

# **An Overview of Doing Business in Western Balkan: The Analysis of Advantages of Doing Business in Kosovo and North Macedonia**

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## **Abstract**

Achieving sustainable market economies in the Western Balkan countries will depend on a number of barriers being overcome. For this reason, these countries lack competitiveness in the business environment. Many problems in the business environment are persistent but common problems across of the countries of this region are getting electricity and construction permits. These problems or barriers are set out in Doing Business Reports of World Bank. The paper reviews doing business in Western Balkan countries especially in Kosovo and North Macedonia. The main goal of this paper is to analyze of the advantages of doing business in Kosovo and North Macedonia, where does Kosovo stand in terms of doing business in relation to North Macedonia and what Kosovo needs to learn from North Macedonia in order to improve the business environment. To achieve the set goal, we have used the integrative review method. The results show that North Macedonia is a leader in the Western Balkans in doing business because the great campaign done by the Macedonian institutions for attracting Foreign Direct Investments (FDI). So, Kosovo should be based on North Macedonian practices. A new investment campaign in Kosovo would certainly have a positive impact on business environment.

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**Key words:** Doing Business; Kosovo; North Macedonia; Business environment; Western Balkan;

## 1. Introduction

The doing business environment is about the difficulties, advantages and disadvantages that enterprises face in a given country business environment. The institutions of the given country aim to eliminate all obstacles so that the business environment is as convenient as possible for all local and international companies. According to Kursunluoglu-Yarimoglu and Gur (2016) the Western Balkans consists of 6 countries: North Macedonia, Kosovo, Albania, Bosnia and Herzegovina, Serbia and Montenegro, which have similar economic, political and social indicators. These countries in long term should be supported by better level of education which will support the creativity and innovations in business activities (Qorraaj 2013, 47). Despite this, the region of Western Balkans has a lot of economic and human potential, and yet is not often considered by companies and entrepreneurs from other parts of the world.

So, the overview of doing business is the main reference point of all foreign companies that intend to invest in foreign countries. As can be seen from the table below, Kosovo in relation to the Western Balkan countries in terms of doing business environment, is ranked on the World Bank's list of 40. North Macedonia is in the best position compared to all the countries in this region. This country which is a neighboring country of Kosovo, in some macroeconomic indicators has similarities with Kosovo.

**Table 1:** Ease of Doing Business Rank of Western Balkan Countries

Western Balkan Countries	Ease of Doing Business Rank
Kosovo	40
Albania	65
Bosnia and Herzegovina	86
Serbia	43
North Macedonia	11
Montenegro	42

**Source:** World Bank Group 2018

However, North Macedonia has a much more favorable position in doing business reports than Kosovo, as a result of the more favorable conditions it offers for local and international companies. There are some facts about North Macedonia: Strategically located for future business expansion, first country in South East Europe to sign the Stabilization and Association Agreement (SAA) with the European Union in 2001, EU candidate country, Fast company registration, lowest taxes in Europe, Business-oriented Government, 10th ease of Doing Business World Bank's Doing Business 2019 Report, Free Trade Agreements with EU, EFTA, CEFTA countries, Turkey and the Ukraine, providing access to over 650 m customers, etc<sup>1</sup>.

In order to further improve the business environment, the Government of North Macedonia will take some measures: Measures aimed at enabling easier access to financing, Continuation of trade liberalization policies, Further public sector reform including the introduction of private sector investment in the public services and infrastructure sectors and Implementation of tax incentives through the creation of tax-free zones and a general reduction of the overall tax burden (PWC 2014, 16).

Despite being neighboring countries, Kosovo has lagged far behind in the issue and policies of improving the business environment. Kosovo has stalled and needs to learn from North Macedonia in order to improve its business environment. Therefore in this paper we will compare these two countries in order to know where Kosovo stands in relation to North Macedonia.

## **2. Doing Business in Kosovo**

Doing Business report gathers detailed and objective data on eleven areas of business regulation, helping governments diagnose issues in administrative procedures and correct them. This report measures complex regulatory processes by zeroing in on their quantifiable components, which can be contested, compared over time and across economies and, ultimately reformed.

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<sup>1</sup> Agency for Foreign Investments and Export Promotion of the Republic of North Macedonia, (2019), Facts about North Macedonia, Available from: <http://www.investinmacedonia.com/facts-about-macedonia/232-5th-best-in-starting-a-business-rankings>. [Accessed 8 October, 2019]

Since its launch in 2003, Doing Business has inspired more than 3,500 reforms in the 10 areas of business regulation. Sound and efficient business regulation is critical for entrepreneurship and a thriving private sector (A World Bank Group Flagship Report 2019, 2-3). Indicators of this report are:

**Business Establishment:** Measures procedures, time, minimum capital cost for starting a new business;

**Obtaining Construction Permits:** Indicates the time, costs, and procedures to complete all the formalities for building a warehouse;

**Borrowing Loans:** Measures indicators on mobile collateral laws and credit information systems;

**Property Registration:** Measures the procedures, time and cost of transferring a property, and the quality of the property management system;

**Minority Investor Protection:** Measures the rights of small shareholders in firm transactions as well as their corporate governance rights;

**Electricity:** An indicator that measures the time and costs to plug into the electricity system, their procedures, and the reliability or seriousness of the electricity supply and the transparency of electricity tariffs;

**Cross-Border Trade:** Measure the time and costs of exporting one product and importing another;

**Tax Payments:** Measures the payments, time and overall tax rate for a firm to comply with all tax regulations as well as post-filing processes;

**Business Closure:** Measure the Time, Cost, Outcome and Recovery Rate for a Commercial Bankruptcy and the Strength of Insolvency Legal Framework;

**Labor Market Regulation:** Measures flexibility over employment regulation and the quality of the workplace.

**Contract Implementation:** Measure the time and cost to resolve a commercial dispute and the quality of court proceedings (World Bank, 2018).

Despite this useful data, this report also has its drawbacks. According to Pula-Shiroka (2013) this report does not assess macroeconomic stability, corruption, security levels, etc. This report analyzes the above indicators only for a certain type of business. Also examples of aspects not included within the areas covered are: In paying taxes, personal income tax rates, in getting credit, the monetary policy stance and the associated ease or tightness of credit conditions for firms, in trading across borders, export or

import tariffs and subsidies and in resolving insolvency, personal bankruptcy rules<sup>2</sup>.

**Table 2:** Indicators of Doing Business in Kosovo

Indicators of Doing Business Report 2018	Ease of Doing Business Rank
Starting a Business	10
Obtaining Construction Permits	122
Getting Credit	12
Registering Property	34
Minority Investor Protection	89
Getting Electricity	106
Cross-Border Trade	48
Paying Taxes	45
Business Closure	49
Contract Implementation	49

**Source:** World Bank Group 2018

Kosovo has many advantages that would make it attractive for business development. Some of the benefits of doing business in Kosovo are:

Kosovo has an easy tax system. Besides that, its taxes are very low in comparison with other countries. Corporate tax in Kosovo is 10%, VAT is 18%;

Kosovo is 44th (out of 189) in ease of doing business. They ranked 86 in 2014;

Local currency in Kosovo is the euro, although the country is not a member of the Euro zone;

Kosovo is among the 15 best countries of the world in the category of starting a business;

The average monthly wage in Kosovo is around 430 euro since 2014;

Many Kosovars are used to working long days. Many do even work on weekend days and during public holidays;

Seven out of ten Kosovars are younger than 35 years old;

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<sup>2</sup> World Bank Group, (2017), About Doing Business, Available from:

<https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB17-Chapters/DB17-About-Doing-Business.pdf>. [Accessed 8 October, 2019]

There are opportunities abound. For example in the IT, wood, textile, agriculture, and mining sectors.<sup>3</sup>

Governments' reforms over the years have led to a number of indicators moving positively. Kosovo has significantly improved its ranking in doing business reports. In 2018 Kosovo made it easier to set up a business by simplifying the process of employee registration. Also Kosovo made bankruptcy easier by introducing a legal framework for corporate bankruptcy, making liquidation and reorganization procedures available to two sides.

Kosovo strengthened access to credit. The government adopted a new law that establishes clear priority rules within bankruptcy for insured creditors and clear grounds for relief from a stand for insured creditors. Meanwhile, tax payments were eased in 2017. Kosovo institutions introduced an online system for depositing and paying Value Added Tax and made it possible to pay less costly taxes by allowing more types of expenses to be deducted for calculating corporate income tax. Also in this year, Kosovo institutions implemented an Albania - Kosovo Transit Corridor and upgraded the automated customs data management system. In previous years, Kosovo authorities abolished the annual business license fee. Then they facilitated the implementation of contracts by introducing a private enforcement system, created an incorporation office, which facilitated the opening of new businesses, lowered the building permit fee and also they introduced a new system of notaries.

In conclusion according to Qorraj and Jusufi (2018) Kosovo is among the 10 economies worldwide that have undertaken significant reforms during 2016 and 2017 compared to previous years. Furthermore, they explain three main areas in which Kosovo performed deep reforms: simplifying business registration procedures, simplifying credit procedures, and simplifying insolvency procedures. The conclusion should be noted that the main challenges for the Western Balkan countries are revealed by the relatively small size of SMEs and their lack of innovation and internationalization. Therefore enterprises tend to be local market-oriented (Qorraj 2017, 140).

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<sup>3</sup> Kosovo info, (2019), Doing Business in Kosovo, Available from: <https://www.kosovo-info.com/doing-business-in-kosovo/>. [Accessed 9 October, 2019]

### **3. Doing Business in North Macedonia**

Macedonia's economic and financial stability is expressed through positive key economic indicators such as a steady GDP growth, low inflation rate, stable currency and excellent fiscal discipline confirmed by international financial institutions. Macedonia's exports have also had a positive track record (Macedonia Free Zones Authority 2017, 6). The years 2006, 2007 and 2008 saw a significant new wave of investment mainly arising from privatizations in the energy sector, and certain green-field investments in Macedonia's free economic zones (PWC 2012, 13).

North Macedonia is ranked 10 among 190 economies in the ease of doing business, according to the latest World Bank annual ratings. The rank of Macedonia improved to 10 in 2018 from 11 in 2017. Ease of Doing Business in Macedonia averaged 25.36 from 2008 until 2018, reaching an all time high of 69 in 2008 and a record low of 10 in 2016<sup>4</sup>. Therefore as a result of improving the business environment, over recent years, global brands such as Johnson Controls, Uniqa, Societe Generale, Sparkasse, Telekom Austria, Lukoil, Johnson Matthey, Vienna Insurance Group, T-Home, TAV, ArcelorMittal, Marquardt, IBC Israel, Gazit Globe Israel, Acibadem Healthcare Group, Porsche, Kromberg & Schubert, Dräxlmaier, Van Hool, Kemet Electronics, Gentherm, Lear, Leopold Kostal, Philip Morris and EVN have set up operations in North Macedonia (KPMG in Macedonia 2017, 10).

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<sup>4</sup> Trading Economics, (2019), Ease of Doing Business in Macedonia, Available from: <https://tradingeconomics.com/macedonia/ease-of-doing-business>. [Accessed 9 October, 2019]

**Table 3:** Indicators of Doing Business in North Macedonia

Indicators of Doing Business Report 2018	Ease of Doing Business Rank
Starting a Business	22
Obtaining Construction Permits	26
Getting Credit	12
Registering Property	48
Minority Investor Protection	4
Getting Electricity	53
Cross-Border Trade	27
Paying Taxes	29
Business Closure	30
Contract Implementation	35

**Source:** World Bank Group 2018

For North Macedonia as well as for Kosovo, electricity is a weakness. As far as Cross-Border Trade, like Kosovo, North Macedonia does not have access to the sea. Therefore, it should use the ports of neighboring countries such as Albania, Bulgaria and Greece. Therefore, this creates additional costs, longer shipping time, etc. Macedonia has undertaken more reforms than Kosovo in the field of Registering Property (World Bank Group 2017).

North Macedonia institutions tightened access to credit by amending its laws to implement a functional insurance transaction system, offering modern collateral-related features. Also North Macedonia has strengthened the protection of minority investors by increasing shareholder rights and their role in major corporate decisions. It then imposed fines and jail terms on executives of firms involved in harmful and illegal transactions (World Bank Group 2016). Macedonia has made starting a business easier by introducing mandatory online business registration by certified agents.

North Macedonia facilitated insolvency settlement by establishing a framework for electronic auctioning of debtors' assets. It streamlined the timelines for bankruptcy proceedings and the appeals process and created a framework for out-of-court restructuring. As well North Macedonia institutions increased the transparency of bankruptcy proceedings through changes to its company and bankruptcy laws.

Regarding Obtaining Construction Permits, Macedonian institutions facilitated obtaining construction permits by reducing the time required to register a new building and authorizing the municipality to register the

building on behalf of the owner. North Macedonia made property registration faster and less costly by digitizing the real estate cadastre. Also makes tax payments easier for companies by encouraging the use of electronic filing systems and corporate income tax and value added taxes (World Bank Group 2015).

#### **4. The Advantages of Doing Business in Kosovo and North Macedonia**

Kosovo's citizens are the second poorest in Europe, after Moldova, with a per capita GDP (PPP) of \$9,600 in 2016 while North Macedonia has made progress in liberalizing its economy and improving its business environment. Its low tax rates and free economic zones have helped to attract foreign investment, which is still low relative to the rest of Europe. Corruption and weak rule of law remain significant problems for both countries<sup>5</sup>.

Based on the statistics and evidence presented in the tables above, Kosovo's advantages over North Macedonia are few. Kosovo takes precedence over indicators as Paying Taxes, Business Closure and Registering Property. Regarding Property Registering, there are fewer procedures in Kosovo than in North Macedonia, and the duration of transfer of a property is less than in North Macedonia. Import indicators in Kosovo (in procedures, time and documentation) are more positive than in Macedonia.

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<sup>5</sup> Index Mundi, (2019), Macedonia vs. Kosovo, Available from: <https://www.indexmundi.com/factbook/compare/macedonia.kosovo/economy>. [Accessed 9 October, 2019]

**Table 4:** Economic indicators of Kosovo and North Macedonia

Economic Indicators	North Macedonia	Kosovo
GDP - real growth rate	2.5%	3.5%
GDP - per capita	15,200	10,400
Population below poverty line	21.5%	30%
Labor force	950,800	483,200
Unemployment rate	23.4%	34.8%
Exports	\$4.276 billion	\$349 million
Imports	\$6.446 billion	\$2.687 billion
Debt-external	\$8.07 billion	\$1.4 billion
Current Account Balance	-\$261 million	-\$738 million
Gross national saving	26.1% of GDP	12.5% of GDP

**Source:** Index Mundi, 2019

The percentage of total taxes that companies pay within the current financial year and the number of tax payments per year are a priority for Kosovo compared to North Macedonia. But North Macedonia has more advantages in doing business than Kosovo. North Macedonian institutions have very good policies in terms of investor protection, conflict of interest laws and corporations, which enable better protection of shareholders by directors.

Companies in North Macedonia pay less taxes and their payment time is shorter than in Kosovo. Business closing times are shorter in North Macedonia than in Kosovo. Also North Macedonia has the highest quality of courts, but it ranks at the the timing of contract implementation is a problem for North Macedonia compared to Kosovo. The other area where both countries have the advantage is the Getting credit. Regarding Obtaining Construction Permits, North Macedonia is at an advantage because the procedures are shorter and smaller compared to Kosovo.

However according to the European Commission (2019) while specific indicators making up the overall ranking improved, businesses remain concerned about particular elements of the business environment. Frequent policy changes and red tape are among the top five concerns reported by businesses. There is a need to make the regulatory environment more predictable and user-friendly, tackle widespread informality, streamline para-fiscal charges and improve the efficiency of the inspection system.

The challenges of doing business in Kosovo and North Macedonia are different. The common challenge is only the field of Getting Electricity. In North Macedonia the number of days it takes to connect to the electrical system is high, 100 days. The sustainability of the electrical system is a major challenge for this country.

## **5. Conclusion**

In Western Balkan countries attracting foreign investment will be vital for achieving economic growth. The region has significant advantages as an investment destination, but these are often overshadowed by a lingering image problem from the turbulence of the 1990s. These countries have significant unexploited potential in areas such as trade integration, transport infrastructure, energy development and innovation (Sanfey et al 2016, 2-3). However, attracting foreign investors depends on the appropriate business environment. Attracting foreign investors is no easy matter. Especially for former socialist countries. These countries, due to the long and delayed transition, have great difficulty adapting to the course of world economic developments.

For policy makers trying to improve their economy's regulatory environment for business, a good place to start is to find out how it compares with the regulatory environment in other economies (Doing Business 2015, 6). Doing business indicators are of great importance to foreign investors as these investors take these indicators as a benchmark in making a decision to invest. North Macedonia has the potential to attract foreign investment. North Macedonia is a leader in the Western Balkans in doing business. As a result of green economic zones, foreign investors who have invested in North Macedonia do not pay income tax and corporate taxes. They also receive substantial official subsidies. This is a great achievement for North Macedonia, thanks to the great commitment of the country's institutions to improve the business environment.

The great marketing done by the North Macedonian institutions for attracting foreign direct investments has produced excellent results in this regard. Kosovo should be based on North Macedonian practices. The Kosovo government should work hard to attract and protect foreign investors, hence a more active campaign to attract foreign direct investment should be undertaken. Kosovo institutions should have a concrete strategy and plan to attract foreign investors. Improving the indicators of doing

business would be the main signal that will attract foreign investors to come to Kosovo. Fighting corruption would be the first step that would improve the indicators of doing business and also attract foreign investors. Unless corruption is tackled by Kosovar institutions, a significant improvement in doing business can not be expected.

Kosovo has to look at and analyze the reforms that have been undertaken by different countries. Establishing a special institution or a task force that would investigate all the legal obstacles businesses face would be the appropriate step to ensure progress in doing business. This institution or task force would make recommendations for legal changes in Kosovo. Kosovo institutions should have the support of everyone in improving the business environment. Every citizen of Kosovo should know that without improving the business environment there can be no overall economic development. Although North Macedonia is ahead of Kosovo in terms of doing business, it still faces challenges that hinder doing business. Both Kosovo and North Macedonia need to make capital investments to improve some indicators. Improving the electricity indicator depends heavily on electricity infrastructure. Like Kosovo, Macedonia has inherited an old electricity infrastructure from the Yugoslav system. Therefore, a great commitment is needed to improve the electricity infrastructure. So this is a common challenge for both countries. In conclusion it can be said that Kosovar institutions need to learn a lot of practices from neighboring country institutions.

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