comes to rural and inter-city roads. As noted by one participant of this region, *"For a distance of 46 km from Gjilan to Prishtina, it takes an hour by car. This makes us less attractive for investments."*

Participants in every focus group noted that electricity blackouts constituted a major obstacle to businesses in the past; however, a majority of them acknowledged the positive developments occurring recently. For instance, one discussant from Region Centre reported, *"Lack of power has been a problem for businesses all over Kosovo, but we have to admit that now the situation is getting better."* Similarly, another discussant from Region South noted, "*When it comes to electricity supply, I consider that there is not much room for complaints for the fact that it has generally been good."*

A few participants from Region South and North expressed their concerns over the fact that electricity tariffs imposed on businesses are high and constitute a great cost for businesses. One respondent in Region North claimed, *"Although electricity supply has improved over the last years, tariffs for businesses are very high."* Within those lines, another respondent from Region Centre indicated, *"Businesses are obliged to pay higher electricity tariffs than households in order to subsidize the bills of the latter. This is not only a problem for businesses of this region, but for business all around Kosovo."*

One discussant from Region North brought up the fact that businesses of rural areas, experience more power cuts. He noted, *"If we talk about the development of businesses, we should focus on villages as well. For example, there are livestock farmers who cope with many problems as a result of the lack of electricity."* Another discussant from Region East declared that there are no power distribution networks in remote mountain areas. According to him, this in turn inhibits the development of tourism as one of the more promising sectors of this area.

Participants in every focus group noted that electricity blackouts constituted a major obstacle to businesses in the past; however, a majority of them acknowledged the positive developments occurring recently.

When asked to share their opinion on whether businesses are satisfied with the water supply, participants of Region Centre and East expressed substantial worries. One participant from Region Centre, for instance, reported, *"Lack of water supply is a major problem of this region. There are many villages that are not connected to the water distribution system."* Another discussant from Novoberde in Region East noted, *"A major problem for businesses of our area [Novoberde] is potable water, mainly because of our geographic configuration."* Businesses of other regions seem not to have any significant challenge with water supply.

To sum it up, the majority of participants from all focus groups shared the idea that roads and electricity supply have improved in the last few years; therefore, they are less of a problem for businesses today. This finding is also confirmed in survey results in Section 4, where businesses rated the barriers of transportation and electricity with very low intensity scores. Region East perhaps stands slightly worse than other regions in terms of roads, yet this assertion should be interpreted with caution given that those who held this view constituted a very small portion of the focus group in this region. It is worth noting that there were a few discussants (from Region North, Centre, and South), who considered that high electricity tariffs and unavailability of power and roads in rural areas constitute some constraints for businesses. Regarding water supply, besides Region Centre and East, other regions do not seem to have any problems. Putting it shortly, there have been some good changes in the overall infrastructure in Kosovo that have positively impacted the doing business climate.

c) Financial barriers

When asked about the impact of financial institutions on the growth of SMEs, almost all participants, regardless of region, recognised the fact that financial institutions do not provide loans that are convenient enough to help businesses face their financial challenges. First, according to most participants, the interest rates provided by commercial banks are not favourable. For instance, one participant from Region South stated, *"Interest rates are extremely high; no one should question this fact."* Another discussant from Region East reported, *"Banks represent a major barrier, interest rates are very high…"* Second, some participants blamed financial institutions for not offering more favourable loans to businesses compared to other categories of clients. One participant from Region North said, *"Commercial banks don't distinguish between business loans and loans for building a house. Both of them have pretty much a similar interest rate."* Third, a great number of participants expressed negative views regarding the criteria that businesses have to full fill in order to receive a business loan. While discussing this issue, one respondent from Region West noted, *"In order to receive a loan, businesses have to meet dozens of requirements as financial institutions in Kosovo are very restrictive when it comes to issuing business loans."*

Almost all participants proposed that Kosovo public institutions should create a special fund that will guarantee business loans. This fund, according to them, will drive the interest rates down. Addressing the issue of high interest rates, one discussant from Region West noted, *"A state fund should be created to help the development of businesses*." Arguing within those lines, one participant from Region East noted, *"The government should build a development bank which would provide soft loans in favour of businesses."* A few of focus group discussants are afraid that if no steps are taken in creating more convenient interest rates, the system will eventually collapse. For instance, one respondent from Region North reported, *"Without seeing any other option, many of those who have businesses have taken up to two loans and I am not sure whether they will be able to pay them back."* Another one from Region South stated that the net profit of many businesses is less than the rate of interest; thus, Kosovo businesses are struggling to return their loans.

Despite this, there were a few who held opposite views. They acknowledged the assertion that interest rates are high, but according to them the banking sector has still been an important source of finance to many businesses. For example, one of participants from Region South, who worked in the banking sector for some years, stated, "*Although interest rates have been high, commercial banks have played an important role in helping businesses in their most difficult times as they have been 'a lender of last resort'*.

Overall, the majority of participants agreed on the fact that the business loans provided by financial institutions in Kosovo are not pro-businesses. On the contrary, according to them, they constrain businesses with abnormally high interest rates. Many of them also agreed over the fact that financial institutions are very restrictive when it comes to issuing loans. This in turn, according to participants, prevents the neediest businesses to receive loans. The consensual opinions of participants in this regard are understandable, provided that interest rates and other financial costs of this sort do not differ across regions. The opinions of focus group participants on financial barriers converge with survey results in Section 5, where businesses perceived financial barriers as the most serious group, especially '*high cost of finance*'.

d) Legal barriers

When the topic of the functioning of the judiciary system and its relation to businesses was discussed, many divergent and informative views were brought up by participants. The following passages present the views of participants in relation to judiciary system.

A great number of the invited stakeholders in Region North, West, and Centre shared the idea that courts in Kosovo are largely inefficient. One discussant from Mitrovica, who participated in the focus group organized in Region North, noted, "*Regarding judiciary system, Mitrovica is lagging behind as its court is not functioning; as a result, a large amount of cases has remained unresolved."* While talking about the inefficiency of the court system specifically in relation to businesses cases, another participant of this region reported, *"Economic cases have always been considered as cases of a non-urgent nature; this in turn has negatively affected our businesses."* Moreover, one participant from Region East pointed out, *"The judiciary system is the main problem to businesses. Businesses often come to a situation where it is more efficient for them to pay extortion rather than to send a case to court as it takes 6-7 years for the case to be resolved."* Another one from Region Centre stated, *"With the existing staff, it will take 10 years and the current cases will still remain unresolved."* Shortly, a large number of participants coming from these three regions emphasized the inefficiency of courts.

> "A great deal of participants acknowledged the negative role that the judiciary system has played in the development of SMEs."

In addition, according to a few discussants from Region Centre business laws look very advanced on paper, but the problem is that Kosovo institutions fail to implement them. One respondent from this region stated, *"We don't say that there are no laws; on the contrary, there is a legislation which is harmonized with European Union standards, but the thing is that the legal infrastructure is not respected."*

While the majority are not satisfied with the judiciary system, there were a few participants who pointed out the fact that the judiciary system has started to get better lately. For example, one participant from Region East noted, *"Over the last few years, courts have become more 'fast' in processing their cases, especially the economic-related ones"*. A number of them mentioned the positive role that the establishment of Kosovo Permanent Tribunal of Arbitration has played. *"There are not many businesses who address their cases to the tribunal of arbitration, but the good news is that the number is growing. This tribunal is deemed to be a great advantage for attracting foreign investments",* claimed a participant from Region West. While not contesting the positive role that it might play in the future, there were some participants from Region North who noted that businesses are not addressing disputes in this tribunal yet due to the lack of trust. *"Unfortunately, we still have a mentality that if it is not a court, it cannot resolve our disputes",* said one discussant from this region. It is worth noting that one discussant mentioned the opening of notaries as a good initiative that has contributed to the improvement of the system.

Moreover, one discussant from Region West tackled the causality between the lack of rule of law and banking sector. According to him, because judiciary bodies are not productive at penalizing those who do not pay back their loans, many Kosovo businesses are affected by having to pay higher interest rates to financial institutions operating in Kosovo.

Generally, a great deal of participants acknowledged the negative role that the judiciary system has played in the development of SMEs in the country. However, according to a few of them the outlook is promising, as some initiatives have been undertaken to improve the system.

e) Fiscal barriers

Most stakeholders participating in focus group discussions were of the opinion that, generally, taxes for businesses are within acceptable levels; therefore, they are less of a problem for the development of SMEs. While talking about different kinds of taxes imposed to businesses, one respondent from Region Centre, claimed, *"...VAT of Kosovo is the lowest in the Balkans. Other taxes such as corporate tax are also very low"*. Other discussants from other regions held similar views; in other words, they acknowledged that fact that, on average, taxes imposed to businesses are lower compared to neighbouring countries. Despite this, they suggested that there should not be a uniform VAT tax, but there should be a scaling depending on the prospective businesses.

Since participants knew more about local taxes, they focused the discussion on those taxes. According to their responses, a majority of municipalities in Kosovo have removed their local taxes, while very few of them impose some symbolic lump-sum taxes that do not hinder the development of businesses.

A few businesses, on the other hand, while recognizing the low level of taxes, believed that some taxes constrain small businesses, as they find it difficult to compete with larger companies; therefore, they proposed that small businesses should be exempt from these taxes.

> "Focus group participants generally claimed that businesses rarely show up in public debates, despite being invited. The reason behind the negligence of businesses is linked to their lack of trust towards institutions."

A discussant of Region North brought up the problem of tax collection. According to them, taxes imposed to businesses are collected selectively. One respondent from this region stated, *"Some businesses are more privileged in terms of taxes as they finance the activities of political parties."* Based on their answers, this selective collection of taxes negatively impacted the business climate as it creates room for unfair competition.

Overall, taxes in Kosovo, regardless of region, seem not to have a substantial negative impact on the development of businesses. However, according to focus group participants, there should be mechanisms to avoid the selective collection as it harms the competition among businesses.

5.2. Relation between businesses and institutions

This sub-section provides the views of participants taking part in focus group discussions on the role of Kosovo institutions towards the development of businesses. More specifically, this sub-section attempts to provide the perspectives of focus group participants on the involvement of businesses in policy making, financial support of central and local government, and the role of RDAs.

a) Involvement of businesses in policy-making

When stakeholders were asked whether businesses have been invited during policy drafting processes, nearly all participants said yes. *"The municipality of Novoberd consists of 230 businesses. All these businesses have been invited when the municipality drafted strategies for local economic development and other documents. They are invited via emails and physical invitations",* reported one participant from the municipality of Novoberd in Region East.

The problem for almost all municipal representatives who participated in focus group discussions was the fact that businesses rarely showed up to debates organized by municipalities, despite being invited. *"Although we sent 540 invitations to businesses for a public debate, only seven of them attended the debate",* said one participant from a municipality in Region North. Moreover, there were cases when businesses entirely boycotted the call for participation in public debates. One discussant from a municipality in Region North reported, *"The most disturbing fact is that, until now, only administrative officials working for our municipalities have attended our debates."*

According to many municipality officials, the reason behind the negligence of businesses is linked to their lack of trust towards institutions.

"This happens [negligence of businesses], because our society is still dominated by a mentality where businesses say that, whether attending debates or not, laws and/or regulations will be as institutions want", noted one participant from Region North. Another discussant from an NGO in Region East pointed out, *"Businesses have the impression that all meetings organized by their municipalities are just improvisations as municipalities want to look like they are more inclusive. This business impression derives from the fact that nothing proposed by businesses who attended municipality meetings in the past was taken into consideration."* Similarly, one respondent from Region South noted, *"Businesses are disappointed as they think that nothing can come out of those [municipality] meetings. They think that these debates are organized by municipalities just for the sake of fulfilling formal obligations."* On the other hand, there were a few businesses who blamed the municipalities for not being very clear when inviting businesses. While talking about one 'failed' debate, organized in a municipality in Region North, one municipality representative reported, *"The problem stands on us [. . .] after discussing about the unsatisfactory attendance of businesses, we concluded that we could not make it clear to businesses about the importance of the meeting; we didn't clarify to businesses the fact that their participation and their suggestions could have led to a better regulation."*

b) The level of financial support by the central government and local governments

When asked to discuss if there has been any state subsidy that has contributed to the growth of SMEs over the last years, nearly all participants mentioned that the subsidies are predominantly given to the agricultural sector. *"There have been subsidies from central and local government dedicated only for agribusinesses",* reported one participant from Region North. *"The Ministry of Agriculture is subsidizing open greenhouse systems, dairies, and other agricultural products over the last two years. We have progressed in this regard",* said one discussant from Region East.

A number of participants declared that they had not been very satisfied with the selection criteria for the agricultural grants and subsidies. For instance, one participant from Region North noted, *"The selection of agricultural grantees has been very problematic because of the fact that those who had to decide about grants have been biased. My family members have applied for the grants provided by the Ministry of Agriculture, but they have not been selected in spite of the fact that they met all the criteria."* Moreover, according to one participant from the same region, the agricultural grants were distributed based on political interests, rather than transparent criteria. However, there were a few participants who pointed the finger at agribusinesses for the selection process. According to them, many farmers were not capable of fulfilling the application forms.

An overwhelming majority of participants, regardless of region, reported that almost nothing has been done by the central government to financially support SMEs of other sectors. One discussant from Region West declared, *"Our government has never supported businesses in terms of subsidies. The Ministry of Trade and Industry has not provided any financial help to businesses."* Moreover, one participant from Region Centre stated, *"Other sectors apart from agriculture, such as the IT sector, should be subsidized, as they have never been subsidized by the central government before."*

When participants were asked if there have been subsidies provided by the local governments over the last years, many participants declared that their municipalities supported a few businesses, but they were aware that it was not sufficient to meet the needs of most businesses. They pointed out that the limited budget constrained them to be more supportive of businesses. *"The financial support of municipalities for businesses is very solid",* reported one participant from Region East. According to a municipality representative participating in the Region South discussion, *"Our budget capacity does not allow municipalities to make a significant help in the advancement of businesses."*

Region North seem to stand out from other regions with respect to the financial support provided by its local government. Participants, regardless of municipality, pointed out that their municipalities have provided some funds to the corresponding firms. For example, according to one participant from Region North, his municipality provided grants to businesses with amounts reaching €5,000. Another participant of this region reported that his municipality supported the growth of SMEs as they drafted a scheme for businesses employing more than 10 employees.

It is worth noting that there were a few participants who reported that their municipalities have served as a bridge between international organizations and businesses. *"My municipality was a mediator of international donors and businesses. This was the only help we could give to businesses, bearing in mind the limited financial capacities",* claimed a municipality representative from Region West.

Overall, the focus group results reveal that, apart from agricultural subsidies/grants, businesses have been largely neglected by central as well as local government.

c) RDAs and their role

When focus group participants were asked about the importance of RDAs, all of them expressed their gratitude for the help provided by their corresponding RDAs. However, they could not relate it much with businesses. Following are some of their statements about the role of RDAs:

"C*ooperation with RDA has been fruitful. RDA staff members have expressed their willingness to help us depending on our needs and requests. Until now, we have cooperated in idea design, implementation, and drafting of municipal strategies." (Region East)*

"RDA is a regional agency and has functioned quite well in support provided to municipalities but also in acting as a bridge between businesses. RDA has done a professional job, but there is still room for improvement." (Region East)

"For this period we have applied in numerous projects and our RDA never hesitated to offer us help and support in drafting the applications." (Region North)

"Undebatable is the fact that RDAs should continue operating. Personally, I have had a fruitful cooperation with our RDA. We have had concrete projects that we have jointly implemented. I hope that RDAs will expand their activities and increase the staff number." (Region North).

"Grants received from EU have been assisted by the EU." (Region West)

5.3. Evaluation of regional development strategies

In 2009, a group of economic stakeholders involving municipalities, business organisation representatives, and enterprises, led by RDAs, drafted five development strategies (one for each region) for the period 2010-2013. These strategies, among other things, listed a number of socio-economic priorities that were to be addressed in the given period. In order to quantitatively evaluate whether these priorities were realised throughout the foreseen years, the focus group participants were asked to rate each priority from 1 to 5. Out of their ratings, using the same methodology explained in the survey chapter, intensities ranging from 20-100 are generated. A score of 20 means that the priority has not been addressed at all; whereas, a score of 100 means that the priority has been fully addressed.

The development strategy for Region Centre included the following priorities: (1) *improving business competitiveness*; (2) *improving the workforce and increasing employment*; and (3) *improving infrastructure, services and environment*. According to the responses of focus group participants, the first priority has been addressed vis-à-vis the other two priorities. To be more specific, the first priority received an intensity score of 72, whereas the other two priorities received scores of 64 and 62, respectively (see Table 13). Generally, one can say that there has been some work done in addressing these priorities, but still a lot remains to be done in the future.

Priorities included in the development strategy for Region East are the following: (1) *economic development of the region*; (2) *development of economic infrastructure*; (3) *human resources development*; and (4) *institutional strengthening and international and interregional T integration and cooperation*. Focus group results reveal that these priorities have remained largely unaddressed. Each of the first three priorities received a score of 58.3. The intensity for the last priority is slightly lower, at 56.4 (see Table 14). The scores indicate that the four identified priorities are partially addressed.

The contributors of regional development strategy for Region South agreed on the following priorities: (1) *development of the business environment*; (2) *development of agriculture and food processing industry*; and (3) *development of tourism*. The respondents of this region seem to be dissatisfied with the realisation of priorities. The first priority is rated with a score of 62.2; the second with 57.8, and the third with a score of 53.3 (see Table 15).

The three priorities included in the development strategy of Region West are: (1) *creating the conditions for sustainable economic growth*; (2) *stimulating an innovative and competitive business base*; (3) *developing west Kosovo's human capital*; and (4) *community based sustainable development.* The second and the third priority received same intensity scores of 50. The first priority received a slightly greater intensity (52.5); whereas, the fourth priority received a slightly lower score (45) (see Table 16). According to these results, very little effort has enacted in addressing these priorities.

Table 13.
Priorities and their intensity scores in Region Centre

Score		Priorities – Region Centre
72.0	1	Improving business competitiveness
64.0	2	Improving the workforce and increasing employmernt
62.0	3	Improving infrastructure, services and environment

SOURCE: AUTHOR'S OWN CALCULATIONS FROM THE SURVEY DATA

Table 14.
Priorities and their intensity scores in Region East

Score	Rank	Priorities – Region East
58.3	1	Economic development of the region
58.3	2	Development of economic infrastructure
58.3	3	Human resources development
56.4	4	Institutional strengthening and international and interregional T integration and cooperation

SOURCE: AUTHOR'S OWN CALCULATIONS FROM THE SURVEY DATA

Table 15.
Priorities and their intensity scores in Region South

Score	Rank	Priorities – Region South
62.2	1	Development of the business environment
57.8	2	Development of agriculture and food processing industry
53.3	3	Development of tourism

SOURCE: AUTHOR'S OWN CALCULATIONS FROM THE SURVEY DATA

Table 16.
Priorities and their intensity scores in Region West

Score	Rank	Priorities – Region West
52.5	1	Creating the conditions for sustainable economic
50.0	2	Stimulating an innovative and competitive business base
50.0	3	Developing west Kosovo's human capital
45.0	4	Community based sustainable development

SOURCE: AUTHOR'S OWN CALCULATIONS FROM THE SURVEY DATA

Table 17.
Priorities and their intensity scores in Region North

Score	Rank	Priorities – Region North
62.0	1	Development of an ecologically acceptable region with rational utilization of natural resources
58.0	2	Improvement of competitive business environment
55.0	3	Development of agricultural production, services, processing industry
53.0	4	Strengthening of human resources and increase of employmentse

SOURCE: AUTHOR'S OWN CALCULATIONS FROM THE SURVEY DATA

In the development strategy of Region West the following priorities are included: (1) *development of an ecologically acceptable region with rational utilization of natural resources*; (2) *improvement of competitive business environment*; (3) *development of agricultural production, services, processing industry*; and (4) *strengthening of human resources and increase of employment.* The results for this region are similar with the ones of other regions, indicating that very little effort has been put into addressing the four priorities. The first priority received an intensity score of 62, the second one 58, the third 55, and the fourth 53 (see Table 17).

5.4. Sectors with growth potential

This section reveals the quantitative responses of focus group participants regarding the potentials of economic sectors in all of Kosovo, as well as across its regions. A list of nine sectors (tourism, agriculture, wood processing, food processing, wholesale and retail, electronic industry, construction, textile, and real estate) was given to participants and they were asked to rate each sector from 1 to 5, where 1 represents no growth potential, while 5 represents the highest growth potential. In order to be ranked, intensity scores ranging from 20 to 100 are generated. The higher the intensity scores, the higher is expected to be the growth potential of a sector. Given that these results represent the views of only 50 business stakeholders, they should be interpreted with caution.

The results of the focus groups reveal that, on average, the most promising sector in Kosovo for the near future will be agriculture. The interviewed business stakeholders rated this sector with an intensity score of 87.1. This is not surprising given that roughly 53 percent of Kosovo's land surface is agricultural land (10 percentage points higher than Macedonia, for instance) (MTI, 2014). This agricultural sector is followed by the tourism and food processing industries with roughly 76 and 73 intensity points, respectively. The list of nine sectors is trailed by real estate, with an average score of 52, which was somewhat expected given that the market for this sector is saturated.

The most promising sectors by region, according to the perceptions of participants, are as follows. In Region Centre, agriculture is expected to be the most promising sector with a score of 93, followed by food processing (78), electronic industry (74), and wood processing (74). In Region East, agriculture will also be the most promising sector with a score of 93, followed by food processing and tourism with 80 intensity points each, and wholesale and retail with 75. In Region Centre, again agriculture is projected to be the sector with the highest growth potential, with a score of 80, followed by tourism (78), and construction (73). In Region North, agriculture appears to be the most promising sector with a score of 85, followed by construction (74), and wood processing (71). In Region West, unlike in the other four regions, tourism is expected to be the sector with the highest growth potential, with a score of 86, followed by agriculture (85), and electronic industry (71). The exact intensities for each sector are provided in Table 18.

Focus group results reveal that, apart from agricultural subsidies/grants, businesses have been largely neglected by central as well as local government.

Priorities included in the regional strategies have been partially addressed.

TABLE 18: THE POTENTIAL OF KOSOVO SECTORS IN THE NEAR FUTURE (IN INTENSITY SCORES)

SOURCE: AUTHOR'S CALCULATIONS FROM THE SURVEY DATA

Sector	Kosovo	Centre	East	South	North	West
Agriculture	87	93	93	80	82	85
Tourism	76	70	80	78	64	86
Food Processing	73	78	80	71	69	65
Wood Processing	68	74	70	60	71	63
Wholesale and Retail	68	75	71	64	55	85
Construction	67	64	68	73	74	53
Electronic Industry	61	74	55	49	55	71
Textile	53	68	52	38	60	43
Real Estate	52	46	52	58	60	50

Focus groups participants revealed that agriculture is the most promising sector for the near future in all regions.”

CONCLUSION AND RECOMMENDATIONS

This report provides a thorough assessment of the business climate in Kosovo, as well as in its five economic regions. It examines this topic in three time periods: the past (2009-2012), the current (2013), and the future (2014-2017). Regarding the methodology, the report first draws on quantitative data, where a survey of 1,000 businesses was conducted (200 per region). The survey was conducted only with business managers or firm owners in order to make the collected data more credible. In addition, the report draws on qualitative data, where Riinvest staff arranged five focus group discussions (one per region) with municipal officials, representatives from civil society, business associations, media, etc.

Business performance is assessed based on the turnover trend, net profit rate, number of workers, and salary trend collected via the survey. With regards to turnovers in the last four years, the findings of the survey suggest that roughly 56 percent of businesses claimed that their sales have either gone up or remained the same.

On the other hand, around 44 percent said that the sales have actually gone down. In this respect, Region North and Region Centre have been performing best, while Region South and Region East, and particularly Region West have been performing poorly. When asked about the expected sales four years from now, 76.2 percent of the surveyed businesses expect to perform at the same pace or even better, while the remaining businesses believe that they will experience declines. In this regard, Region North is expected to perform best compared to other regions.

The findings of the survey reveal that the rate of profit for Kosovo businesses for the current period is 22.2 percent. All economic regions turned out to be close to the national average in this respect. The results also reveal that the average number of employees in Kosovo firms is 6.8 – that is a 1 employee increase, on average, compared to 2009. This average is predicted to be higher in the next four years, specifically 8.7. The average number of employees is greater in Region Centre as opposed to the national average.

As far as employee salaries are concerned, it turns out that the average monthly salary in Kosovo businesses stands at around €228. The majority of the interviewed managers/owners, around 52 percent, indicated that there has been no change in the level of salaries over the last four years; meanwhile 35 percent reported that they have increased the salaries for their employees. Businesses of Region Centre and Region North appear to increase the level of salaries more than other regions. Finally, around 91 percent of the managers/owners expect to either increase employees' salaries or keep them the same, while only 9 percent expect to cut them down. Region Centre turns out to be the region with the highest percentage of businesses that expect to reduce the salaries.

An important part of this report is the analysis of barriers to doing businesses. The interviewed businesses in the survey were asked to evaluate the severity of 23 potential obstacles to business entry and development. Obstacles can vary in intensity from a minimum of 20 up to a maximum of 100, with higher scores signifying greater level of negative effect to firms.

The findings of the survey at the national level reveal that *'high cost of finance'* topped the list of perceived obstacles, followed by *'corruption'*, *'unavailability of state subsidies'*, *'unfair competition'*, and *'non-functioning court system'*. The intensities scores reveal that these five barriers are very pressing for business entry and development. The same composition of barriers with the same ranking appears in 2009, though with higher intensity scores. The order of these barriers is projected to be the same in the near future; however, it is encouraging that their intensity scores are expected to plummet, which means that they will become less impeding to the growth of businesses.

A very notable feature of the general ranking of obstacles is that infrastructural barriers, namely '*lack of power availability*', '*inadequate transportation infrastructure*', and *'lack of telecommunication facilities'* have improved the most over the last four years. Such improvement is a direct result of the orientation of government towards the infrastructure and energy sectors in Kosovo. Financial barriers, especially *'high cost of finance'* and *'limited access to finance'* are expected to mark the greatest improvement in the upcoming years. Infrastructural barriers, on the other hand, are believed to move down the least, which is understandable provided that they are already minor obstacles.

Amongst financial barriers, '*high cost of finance*', mostly due to high interest rates, is perceived to be as the most challenging over the three time periods of the study. Of the informality-related obstacles, it turns out that businesses are often confronted with *'corruption'* and *'unfair competition'*. A breakdown of results by region reveals that businesses of Region West suffer the most from these informal phenomena. In the list of fiscal barriers, *'high tax rates'* is believed to be the most serious barrier by the surveyed businesses in all economic regions and all time periods of the study. Amongst legal barriers, *'inefficiency of courts'* seems to be the most pressing challenge for businesses over the three time periods. In the list of institutional barriers, *'unavailability of state subsidies'* appears to be the most pressing issue by far for businesses of all regions.

Labour-related barriers and infrastructural barriers (i.e. *'lack of labour motivation'*, *'lack of telecommunication facilities'*) stand at the bottom of the list; none of them appears to pose any significant challenge to the interviewed businesses. It is worth noting that regardless of how severe the barriers are currently, all of them are expected to become less problematic in the next four years.

This study also provides a picture of how businesses consider the services provided by their government, municipalities, and RDAs. The results at the national level show that over 50 percent of them perceive the services to be either poor or very poor. Firms of Region West appear to be least satisfied with the services provided by their corresponding municipality. Furthermore, the majority of the surveyed businesses, 78 percent, claimed that the support (e.g. subsidies, tax reliefs, if any) provided by their municipalities or the government in the last four years have not contributed to the development of SMEs.

The highest percentage is in Region South. The findings reveal that over 93 percent of the interviewed businesses stated that they never received any invitation from their municipality when business-related policies were drafted, indicating that public debates are rarely organized, to say the least, by their municipalities. A breakdown of results by region reveal that municipalities of Regions Centre, East and West are the least inclusive when it comes to drafting business-related policies. Finally, the majority of businesses, around 68 percent, perceived the services provided by their RDA to be either poor or very poor. Region South turns out to be the region with the largest proportion of businesses who are not satisfied with the services provided by RDAs. Around 64 percent of the surveyed firms suggested that RDAs have not any impact on the growth of SMEs. Results across regions do not differ much from the national average.

Barriers to doing business were discussed in focus group discussions as well. With regards to labour-related barriers, an overwhelming majority of participants, regardless of region, expressed their concerns with the education and skill level of employees. According to them, people in the labour force are not qualified enough to meet the demands of the market. With regards to infrastructural barriers, nearly all participants have been appreciative of the government's investments in capital infrastructure over the recent years. When discussing financial barriers, the majority of participants acknowledged the fact that financial institutions do not issue loans that are convenient enough to help firms overcome their financial challenges. When asked to discuss the impact of the business obstacles associated with the judiciary system, a great number of focus group participants recognized the negative impact. However, based on some participants, the outlook seems encouraging as some initiatives have been undertaken to improve the system.

Furthermore, focus group discussions covered a topic that aimed to scrutinize the relations between businesses and institutions. When participants were asked whether businesses were invited to take part when business-related policies were drafted, a majority of them said yes.

According to participants, the invited firms rarely show up to debates, and this is associated with the lack of trust towards institutions. When discussing the financial support given to businesses by the government and their municipality, nearly all participants pointed out that the financial subsidies have been offered predominantly to the agricultural sector. In regards to RDAs, all participants in focus group discussions expressed their gratitude for the technical support given by their corresponding RDAs. However, they could not relate it much with the development of Kosovo firms.

Finally, focus groups participants discussed the sectors with the highest potential for growth. The results reveal that the agriculture sector is the most promising for the near future in all regions.

In line with general survey and focus group results presented in this study, the Riinvest team provides the following policy recommendations. Note that in the case of business barriers, recommendations are given only for the group of barriers that turned out to be more serious to Kosovo firms.

On financial barriers:

- Financial barriers driven by high cost of finance and limited access to finance could be reduced by functionalizing the cadastral system. This will make the execution of pledged collateral and mortgages less problematic.

- Courts should increase the number of judges in order to hasten the cases appealed by financial institutions. The risk of not being able to execute the collateral due to the inefficiency of courts has been translated into high interest rates for its clients. Therefore, this reform will most likely lead to lower interest rates as financial institutions realize that cases will be resolved in a much shorter period of time.

- Central bank of Kosovo should relax its criteria for licensing new financial institutions. The establishment of new financial institutions will most likely drive the interest rates down as the competition in this sector will increase.

- The government of Kosovo, NGOs, universities, and other competent institutions should look into providing training on financial literacy for Kosovo entrepreneurs. This will make entrepreneurs more accurate and convincing when applying for a business loan in a financial institution.

- The capital accumulated from the privatization process should be entered into circulation via the establishment of a development bank, whose main role would be to facilitate the growth of Kosovo SMEs.

- The government should work on reducing general business environment risk, through improving courts, tackling informality, avoiding double-book keeping, etc.

On informality-related barriers:

- The government should put more effort into developing a more effective and efficient tax inspectorate. It should also make sure that this body operates in a transparent and accountable manner. This will avoid the biased treatment towards some businesses that has led to unfair competition and informality in general.

- The government of Kosovo should adopt and enforce serious anti-corruption policies. This could reduce tax evasion both by increasing voluntary compliance and by better performance of enforcement mechanisms.

- The government should establish a financial police body exclusively responsible for dealing with tax evasion and other informality-related issues.

- The government should also improve the link between revenues collected and revenues spent. This will drive positive responses of taxpayers towards the government and other relevant institutions.

- The tax administration should further increase the penalties for non-compliant firms. This will decrease the likelihood of firms choosing to operate informally.

- Audit rates should be focused on sectors that include higher rates of cash transactions. In such sectors, legal obligations for possession of receipts by consumers would facilitate the engagement and efficiency of tax inspections.

- Opinion makers should use moral obloquy as a tool to improve collection rates. Tax evaders, cheaters and corrupted officials should be treated publicly in order to discourage shameful acts in the future.

- More vulnerable industries where employee under-declaration is more prevalent should be targeted. In this case, the action should be fair and balanced towards all industries to ensure that industrial productivity does not fall as a consequence.

On fiscal barriers:

- The government should reduce the tax burden, not necessarily by reducing tax rates, but through reducing additional costs associated with tax payments such as, reporting costs, bureaucratic costs etc. Some of these costs create opportunities for corruptive behaviours by officials.

- Kosovo institutions should work more on harmonising its products/services with international standards. The harmonisation of standards will facilitate the flow of goods and services between Kosovo and other countries.

On legal barriers:

- The government and other NGOs dealing with rule of law should be engaged more in awareness-raising campaigns on commercial arbitration recently established in Kosovo and on other mediation opportunities.

- The number of judges should be increased in order to increase the efficiency in the court system and shorten the time taken to process businesses cases.

- The Kosovo Judiciary Council should advocate more to secure better facilities, salaries for judges, and other resources needed in courts (e.g. adequate number of courtrooms).

- A data management systems should be developed that could be used to improve the efficiency, transparency, and accountability of the court system, especially of the commercial court. The system will be used to track and monitor business cases and other relevant information and data.

On labour force-related barriers:

- Universities in Kosovo, both public and private, should work on matching their curriculums with market needs, as there is a great discrepancy between the two. As a result, businesses will be able to find workers who are able to contribute immediately to the job without preliminary training.

- A well-developed vocational education and training system should be established since the current one is not synchronized with the needs of the job market. Consequently, vocational trainees will be able to acquire the qualifications demanded by the job market.

- The government and NGOs dealing with labour rights should provide training to business owners or managers on the importance of employee motivation given that lack of motivation constrains the everyday operations of businesses.

On institutional barriers:

- The government of Kosovo should design grant/subsidy schemes to encourage the development of sectors with high growth potential. In addition, it should protect those domestic businesses that have to compete with the businesses of importing countries benefiting from state subsidies.

- The government should design investment schemes subject to sector, number of employees, and turnovers.

On relations between businesses and institutions:

✓ ***On services, openness, and financial support of municipalities:***

- Municipalities around Kosovo should train their employees in order to make them more responsive to the needs of businesses. In addition, municipality employees that deal with businesses should be regularly evaluated to ensure that they accomplish the assigned tasks properly and in a timely manner.

- Municipalities should be more inclusive when making business-related policies. Town hall meetings[5] could be a way to involve businesses more in drafting policies for them.

- Municipalities should consider opening SME/Investment offices made of experts who annually assess the Kosovo market, identify sectors with high growth potential, and draft incentive schemes for them. In this way, municipalities will become more active in supporting the creation and development of SMEs.

✓ ***On the financial support provided by the government:***

- The government should develop a detailed, concrete industrial policy strategy as other countries of the Balkans have. It should be a bottom-up strategy as an encompassing framework taking into account the views of businesses, policy makers, and academia. Out of this country strategy, coordinated supportive programs can be drafted.

- In the meantime, the government, particularly the Ministry of Trade and Industry, should draw investment incentive schemes that financially support certain activities of the companies that plan to make large investments. Additionally, they should give subsides subject to the number of jobs created.

✓ ***On RDAs services and their support to economic growth:***

- RDAs should promote their role to businesses more, as it appears that a great number of businesses do not know about the benefits that they can get out of these agencies. Promotion could be via different media channels, including social media.

- RDA should orient their activities more towards addressing the concerns of businesses. Their assistance to businesses directly, not via public institutions, will result in more tangible results.

5 A town hall meeting is an American term given to an informal public meeting, function, or event derived from the traditional town meetings of New England. Typically open to everybody in a town community and held at the local municipal building, attendees generally may voice their opinions and ask questions of the public figures, elected officials, or political candidates at the town hall.

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APPENDIX

TABLE A1. DEFINITIONS OF BARRIERS

BARRIERS	DEFINITIONS
Limited access to finance	It refers to difficulties associated with securing loan documents, guarantees, and other documents needed to receive financial loans.
High cost of finance	It represents interest rates and other administrative costs that businesses have to pay when applying for a business loan in a financial institution.
Unavailability of state subsidies	It refers to the level of financial support by the government or municipalities and difficulties to compete with foreign competitors who receive support from their governments.
Lack of telecommunication facilities	It takes into account internet penetration and phone network coverage, as well as their tariffs.
Lack of power availability	It refers to difficulties associated with the arrangement of new power supply connections, power cuts, and electricity tariffs.
Inadequate transportation infrastructure	It refers to challenges with city roads, inter-city roads, and railways.
Limited access to land	It refers to challenges related with the price of land and documents to acquaint it.
Problems related to parking vehicles	It refers to difficulties associated with finding parking slots on time.
High tax rates	It represents the problems deriving from the high level of corporate taxes, income taxes, excise taxes, VAT and other indirect taxes.
Inefficient tax administration	It refers to unprofessional staff working for tax administration; it also captures the insufficient number of inspectors in this administration.
High customs tariffs and heavy trade regulations	It refers to problems associated with tariff and non-tariff trade barriers.

BARRIERS	DEFINITIONS
Inefficient business licensing and permits procedures	It refers to the cost and time businesses need to receive a licensing or a permit from competent institutions.
Lack of educated and skilled workers	It refers to difficulties deriving from the low skills and low educational level of workers available in the labour market.
Non-functioning court system	It refers to difficulties related with legislation, number of judges, and inefficiency of courts in general.
Corruption	It refers to challenges associated with dishonest or fraudulent conduct by those in power, typically involving bribery.
Street crime, theft, and disorder	It refers to the vandalism of mafia occurring in the places where businesses operate.
Unfair competition	It refers to difficulties arising from competition on unequal terms mostly because of tax evasion and informality in general.
Small market size	It refers to problems associated with the insufficient number of potential purchasers.
Lack of labour motivation	It refers to the problems deriving from the low motivation of workers to accomplish their assigned tasks.
Extortion	It refers to the money businesses have to give because of threats from organized crime groups
Contract violations by customers and suppliers	It refers to problems businesses face with respect to the enforcement of contracts.
Difficulties in collecting debt	It refers to difficulties associated with the collection of debts suppliers or customers have to businesses.
Unfavourable labour law	It represents the problems associated with the implementation of the labour law enacted by the end of 2010.

TABLE A2. THE RANKING OF BARRIERS TO DOING BUSINESS IN REGION CENTRE (IN INTENSITY SCORE)

		Current	4 Years ago	4 years from now
1	High cost of finance	76.4	78.0	64.1
2	Unavailability of state subsidies	75.5	78.2	65.1
3	Corruption	74.9	75.8	64.2
4	Unfair competition	73.4	73.5	60.6
5	Problems related to parking vehicles	69.7	73.0	61.5
6	High tax rates	68.4	70.1	58.8
7	Non-functioning court system	68.4	70.2	58.9
8	Small market size	65.5	63.7	57.8
9	Street crime, theft, and disorder	62.5	65.3	56.9
10	Limited access to finance	61.9	62.4	51.8
11	Difficulties in collecting debts	59.7	58.9	50.8
12	Limited access to land	55.3	56.4	49.6
13	High customs tariffs and heavy trade regulations	53.9	56.8	45.4
14	Lack of labour motivation	52.8	52.8	44.4
15	Unfavourable Labour Law	45.2	48.1	40.8
16	Inadequate transportation infrastructure	43.9	50.9	38
17	Inefficient tax administration	43.9	45.3	42.1
18	Lack of educated and skilled workers	43.8	48.3	38.6
19	Inefficient business licensing and permits procedures	41.7	45.6	38.2
20	Contract violations by customers and suppliers	41.5	42.5	37
21	Lack of power availability	41.0	63.1	36.9
22	Extortion	34.7	36.4	35.6
23	Lack of telecommunication facilities	34.3	43.0	32.2

SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

TABLE A3. THE RANKING OF BARRIERS TO DOING BUSINESS IN REGION EAST (IN INTENSITY SCORES)

		Current	4 Years ago	4 years from now
1	High cost of finance	88.8	89.2	70.3
2	Unavailability of state subsidies	83.5	82.9	66.3
3	Unfair competition	83.3	84.4	67.8
4	Corruption	82.1	83	71.4
5	High tax rates	77.8	79.8	64.8
6	Non-functioning court system	77.2	79.1	67.7
7	Limited access to finance	70.7	72.8	56.7
8	Street crime, theft, and disorder	69.6	70.5	62.1
9	High customs tariffs and heavy trade regulations	67.1	68.2	56
10	Problems related to parking vehicles	64.4	62.8	54.5
11	Small market size	63.5	61.8	48.6
12	Difficulties in collecting debts	62.7	63.3	48.4
13	Inefficient tax administration	59.7	62.7	50.4
14	Limited access to land	57.4	60	49.5
15	Unfavourable Labour Law	47.9	48.6	42.4
16	Lack of power availability	45.6	76.9	34.4
17	Contract violations by customers and suppliers	45.6	45.9	36.9
18	Lack of labour motivation	44.9	44.8	38.2
19	Inadequate transportation infrastructure	43.9	53.3	34.8
20	Lack of educated and skilled workers	43.3	47.7	35
21	Inefficient business licensing and permits procedures	40.9	43.7	35.8
22	Lack of telecommunication facilities	35.7	45.1	30.9
23	Extortion	32.4	31.2	30.4

SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

TABLE A4. THE RANKING OF BARRIERS TO DOING BUSINESS IN REGION SOUTH (IN INTENSITY SCORES)

		Current	4 Years ago	4 years from now
1	High cost of finance	83.8	82.2	70.6
2	Unavailability of state subsidies	83.4	83.9	70.1
3	Unfair competition	77.3	76	65.7
4	Corruption	77.3	77.7	68.6
5	High tax rates	76	75.2	62.9
6	Non-functioning court system	73.2	73.1	63.7
7	High customs tariffs and heavy trade regulations	72.3	69.8	60.7
8	Problems related to parking vehicles	71.8	72.5	65.9
9	Street crime, theft, and disorder	71.6	73.5	62
10	Difficulties in collecting debts	69.9	69.3	60.1
11	Limited access to land	69.9	69.9	60.1
12	Small market size	66.1	67.1	60.1
13	Extortion	59.3	59.7	53.7
14	Unfavourable Labour Law	57.7	57.3	47.3
15	Inefficient business licensing and permits procedures	57.7	60.5	49.5
16	Lack of labour motivation	57.4	56.1	50.8
17	Limited access to finance	54.4	65.2	48.2
18	Contract violations by customers and suppliers	54	54.9	45.3
19	Lack of educated and skilled workers	51.3	54.3	43.7
20	Inefficient tax administration	49	52.3	40.2
21	Inadequate transportation infrastructure	47.5	62	41.7
22	Lack of power availability	45.6	73.8	38.6
23	Lack of telecommunication facilities	39.4	54.8	34

SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

TABLE A5. THE RANKING OF BARRIERS TO DOING BUSINESS IN REGION WEST (IN INTENSITY SCORES)

		Current	4 Years ago	4 years from now
1	Corruption	91.2	92.4	77.4
2	Unfair competition	86.1	86.1	75.7
3	High cost of finance	85.3	85.6	72.4
4	Street crime, theft, and disorder	83.7	85	68.7
5	Non-functioning court system	82.4	85.5	73.6
6	Unavailability of state subsidies	81.1	82.9	70.5
7	High tax rates	76.9	78.9	63.2
8	Small market size	76.1	75.8	65.3
9	High customs tariffs and heavy trade regulations	72.6	75	63.2
10	Problems related to parking vehicles	70.6	71.7	63.2
11	Limited access to finance	68.2	71.5	55.9
12	Extortion	66.7	68.5	51
13	Limited access to land	63.8	66.2	58.4
14	Unfavourable Labour Law	62.1	64.1	50.8
15	Lack of labour motivation	59.4	61	48.9
16	Contract violations by customers and suppliers	57.8	61.6	49.5
17	Inefficient tax administration	57.2	61.1	50.4
18	Difficulties in collecting debts	55.9	59.3	48.8
19	Inefficient business licensing and permits procedures	55.8	62.6	47.8
20	Lack of educated and skilled workers	53.4	57.7	43.3
21	Inadequate transportation infrastructure	49	55.8	43.3
22	Lack of power availability	42.6	64.4	35.3
23	Lack of telecommunication facilities	40.3	45.3	34

SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

TABLE A6. THE RANKING OF BARRIERS TO DOING BUSINESS IN REGION NORTH (IN INTENSITY SCORES)

		Current	4 Years ago	4 years from now
1	High cost of finance	83.8	82.2	70.6
2	Unavailability of state subsidies	83.4	83.9	70.1
3	Corruption	77.3	77.7	68.6
4	Unfair competition	77.3	76	65.7
5	High tax rates	76	75.2	62.9
6	Non-functioning court system	73.2	73.1	63.7
7	High customs tariffs and heavy trade regulations	72.3	69.8	60.7
8	Problems related to parking vehicles	71.8	72.5	65.9
9	Street crime, theft, and disorder	71.6	73.5	62
10	Limited access to land	69.9	69.9	60.1
11	Difficulties in collecting debts	69.9	69.3	60.1
12	Small market size	66.1	67.1	60.1
13	Extortion	59.3	59.7	53.7
14	Inefficient business licensing and permits procedures	57.7	60.5	49.5
15	Unfavourable Labour Law	57.7	57.3	47.3
16	Lack of labour motivation	57.4	56.1	50.8
17	Limited access to finance	54.4	65.2	48.2
18	Contract violations by customers and suppliers	54	54.9	45.3
19	Lack of educated and skilled workers	51.3	54.3	43.7
20	Inefficient tax administration	49	52.3	40.2
21	Inadequate transportation infrastructure	47.5	62	41.7
22	Lack of power availability	45.6	73.8	38.6
23	Lack of telecommunication facilities	39.4	54.8	34

SOURCE: AUTHORS' CALCULATIONS FROM THE SURVEY DATA

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