

# The Performance of establishing and developing new businesses in the Republic of Kosova 2017-2019

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## Abstract

Given the fact that post-war Kosova was in a serious socio-economic situation, immediate recovery of the contry was needed. Kosova's post-war business challenges were enormous, Kosova's economy comprised a new and open economy driven by a centralized and regulated economy. So far, Kosova has made progress in business creation and development, but the challenges and problems remain significant. The International Interim Administration in Kosova established after 1999, which operated until 2003, enabled the temporary registration of businesses. After 2003 the business registration became a positive trend, where the temporary registration of businesses became permanent registration of businesses.

The purpose of this paper is to analyze the establishment and development of new businesses, the establishment of new women-owned business structures in Kosova, analyze and identify the most preferred economic investment activities of these registered businesses. To achieve this purpose of comparative analysis and identification, the integrative review method is used.

**Key words:** The Republic of Kosova; The International Interim Administration in Kosova; Businesses; Business Registration; Kosova's Economy;

## 1. Introduction

The development and promotion of the private sector is the fundamental axis for a developed economy. With the development of the private sector is achieved long-term consolidation of a country and changing the relationship between investment, consumption, import and export.<sup>1</sup> Through financing from the banking market or through the capital market, the development of the private sector achieves a dynamic development which would produce qualitative resources and advantages for the country such as replacing export relations, increasing consumption of domestic goods in the country and increasing their export.

According to the economic literature, there are four factors that businesses contribute to the market economy: 1. Contribution to the processes of technological changes; 2. Contribution to the creation of sound competition 3. Job creation 4. Rich product offerings in the local market

Businesses and their development are important, they also affect transition countries in terms of reviving entrepreneurial initiatives, changing economic structure and harmonizing the economy in general.<sup>2</sup>

Until the dissolution of Yugoslavia, Kosova was economically, socially and politically underdeveloped region. During this period, Kosova had poor levels of production structure, the population level in terms of economic terms was very low and there was an increase of population birth rate.<sup>3</sup> Following Serbia's re-occupation of Kosova in 1990, the political, social and economic situation suffered drastic changes. The economic situation during this period deteriorated completely and this began with the dismissal of Albanian employees from their work places and replacing them with inadequate workers, then the process of integrating Kosova's economic enterprises into of those of Serbia which was implemented violently and also the property transformation process took place. During the period 1990-1994, Kosova's economy suffered a negative decline in social output from 17.8% per capita to -16.9%, whilst in 1996 the

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<sup>1</sup> Isa Mustafa, "Sustainability of Kosovo's Macroeconomic Development Policies ", Statehood Challenges and the Future of Kosovo, ed. Esat Stavileci, Hivzi Islami, Pajazit Nushi (Prishtina: Kosovo Academy of Sciences and Arts, 2012), 48.

<sup>2</sup> Muhamet Mustafa, Enver Kutllovci, Petrit Gashi, Besnik Krasniqi, *Small and Medium Business* (Prishtina: Riinvest Institute, 2006), 25.

<sup>3</sup> Nexhat Daci, Skender Berisha, Agim Zajmi, *Economic Development Strategy* (Prishtina: Kosovo Academy of Sciences and Arts, Kosovo Chamber of Commerce, 2002), 18.

unemployment rate reached 85%, which was the highest unemployment rate in the world, and the economic and investment structure had experienced its highest decline.<sup>4</sup> After the war in 1999, Kosova was in the process of transition in all aspects and with complex specifications, from centralist economy Kosova switched to market economy, from totalitarian system Kosova returned to a democratic system and from this period Kosova begun a new stage of economic development. In the post-war developments, Kosova has seen steady economic growth and business growth has been steadily increasing, from 2000 to 2019 there are 187,774 registered companies.<sup>5</sup>

Private sector development is closely linked to the country's economic development, and the consolidated economic outlook is as a result of a strong private sector. According to the World Bank, Kosova was expected to have 4.2% economic growth in 2018 whilst in 2019 is foreseen to be 4.4%<sup>6</sup>. This economic growth generally stems from public investment, remittances and private consumption. According to World Bank report estimates, Kosova is ranked 57th in terms of doing business<sup>7</sup>. This paper is organized into five sections. The first section begins with an introduction. The second section deals with the problems and challenges that accompany businesses. The third section analyzes the creation and development of new businesses. The fourth section deals with the aspect of creating and developing women-owned businesses. At the end is the section of conclusions and recommendations.

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<sup>4</sup> Ibid, 19.

<sup>5</sup> Kosovo Business Registration Agency - KBRA, The Report of Basic Performance Indicators for Business Registration in Kosovo for the period October-December 2017, February 2018, <https://arb.k.rks-gov.net/desk/inc/media/37DB78E5-BC9A-4179-9E0E-83A81D0DAB18.pdf>

<sup>6</sup> Riinvest Institute, Business Climate in Kosova from the perspective of small and medium enterprises, May 2017, [https://www.riinvestinstitute.org/uploads/files/2017/May/19/Klima\\_e\\_Biznesit1495199071.pdf](https://www.riinvestinstitute.org/uploads/files/2017/May/19/Klima_e_Biznesit1495199071.pdf)

<sup>7</sup> World Bank Group, Doing Business 2020 – Comparing Business Regulation in 190 economies, <https://openknowledge.worldbank.org/bitstream/handle/10986/32436/9781464814402.pdf>

## 2. The obstacles and challenges of current businesses and the creation of new businesses in Kosova

The creation of new businesses and those that bankrupted are strongly influenced by the business environment which is generally outside the control of businesses. There are two factors that influence the creation and development of businesses, internal factors (owner motives, managerial skills, financial aspect, etc.) and external factors (political, economic, social aspects, etc.).<sup>8</sup>

Businesses operating in Kosova face various obstacles and challenges, this affects the slow aspect of business growth and development and on the other hand is the dimension of discouragement in the creation of new businesses. The success of a consolidated and successful economy depends on the level of active development of the private sector. Current businesses and the creation of new businesses increase employment and investment growth, and the purpose of this section is to identify factors that hinder the development and creation of new businesses.

The biggest obstacles and challenges that are hampering the normal running of businesses in Kosova are internal and external ones. External barriers include:

1. Economic Environment,
2. Administrative and regulatory conditions, and
3. Infrastructure aspects.

While internal barriers are mainly of managerial and operational character.<sup>9</sup>

### 2.1. Economic Environment: Summary of business barriers

According to the Economic Chamber of Kosova (2018), there are a number of obstacles in the economic environment. The economic environment in Kosova still remains challenging for businesses to operate and to foster the creation of new businesses. Unfair competition and the

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<sup>8</sup> Muhamet Mustafa, Enver Kutllovci, Petrit Gashi, Besnik Krasniqi, *Small and Medium Business* (Prishtina: Riinvest Institute, 2006), 44.

<sup>9</sup> Kosova Chamber of Commerce, *Opening the Road to Better Business in Kosovo - What are the Obstacles to Business Growth in Kosovo?*, Prishtina 2018, [https://www.oek-kcc.org/uploads/files/2018/May/24/2017\\_HAPJA\\_E\\_RRUGS\\_PR\\_BIZNES\\_M\\_T\\_MIR\\_N\\_KOSOV1527160051.pdf](https://www.oek-kcc.org/uploads/files/2018/May/24/2017_HAPJA_E_RRUGS_PR_BIZNES_M_T_MIR_N_KOSOV1527160051.pdf)

gray economy are categorized as the most significant barriers with 60.9% of businesses facing it. The second major barrier in the context of the economic environment is the aspect of financing the financial means, respectively high credit rates of 37.9%. In the context of the third barrier to the economic environment is the insufficient demand with 25.2%.<sup>10</sup>

**Table 1:** The barrier of the economic environment

Unfair competition from gray economy	60.90%
High interest rates and other costs for banking transactions	37.90%
Insufficient demand	25.20%
Customers do not pay on time	32.50%
Other economic barriers	19.80%
The lack of qualified staff	31.60%
Liquidity problems	17.80%
Lack of capacity and equipment	20.20%
Usage of company's money for personal purposes	10.00%

**Source:** Kosova Chamber of Commerce

## 2.2. Summary of administrative and regulatory barriers

According to the Economic Chamber of Kosova report (2018) conducted with Kosova businesses, problems and difficulties are evident even in the administrative and regulatory dimension. From the survey conducted with businesses, the main problems are mainly of the character of the tax system with 13.6%, the aspect of export and import licenses is a dimension that is highlighted by businesses as an evident barrier with 13.8%, the lack of legal framework and current applicable laws are not favorable at all and this consist 19.2% which are declared as non-favorable barriers.<sup>11</sup>

In the context of summarizing barriers of administrative and regulatory conditions, the following table shows the participation of each barrier from business respondents.

<sup>10</sup> Kosova Chamber of Commerce, Opening the Road to Better Business in Kosovo - What are the Obstacles to Business Growth in Kosovo?, Prishtina 2018, [https://www.oek-kcc.org/uploads/files/2018/May/24/2017\\_HAPJA\\_E\\_RRUGS\\_PR\\_BIZNES\\_M\\_T\\_MIR\\_N\\_KOSOV1527160051.pdf](https://www.oek-kcc.org/uploads/files/2018/May/24/2017_HAPJA_E_RRUGS_PR_BIZNES_M_T_MIR_N_KOSOV1527160051.pdf)

<sup>11</sup> Kosova Chamber of Commerce, Opening the Road to Better Business in Kosovo - What are the Obstacles to Business Growth in Kosovo?, Prishtina 2018, [https://www.oek-kcc.org/uploads/files/2018/May/24/2017\\_HAPJA\\_E\\_RRUGS\\_PR\\_BIZNES\\_M\\_T\\_MIR\\_N\\_KOSOV1527160051.pdf](https://www.oek-kcc.org/uploads/files/2018/May/24/2017_HAPJA_E_RRUGS_PR_BIZNES_M_T_MIR_N_KOSOV1527160051.pdf)

**Table 2:** Barriers to administrative and regulatory conditions

Tax system	13.60%
Business registration	10.80%
Lack of adequate laws	19.20%
Customs rules, procedures, bureaucracy	15.80%
Access to land	13.90%
Export/import licences	13.80%
Construction permit	14.30%
Protection of intellectual property rights	14.60%

**Source:** Kosova Chamber of Commerce

### 2.3. Summary of infrastructure barriers

Infrastructural barriers are more evident and they are categorized as a larger set of business barriers. According to the findings of the Economic Chamber of Kosova report (2018), electricity supply is categorized with 51.10% as the biggest obstacle, on the other hand there are also high costs that businesses are required to pay and business dissatisfaction survey is categorized with 51.10%, followed by political instability with 37.80% and corruption with 25.50%. The following table shows the participation of each barrier from business respondents.

**Table 3:** Infrastructure barriers

Electricity cost	50.10%
Regular and stable power supply	51.10%
Political instability	37.80%
Corruption	28.50%
Crime	24.50%
Water supply cost	17.60%
Transport	12.80%

**Source:** Kosova Chamber of Commerce

### 3. Registered businesses and their characteristics for the period 2017-2019

To analyze the registered businesses and their characteristics, data from the Kosovo Agency of Statistics were used based on statistical reports on economic enterprises in Kosovo for the period of 2017-2019. This time

period will be compared to see the changes and characteristics of businesses registered, with particular emphasis on comparing the growth/recession of new business creation for the respective period and analyzing the structure of new businesses in preferred investment activities.

**Table 4:** The number of registered enterprises by quarters and sections of preferred activities

Period	Total	Agriculture, forestry and fisheries	Production	Construction	Accommodation and Food Services	Real estate	Professional, scientific and technical activities	Wholesale and retail trade, repair of vehicles
2017-Quarter 1	2850	350	265	269	261	23	188	799
2017 - Q2	2237	96	234	202	278	16	189	623
2017 - Q3	2215	245	225	188	208	17	186	529
2017 - Q4	1921	131	166	180	183	9	171	511
2017 Total	9223	822	890	839	930	65	734	2462
2018-Quarter 1	2556	127	316	266	247	14	204	722
2018 - Q2	3636	198	299	260	277	15	170	723
2018 - Q3	2212	145	214	189	212	19	182	519
2018 - Q4	2401	156	280	244	252	14	212	561
2018 Total	9805	626	1109	959	988	62	768	2525
2019-Quarter 1	2404	121	277	232	240	22	253	596
2019 - Q2	2655	0	479	247	359	18	236	590
2019 - Q3	2379	0	294	245	275	25	197	572
2019 Total	7438	121	1050	724	874	65	686	1758

**Source:** Kosova Statistics Agency 2017-2019

According to the statistical data analysis of registered enterprises during the period of 2017-2019, we have an increase of registered businesses

According to chronological analysis, in the 1<sup>st</sup> quarter 2018, 2556 businesses were registered. The data shows registered business growth of

33.1% for the 4th quarter of 2017, and a decrease for 10.3% of registered businesses if compared to 1st quarter in 2017. In the 2nd quarter of 2018, a total number of 2636 businesses were registered. The data shows an increase of 3.1% of registered businesses compared to Q1 2018 and an increase of 17.8% of registered businesses in Q2 2017. In Q3 2018 there were 2212 registered businesses. According to the analysis, there is a decline of 16.1% of registered businesses compared to Q2 2018 and a decrease of 0.1% compared to Q3 2017. In Q4 2018 there were 2401 registered business, an increase of registered businesses for 8.5% compared to Q3 2018 and an increase of 25.0% compared to Q4 2017

In the first quarter of 2019, 2404 businesses are registered. According to the data, there is an increase of registered businesses for 0.1% compared to Q4 2018 and a decrease of 5.9% compared to Q1 2018. In Q2 2019, there are 2655 registered businesses. There is an increase of 10.4% of businesses registered in Q1 2019 and also an increase of 1% compared to Q2 2018. In Q3 2019, 2379 businesses are registered. In Q3 2019 compared to Q2 2019 there is a decrease of 10.4%, whilst in Q3 2019 compared to Q3 2018 there is an increase of 6.29%.

Regarding the analysis of preferred economic activities 2017-2019, the most preferred business creation activities were wholesale and retail trade, manufacturing, construction, accommodation and food services, professional, scientific and technical activities also agriculture, forestry and fisheries. According to the chronological analysis data, in 2017 the most preferred activities in the creation of businesses were: trade with 2462 registered businesses, agriculture, forestry and fisheries with 822 businesses created, construction with 839, production with 890, accommodation and food service activities were at 930, while professional scientific and technical activities were at 734.

In 2018 the most favorable economic activities were as in 2017. According to statistical data, in 2018 there are 2525 trade businesses registered, in the manufacturing activity there are 1109 businesses registered, construction is 959, accommodation and activities of food services there are 988 registered businesses, professional scientific and technical activities are 768, while agriculture has 626 registered businesses.

In 2019, up to Q3 (Q4 not included because calendar year is not concluded yet), favorite activities were as in 2018 and 2017. Wholesale and retail trade, vehicle repair were 1758, production 1050, scientific and technical professional activities were 686, accommodation and food service



activities were 844, construction 724 registered businesses, and agriculture 121.

#### **4. Establishment and development of women-owned businesses 2017-2019**

In 1970 in the US, small businesses consisted only 5% represented by women, while in 2007 it increased at about 40%.<sup>12</sup> Currently, women represent about 35% of businesses globally<sup>13</sup>. Starting a business from women is driven by a number of reasons, one of the main reasons is the passion to develop a career, the goal of having a more sustainable life, having a vision that brings in income and having a business plan. Whereas, in the past women have started business to get out of poverty or with the death of their spouse they developed business ideas.<sup>14</sup> The development and growth of women entrepreneurs is also positive in the European Union. According to the data, women make up 52% of the EU population, and 34.4% of them are self-employed while 30% are entrepreneurs, whilst in Kosova, according to the data, every ninth (9) business is owned by women, a woman's business employs an average of 3.5 workers with an annual turnover of 20,000 Euro.<sup>15</sup> The most frequent business activities done by women in Kosova are businesses of beauty hair saloons and other beauty treatments, followed by retail clothe sales in specialized stores, clothe production, bakery, production of sweets and candies.<sup>16</sup>

To analyze the business registration structures of women-owned businesses, datas are obtained from the Kosova Statistics Agency 2017-2019. This period will be compared within itself in order to see changes in the structure of business registration by women.

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<sup>12</sup> Gaspar, Bierman, Kolari, Hise, Smith, Arrelo-Risa, *An Introduction to Business* (Oxford University Press, 2007), 194.

<sup>13</sup> Riinvest Institue, *Women's Entrepreneurship - Doing Business Analysis in Kosova*, 2017, <https://www.riinvestinstitute.org/AI/publications/257/ndermarresia-e-grave/>

<sup>14</sup> Kosova Democratic Institue - KDI, *Supporting Women with Business Self-Initiative*, 2017, <http://kdi-kosova.org/wp-content/uploads/2018/01/127-02-perkrahje-simbolike-per-grate-me-vetiniativa-biznesore-ne-prizren-2017-final.pdf>

<sup>15</sup> Kosova Democratic Institue - KDI, *Supporting Women with Business Self-Initiative*, 2017, <http://kdi-kosova.org/wp-content/uploads/2018/01/127-02-perkrahje-simbolike-per-grate-me-vetiniativa-biznesore-ne-prizren-2017-final.pdf>

<sup>16</sup> Riinvest Institue, *Women's Entrepreneurship - Doing Business Analysis in Kosova*, 2017, <https://www.riinvestinstitute.org/AI/publications/257/ndermarresia-e-grave/>

**Table 5: Business structure registered based on gender 2017-2019**

Period	Businesses with male owners		Businesses with women owners		Businesses with mixed ownership		Total
<b>2017- Quarter 1</b>	2274	79.8%	339	11.9%	237	28.3%	2850
<b>2017 - Q2</b>	1774	79.3%	247	11.0%	216	9.7%	2237
<b>2017 - Q3</b>	1696	76.6%	480	21.7%	39	1.8%	2215
<b>2017 - Q4</b>	1445	75.2%	257	13.4%	219	11.4%	1921
<b>2018- Quarter 1</b>	1978	77.4%	354	13.8%	224	8.8%	2556
<b>2018 - Q2</b>	1961	74.4%	413	15.7%	262	9.9%	2636
<b>2018 - Q3</b>	1536	69.4%	412	18.6%	264	11.95	2212
<b>2018 - Q4</b>	1883	78.4%	480	20.0%	38	1.6%	2401
<b>2019- Quarter 1</b>	1807	75.2%	535	22.3%	62	2.6%	2404
<b>2019 - Q2</b>	1943	73.2%	632	23.8%	80	3.0%	2655
<b>2019 - Q3</b>	1694	71.2%	606	25.5%	79	3.3%	2397

**Source:** Kosova Statistics Agency 2017-2019

According to the statistical data analysis of the structure of businesses registered with women owners, from 2017-2019 we have an increase in businesses registered by women

According to the chronological analysis in the first quarter of 2018, a total of 354 women-owned businesses were registered. The data shows an increase in registered businesses owned by women with 97 more businesses compared to Q4 2017, and an increase of 15 registered more businesses compared to Q1 2017. Q2 2018 recorded a total of 413 female-owned businesses and compared to Q1 2018 there is an increase in registrations for 59 more businesses, and an increase of 166 compared to Q2 2017. A total of 412 female owned business have been registered in Q3 2018, and compared to Q2 2018 there is a decline for 1 registered business, while compared to Q3 2017 there is a decline for 68 registered businesses. A total of 480 women-owned businesses were registered in Q4 2018, and compared to Q3 2018 there is an increase of 68 more registered businesses, also if we compare with Q4 2017 there is an increase of 223 registered businesses.

A total of 535 women-owned businesses are registered in Q1 2019, showing an increase of 55 compared to Q4 2018, and also an increase of 181 compared to Q1 2018. Q2 2019 registered a total of 632 and compared to Q1 2019 it is an increase for 97 more registered businesses. In the third quarter

of 2019, a total of 606 are registered and compared to the second quarter of 2019 it is a decrease of 26, while compared to the third quarter of 2018 there is an increase for 194 registered women-owned businesses.

## **5. Conclusions and recommendations**

Data analysis showed that during the three years Kosova had a positive performance in the creation of new businesses and as a result increasing the number of business registrations year after year. Based on data analyses, the sections of the profitable investment campaigns resulted positively, Kosova showed growth year after year in various areas where businesses invested. Gender structure in investment was mixed but with a large difference between male ownership structure and female ownership structure, but the trend of female ownership structure year after year has a positive trend with an increase on investments with women-owned businesses.

The problems and challenges of Kosovar businesses are great in all sectors. The informal economy remains the main challenge and problem for businesses in different sectors. New businesses are being impacted by the informal economy by not encouraging them to thrive. Strengthening the rule of law remains a major challenge for Kosova businesses. The Government of the Republic of Kosova should improve the legal infrastructure in order to facilitate the improvement and operation for businesses in Kosova. Electricity also remains a challenge for businesses in Kosova because businesses face power outages and supply, therefore Kosova needs to exploit its natural resources and start building new generation capacities.

Structure representation of women-owned businesses is relatively low, also women-owned businesses have relatively low turnover and their investment is in small-scale sectors and the number of jobs they generate is very small. The Government of the Republic of Kosova and the Municipalities of the Republic of Kosova need to build policies to support women in order for them to materialize their ideas for business and balance gender equality. The government, together with the Municipalities, should build incentive funds for women start-ups in business and allocate a budget for subsidizing women entrepreneurs. It is very important that Municipalities in the Republic of Kosovo allocate land with symbolic rent in support and promotion of women entrepreneurs. The Government,

together with the Municipalities and the donor community should organize campaigns to promote women's businesses and their work.

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