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The limited policymaking of the Doing Business Report

Analysis of the public policies for the
advancement of the business environment
in Kosovo through improving the indicators
of the World Bank's Doing Business report



Authors: **Dita Dobranja and Darsei Canhasi, with contributions from
Barbora Bodnarova**

Editor: **Krenar Gashi**

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TABLE OF CONTENTS

I. Introduction	3
II. Analysis of the doing business report	4
2.1. Kosovo and the Doing Business Report	7
2.2. Impact of the Doing Business Report	8
III. Analysis of Kosovo Government Actions	9
3.1. Action plan for improving the DBR rank	11
IV. The influence of DBR in investments – other country practices	12
4.1. Georgia.....	12
4.2. Macedonia.....	13
V. Other indicators	14
5.1. Corruption Perception Index	14
5.2. Global Competitiveness Report	15
5.3. Economic Freedom Index.....	16
5.4. Bertelsmann Foundation Transformation Index.....	16
5.5. The perception of Kosovo and international area.....	16
VI. Conclusions	17

I. INTRODUCTION

The Doing Business Report (DBR) is a study published by the World Bank that evaluates the key indicators of doing business in a country. DBR serves as a monitoring instrument of yearly progress or regress of 185 states. Published since 2003, this report computes the microeconomic factors that influence the environment of doing business in countries around the world. The doing business environment is one of the indicators of the state of the economy in a country. Procedures for starting a business, registering property, dealing with construction permits, enforcing contracts as well as investor protection are some of the aspects that determine the quality of the doing business environment. DBR provides a valuable opportunity for tracking the trend of different indicators included in the report.

The DBR originates from the publication of the rules and procedures necessary for starting a business and since the first report the methodology and the indicators have been subject to change on a yearly basis. The main factors taken into consideration for calculating each indicator in the DBR are the number of procedures necessary, time, cost, and legal protection. Thus, the Doing Business Report is based on the regulative aspect of these indicators and the improvements in the rankings result from reforms in the legal framework of a country, rather than the implementation of said legislation.

The World Bank published the first DBR economy profile for Kosovo in 2011, ranking the country 117th in the world. This position did not change in the following report of 2012, in which the average rank of the countries in the region was 77.¹ Such a ranking has been considered alarming for the Kosovo Government and as a result, the improvement of the DBR rank has been set as one of the economic objectives of the country. In the Action Plan of the Economic Vision of Kosovo 2011-2014, widely known as the Bansko Plan, Kosovo is foreseen to rank in the top 40 reformatory countries in the DBR until 2014, a category nonexistent in the report.² This action plan, which presents the planned activities for Kosovo's economic development until 2014, views the improvement in DBR rankings as indicators of success of the planned activities.

DBR has been the driving force behind regulatory reform in many developing economies around the world. The World Bank itself considers this report as a necessary push for the start of doing business reforms. Historically, developing countries have focused their policies in improving the indicators of this report. Georgia and Macedonia serve as examples of countries that have considerably improved their DBR ranking within a short period. These two countries have prioritized policies that are directly related to the DBR, which has resulted in them currently ranking 10th and 30th respectively. However, the improvement of the rankings in the DBR has not resulted positively in the development of these countries. The implementation of policies not only limited in focus but also dependent in a report such as DBR has resulted in the lack of proper economic growth and insufficient attraction of investment.

¹ Economic Profile: Kosovo, Doing Business Report 2012, World Bank. October 2011

² Action Plan of the Economic Vision of Kosovo 2011-2014, Kosovo Government, Office of the Prime Minister, July 2011

This study aims to analyze the importance and the impact of the Doing Business Report on the policies of Kosovo's Government directed towards improving the business environment. Moreover, the study includes the experiences of other countries that based their policymaking on the DBR. Through this study, INDEP also intends to present a more detailed view of economic indicators necessary to be taken into consideration when designing economic development policies. Further, this analysis will consider other reports that provide insights to economic development and result in attracting investors. Since Kosovo is using the DBR as a measure of its success in improving the doing business environment, the analysis will also focus in the success of the DBR as an evaluation method of the business environment in a country.

Using qualitative research methods and data analysis, this study depicts the narrow focus of the DBR. The limited scope of the DBR results in policies with limited vision that aim at improving the rankings in the report rather than fostering economic development.

For this study, INDEP has analyzed the DBR reports in detail, focusing on all of the indicators and procedures that are included in measuring the progress in these indicators. Special focus has been given to the indicators that the Kosovo Government has set as priorities for improvement. On the other hand, INDEP has also calculated the correlation between the DBR rankings and the Foreign Direct Investment (FDI) in order to analyze the impact of the ranking in this report on the foreign investment. INDEP has also examined four other important reports in determining the economic condition of a country.³ The analysis of these reports serves to identify the important economic issues that need to be addressed in order to improve firstly the economic stability in Kosovo and then the overall image of Kosovo's economy.

The limited focus of the economic policies of a country aiming to improve in the indicators of a certain report, which in itself is limited, results in lack of proper economic growth. There is a need for a wider range of factors that affect economic development and sustainability of a country to be accounted for when proposing and implementing development policies. The development policies of a country should aim at economic growth and stability resulting from scientific findings rather than serving as a tool for competing for positions in one report or another.

II. ANALYSIS OF THE DOING BUSINESS REPORT

The Doing Business Report measures the regulation of doing business for small and medium enterprises in a country, by conducting the assessment in the largest business city. This report is based on ten indicators. The categories in which business have claimed to have the most difficulties in are paying taxes and securing electricity.⁴ The performance of a country in all ten DBR indicators determines its position in the report. After the measurements, each indicator is translated into a numeric result making it easier to create a comprehensive result for each

³ Corruption Perception Index, Global Competitiveness Report, Economic Freedom Index dhe Bertelsmann Foundation Transformation Index

⁴ About Doing Business: Measuring for impact, World Bank, 2012

country. This makes the overall or indicator based comparison of states easier. The ten indicators of the DBR, used in Kosovo as well, are:⁵

1. Starting a Business
2. Dealing with Construction Permits
3. Getting Electricity
4. Registering Property
5. Getting Credit
6. Protecting Investors
7. Paying Taxes
8. Trading Across Borders
9. Enforcing Contracts
10. Resolving insolvency

The World Bank points out a number of limitations related to the DBR. The DBR has a limited scope, including lacking measures of security, corruption, macroeconomic and financial stability, quality of the work force, etc. Moreover, the DBR does not account for all aspects of infrastructure quality and does not focus on the appropriate legal framework for foreign investment. On the other hand, the report is focused only on the formal economy and analyzes the indicators for small or medium enterprises and limited liability companies only.⁶ All this self-criticism of the DBR lowers the credibility of the report and prevents a realistic illustration of the situation.

To collect the data and prepare the report for a country, the World Bank collaborates with lawyers, accountants, businesspersons as well as public officials. In the 2013 report, for the 185 countries included in the report there were 9,600 contributors.⁷ Kosovo had 101 contributors for the 2013 report, a considerable increase from the previous years, while the average number of contributors for one country in the 2013 report was 52.⁸ The contributors are physical or legal entities that volunteer to participate in collecting data on the country in which they operate. The contributors have to fall within one of the following categories: commercial lawyers, notaries, judges, architects, trade logistic specialists, or accountants.

The DBR contributors on a global and regional level are companies that have completed numerous surveys in their branches in the respective countries. The number of contributors from other cities in Kosovo, apart from Prishtina, is minimal which further limits the inclusiveness of the report. In the DBR methodology, each indicator is comprised of specific standardized elements that are measured. The standardized methodology ensures continuity throughout the years and comparable results among countries. Assisted by academic advisors, the DBR team prepares the questionnaires that are afterwards distributed to the local contributors. Generally, the Doing Business Report is published in October of each year, whereas the data are gathered by June 1 of the same year.

⁵ About Doing Business: Measuring for impact, World Bank, 2012

⁶ Information sources for the data, Doing Business Report 2013, World Bank. 2012.

⁷ Ibid

⁸ Contributors for Kosovo, Doing Business Report. 2012.

To better illustrate the methodology used in the DBR, we will deconstruct the components that affect the measurement of the indicators. Starting a Business is calculated based on four components: number of days to start a business, the costs related with starting a business, the capital necessary, and the number of the procedures. All four elements have equal weight of 25%.⁹ The same components are measured for calculation of the following indicators as well, Dealing with Construction Permits, Getting Electricity, and Registering Property.

The indicator measuring Getting Credit is based on the index of legal rights, credit information index, public registry coverage, and private bureau coverage. Protecting Investors indicators is mainly based on the disclosure index, director liability index, shareholder suits, index and investor protection index. The indicator of Paying Taxes is based in two simple components: the number of payments needed to be made during a year and the time that is spent completing these payments. Trading Across Borders is focused on the number of necessary documents, time spent and costs involved in both exports and imports. The time, cost, and number of necessary procedures determine the level of Enforcement of Contracts. Resolving Insolvency is calculated through time, cost, outcome, and the rate of recovery.

As it is explained afterwards, the Ministry of Trade and Industry has undertaken numerous measures to improve the grounds for doing business in Kosovo aiming at progressing in the rankings on four of the aforementioned elements. MTI has planned to do this by passing the laws valued by the World Bank. However, Kosovo's main problem remains the implementation of laws rather than their drafting or amendment.

Getting Credit has consistently been the indicator in which Kosovo has been ranked highest. In 2012, Kosovo was ranked 24th, whereas in 2013, 23rd.¹⁰ Increasing competitiveness among commercial banks in Kosovo has improved their efficiency, which is shown in the Doing Business Report.

Similar to starting a business, the getting credit indicator is composed of four subcategories, which predominantly measure the bureaucracy and legal strength of the indicator.¹¹ Apart from this, the indicator does not measure for any substantial components. The Doing Business Report fails to take into consideration the high interest rates of the commercial banks in Kosovo, which are unfavorable compared to those in the region.

Getting electricity is a category that has been added to the DBR in the recent years. Kosovo is ranked 116th, a better rank than most of the countries in the region.¹² The World Bank evaluates the procedures for getting electricity, the necessary time as well as the cost.¹³ Kosovo, however, faces many challenges with lack of electricity, with only 63% of the energy from the transmission is dedicated to consumption due to huge losses.¹⁴ While government policies towards this problem have been minimal, foreign investors pay more attention to the overall economic

⁹ Starting a Business Methodology, Doing Business Report, World Bank. 2012.

¹⁰ Economic Profile: Kosovo, Doing Business Report 2013, World Bank. October 2012.

¹¹ Getting Credit Methodology, Doing Business Report, World Bank. 2012.

¹² Economic Profile: Kosovo, Doing Business Report 2013, World Bank. October 2012

¹³ Getting Credit Methodology, Doing Business Report, World Bank. 2012.

¹⁴ Electric Energy Market in Kosovo, System Operator, Transmission and Market SH.A (KOSST).

situation in a country, rather than the Doing Business Report.¹⁵ The economic reality of doing business is different from the depiction in the DBR, a report more focused in the measures needed to start a business than in the conditions necessary to develop and maintain a business.

The Doing Business Report has undergone substantial changes throughout the years, both in the methodology and in including new indicators. Since the first report in 2003, every year has been characterized with significant changes. In the last year, there has been a change in methodology for three indicators: getting credit, dealing with construction permits and paying taxes.¹⁶ Thus, Kosovo's policymaking is based on a new report that still has not been fully shaped.

Recognizing the weakness of the report in only focusing on the largest business city of the country, the World Bank has started publishing subnational reports that include data from more than one city. In 2011, a subnational report for South-East Europe has been published, where data from Kosovo were received from Prishtina and Prizren while in most of the other countries, there have been more than two cities included.¹⁷ This new form of the DBR is a result of the expert criticism for the omission of cities and regions apart from the largest business city. However, this attempt does not resolve the inclusion issue, since it is almost impossible to include the measurements from a whole country in a single report.

2.1. KOSOVO AND THE DOING BUSINESS REPORT

Analyzing Kosovo's performance in the ten DBR indicators, we notice that Kosovo is best ranked in getting credit while it is ranked worst in dealing with construction permits. Below is the comparison of Kosovo's performance in the DBR for the past two years.¹⁸

Indicator	Rank in 2013	Rank in 2012
Starting a Business	126	170
Dealing with Construction Permits	144	177
Getting Electricity	116	122
Registering Property	76	74
Getting Credit	23	23
Protecting Investors	100	176
Paying Taxes	44	48
Trading Across Borders	124	133
Enforcing Contracts	138	139
Resolving insolvency	87	86

The first World Bank data for the Doing Business Report for Kosovo has been gathered in 2009. However, these calculations have only been focused in starting a new business rather than in all other indicators of the report. Since 2011, Kosovo has been included in the Doing Business Report with data in all the categories. This report, published at the end of 2010, ranked Kosovo

¹⁵ INDEP interview with Ray Power, chairman of British Chamber of Commerce in Kosovo. Prishtina, Kosovo, October 2012.

¹⁶ Information sources for the data, Doing Business Report 2013, World Bank. 2012.

¹⁷ Doing Business in South-East Europe 2011, World Bank. October 2010.

¹⁸ Economic Profile: Kosovo, Doing Business Report 2012, World Bank. October 2011

117th out of 183 countries included in the report. These first measurements represent an important reference point for measuring the improvement in all the categories of the report.

In the first Doing Business Report Kosovo was ranked last in the region. In the Doing Business Report for 2011, Macedonia was ranked 38th, which was the best placement in the region, followed by Montenegro in 66th place, Albania in 82nd, Croatia in 84th and Serbia in 89th. Macedonia has made great progress compared to the countries in the region by focusing in the doing business reforms as a way of attracting foreign direct investments.

Kosovo has moved places in certain categories through the years even if no actions were taken in improving these indicators. These changes lead us to believe that even in instances when nothing changes in the procedures, time, or capital necessary to be invested in a category, a country can still decrease in ranking due to the improvement of other countries. The same is valid for improvement of rankings when no changes have been made – a country can improve its position in the rankings even if nothing changes but other countries do worse compared to the previous year. A country's rank in the report is not only dependent in its policies and reforms but also on the performance of other countries.

2.2. IMPACT OF THE DOING BUSINESS REPORT

The ranking in the DBR continuously influences the policymaking of countries, especially the developing ones. There is a common misconception of the policymakers in many developing countries that public policies focused in the country's improvement in the report, will in turn improve the environment of developing businesses and the private sector in general. At the same time, policy makers believe that this report serves as a guide for potential investors and a positive rank increases the likelihood of foreign investment. According to the Independent Evaluation Group (IEG), 85% of the policymakers take into account the doing business report ranking of their country as a motivation for reform, the majority of them however do not consider it a guide to action.¹⁹ This way, the doing business report is more important to the policy makers of a country than to potential investors.

The Doing Business Report has a number of shortcomings, which tend to improve the doing business climate, but fail to guarantee development. The report has a greater impact in developing countries that suffer from policies focused in improving the DBR rankings rather than policies focused in economic development. The Doing Business Report fails to account for a number of factors that could damage developing countries in the future. This report does not actively encourage female involvement in business and does not promote the importance of a qualified workforce. On the other hand, the report takes into account only the data for a limited category of enterprises running in the capital city, leaving aside small and medium enterprises in other areas, especially in the rural ones. This also results in lack of reforms that would aid such enterprises, which in developing countries represent the backbone of the local economy.

Furthermore, the DBR generally favors less legislative regulations, even if the aim of this legislation is the regulation of economic aspects, which would be viewed as favorable by potential investors or would improve the economic environment of a country. Such regulations

¹⁹ Doing Business Report: An independent evalution, World Bank and Independent Evaluation Group. 2008

include environmental norms, regulations for inclusion of minorities, as well as standards for gender balance. This is also true for the taxation system. In the Doing Business Report, a system with lower corporate taxes is ranked higher, while in developing economies tax revenues are crucial to the function of the state apparatus. Lowering corporate taxes, the state would need to keep personal income taxes high, which would affect social wellbeing.

In general, the Doing Business Report has more impact in the policies of a country than in the perception of potential investors. There are numerous other reports, apart from their own investor analysis, that the investors consult before making a decision for investing in a country. However, the final evaluation of an investor is based on the real economic situation in a country, which can only be improved through policies and actions of a country aimed directly at economic development.

III. ANALYSIS OF KOSOVO GOVERNMENT ACTIONS

During 2011, the Kosovo government did not take measures to improve the doing business environment. Thus, in the Doing Business Report for 2012, there was no change in the overall rankings. However, there were changes in individual categories, resulting from the improvement of other countries. In the 2012 report, Kosovo suffered a further drop in all categories. In starting a business, the easiest category to reform, Kosovo was ranked 168th. In dealing with construction permits, Kosovo dropped in 171st place, 124th in getting electricity, 73rd in registering property, 24th in getting credit, 46th in paying taxes, and 131st in trading across borders. Kosovo did not change ranks in enforcing contracts and resolving insolvency. In 2012, Kosovo remained worst ranked in protecting investors, dropping further from 172nd to 174th.

Ranked 174th in 2012, in protecting investors, Kosovo was only better ranked than eight other countries included in the report, Micronesia, Gambia, Guinea, Djibouti, Venezuela, Suriname, Laos, and Afghanistan.²⁰ Fortunately, in the last DBR, this category has marked the most improvement, jumping from 174th to 100th.²¹ It remains to be seen, however, how much impact the improvement of this indicator will have in attracting investment.

This analysis will also provide a study of the correlation of investments with the rank of a country in the doing business report. During 2012, Kosovo has been committed to improving the business environment to result in better ranking in the DBR for the upcoming year. Kosovo's government has adopted a number of laws that target the improvement of the business environment for small and medium enterprises (SME).²² The Law for Protecting Foreign Investors, the Law on Economic Zones, the Law on Inspectorate, as well as the Law on Permits and Licenses are in the amendment and adoption procedure.²³ All the adopted laws are foreseen in the Action Plan of the Economic Vision of Kosovo 2011-2014, which also includes the plan for creating a task force for doing business to oversee the reforms in the future.²⁴ It is

²⁰ Doing Business Report: doing business in a more transparent world, World Bank. October 2011

²¹ Economic Profile: Kosovo, Doing Business Report 2013, World Bank. October 2012

²² Including: Law on Trace Associations, Law on Internal Trade, Law on Cadastre, Law on Fire Protections, Law on Notary, Law on Accounting, Financial Reporting and Auditing, Law on the Establishment of Immovable Property Rights Register, Law on Foreign Trade Activities, Law on Integrated Management and Control of the State Border.

²³ Days of Small Business 2012, Agency for supporting SMEs, Ministry of Trade and Industry, page 2.

²⁴ Action Plan of the Economic Vision of Kosovo 2011-2014, Kosovo Government, Office of the Prime Minister, July 2011

clear that Kosovo's government is using the DBR as a measurement of their work and aims at adopting policies that directly influence the indicators of the Doing Business Report.

The Ministry of Trade and Industry also has developed the Strategy for Development of Small and Medium Enterprises (SME) in which great attention has been dedicated to facilitating the procedures that directly influence the DBR indicators.²⁵ The first and most important goal of this strategy is the improvement of the legal and regulative framework. In this strategy, there are also initiatives for improving the procedures for starting a business, registering property, getting credit, as well as closing a business. The easiness of undergoing these procedures for SME's is directly linked to the evaluation of the indicators for the DBR.

The Ministry of Trade and Industry has the competences for improving the business environment. During the past year, MTI has initiated five reforms based on three indicators of the Doing Business Report. Eliminating the working permit, free registration of a business, elimination or reduction of the capital requirements, reduction of the necessary documents for exports/imports and improvement of investor protection are the five reforms MTI has initiated.²⁶ These reforms correspond to three DBR indicators, namely, Starting a Business, Trading Across Borders, and Investor Protection. The result of these reforms is seen in Kosovo's progress in the DBR for 2012.

However, legislative reforms and the facilitation of procedures for starting a business are known to be the easiest reforms. In 2011, 53 economies have completed reforms in this category thus improving the procedures for starting a business²⁷, whereas this year, 41 countries have done the same thing.²⁸ Therefore, there is a high level of competitiveness among countries in undergoing reforms that improve the ranking, reforms that often are financed directly through World Bank programs in their respective countries.

A well-known practice of the World Bank is the financing of project that directly are linked with DBR indicators. The World Bank uses this opportunity to increase the number of reforms and in turn the credibility of the DBR. In certain cases, implementation of policies that improve DBR ranking serves as a condition for financing from the World Bank.²⁹ The Ministry of Trade and Industry has been the recipient of such a project from the World Bank, where seven million dollars have been dedicated directly at improving the business environment. The project was approved in June 2005 and has been completed in May 2012, while the majority of the work has been completed during the last 15 months of the project.³⁰ The completion of the project in time with the end of DBR measurements for 2013 has been convenient for Kosovo. However, it remains to be seen whether the lack of such a project in the upcoming year will result in less aggressive actions towards improving the doing business environment in Kosovo for 2015.

²⁵ SME Development Strategy 2012-2016, Republic of Kosovo - Government. July 2012.

²⁶ Doing Business Reforms, Republic of Kosovo – Ministry of Trade and Industry.

²⁷ Doing Business Report: doing business in a more transparent world, World Bank. October 2011

²⁸ Starting a Business Reforms, Doing Business, World Bank.

²⁹ The Real Cost of Doing Business, Global Labour University, Conor Cradden. August 2011.

³⁰ Business Environment TA Project, Implementation and Results, World Bank. June 2012.

3.1. ACTION PLAN FOR IMPROVING THE DBR RANK

Kosovo's government major commitment towards improving the Doing Business Report indicators is best seen in the Action Plan of the Economic Vision of Kosovo 2011-2014. Drafted in the first half of 2011, the plan known to the public as the Bansko Plan, intended to establish a policy-making platform conjured to improve the economic development of the country. Kosovo's government drafted the action plan to boost economic growth during a political crisis when the President of the country was elected through a consensus and there was pressure for a national development plan. This plan was also characterized by considerable influence of international actors in Kosovo. The action plan is divided in the five following pillars: Maintaining Macro-Fiscal Sustainability, Investments, Investment Environment, and Private Sector Support, Development of Public Infrastructure, Revitalization of Agriculture sector, and Human Capital Development.³¹ In these categories there are activities directly related to the doing business indicators and in the action plan, improvement of the DBR indicators is seen as a success in the completion of the planned activities.

In the pillar of Maintaining Macro-Fiscal Sustainability out of five planned activities in the subcategory of creating opportunities for wider capital access, two have indicators of success set the improvement of DBR ranks.

The second pillar of the Action Plan of the Economic Vision of Kosovo 2011-2014 outlines the measures necessary for progress of the Investments, Investment Environment, and Private Sector Support. There are 48 activities in total in this pillar, separated into seven subcategories. Out of these subcategories, in Improvement of Business Environment out of 20 activities, 15 measure their success based on the ranking in the DBR. The success of this subcategory is dependent 75% on the World Bank report that evaluates the business environment in ten indicators.

The subcategory providing the steps to facilitate trade development is one of the most important for Kosovo's economic growth. The trading cost and barriers will be lowered in accordance with international best practices as well as European Union standards. Kosovo has been facing a negative trade balance every year and an action plan aiming at lowering the cost and the barriers to trade is regarded as necessary. However, out of eight planned activities in this subcategory, six aim at improving the DBR rank exclusively, whereas the remaining two are activities for amending laws.

Kosovo's government has created a direct correlation between the improvement of the indicators in the DBR and the success of economic development in the respective fields in which the report can be used as a measurement of success. However, having in mind that the DBR does not take into consideration the measurements of the infrastructure in a country, the development of the agricultural sector, and in the past years neither does it consider the employment market, a great number of activities in the aforementioned pillars of the Government's Action Plan do not have indicators of success.

³¹ Action Plan of the Economic Vision of Kosovo 2011-2014, Kosovo Government, Office of the Prime Minister, July 2011

Relying on a limited report to measure the success of economic development objectives as well as using it as an initiative for reforms makes the economic policy vision of a country limited as well. A developing economy, such as Kosovo, is in need of development policies that focus primarily in improving the local economic situation by promoting local SME's, rather than policies that prioritize the improvement in ranking in a report such as the DBR. The narrow focus on such a report also raises barriers to the development and implementation of innovative and creative policies.

IV. THE INFLUENCE OF DBR IN INVESTMENTS – OTHER COUNTRY PRACTICES

Attracting Foreign Direct Investment (FDI) is one of the main motivations for improving the ranking in the Doing Business Report. Kosovo's Government, especially the Ministry of Trade and Industry, have worked towards improving Kosovo's ranking in this report. However, as mentioned before, improvements in the ranks do not necessarily mean higher FDI. In the past years, two countries in Eastern Europe have undergone reforms in improving the rankings in the DBR, Macedonia and Georgia. Both these countries have been some of the best reformers worldwide and within a short time have improved their position in the report. Currently, Georgia stands 9th, whereas Macedonia 23rd. However, not only have the foreign direct investments not increased proportionally to the improved rankings, but at times, they have also decreased.

4.1. GEORGIA

A textbook example that improvements of the ranking in the DBR not only do not lead to increased foreign direct investment, but also adversely affect proper development policies, is the country of Georgia. In 2006 when Georgia ranked 112th in the DBR, the total of FDI in Georgia was USD 1,170,077,393.25. During the 2006, Georgia makes a huge step forwards in the DBR ranking 37th in the 2007 report, which is a 203% better rank than in the previous year. The foreign direct investments, however, increase to USD 1,564,030,345.11, which is approximately a 50% increase from the previous year. Even though Georgia continuously improves its position in the DBR, the FDI do not follow the same trend.

GEORGIA							
DBR ³²				FDI(USD) ³³			
2006	112			2006	1,170,077,393.26		
2007	37	3.03	203%	2007	1,750,242,587.70	1.50	50%
2008	18	2.06	106%	2008	1,564,030,345.11	0.89	-11%
2009	15	1.20	20%	2009	658,400,605.82	0.42	-58%
2010	11	1.36	36%	2010	816,708,508.75	1.24	24%
2011	12	0.92	-8%	2011	973,108,274.92	1.19	19%
2012	16	0.75	-25%	2012			

³² Doing Business Report: doing business in a more transparent world, World Bank. October 2011

³³ Foreign Direct Investment, World Bank. 2012

As it can be seen from the table, there is not a clear direct correlation between the improvement in the DBR rankings of a country and the increase of FDI. This is also evident in the case of Macedonia.

4.2. MACEDONIA

Among the countries of the region, Macedonia remains the one highest ranked in the DBR resulting from numerous reforms taken since 2006. In the 2012 report, Macedonia has been ranked 22nd out of 183 countries.

MACEDONIA							
DBR ³⁴				FDI (USD) ³⁵			
2006	94			2006	424,155,269.27		
2007	92	1.02	2%	2007	699,092,642.00	1.65	65%
2008	75	1.23	23%	2008	586,953,718.61	0.84	-16%
2009	71	1.06	6%	2009	197,089,613.49	0.34	-66%
2010	32	2.22	122%	2010	207,463,067.12	1.05	5%
2011	38	0.84	-16%	2011	409,958,903.23	1.98	98%
2012	22	1.73	73%	2012			

While in the case of Georgia we witness at least a small increase in the FDI corresponding to DBR rank improvement, in Macedonia that is not the case. Moreover, the FDI in Macedonia is relatively lower than in the region, including Kosovo to a certain extent.

Doing business reforms have resulted in Macedonia moving from 92nd place in 2009, to the 75th in 2008, an improvement of 23%. However, such an improvement in the DBR ranks has not resulted in higher investments; on the contrary, it resulted in a 16% decrease of investment compared to the prior year. Foreign direct investments decreased by a further 65% in 2009, a decrease that can be attributed to the global financial crisis. Nevertheless, Macedonia, unlike other countries in the region, had both a higher decrease in investment in 2009 as well as a lower increase in 2010. In 2011, Macedonia dropped from 32nd place to 38th in the DBR rankings, while the foreign direct investment increased by 98%.

Apart from the aforementioned statistics that show that a positive rank in the DBR does not guarantee increased investment, a comparison of the foreign direct investments in Kosovo and Macedonia, keeping in mind the rank of both countries in the DBR, can give us a clearer picture.

³⁴ Doing Business Report: doing business in a more transparent world, World Bank. October 2011

³⁵ Foreign Direct Investment, World Bank. 2012

KOSOVO							
DBR ³⁶			FDI (USD) ³⁷				
2006	N/A		2006	369,808,407.38			
2007	N/A		2007	603,224,093.07	1.63118	63%	
2008	N/A		2008	536,790,831.64	0.88987	-11%	
2009	107*		2009	408,068,782.77	0.760201	-24%	
2010	113*	0.946903	-5%	2010	457,269,392.08	1.120569	12%
2011	117	0.965812	-3%	2011	546,217,228.95	1.19452	19%
2012	117	1	0%	2012			

*In the 2010 and 2011 Doing Business Reports, the rank of Kosovo in the previous year is included in the 2010 and 2011 table respectively and serves as a comparison.

If we compare the FDI with the DBR ranks between Kosovo and Macedonia, we see that, disregarding 2009, in 2010 Kosovo had 220% of the total FDI that Macedonia received, while being ranked 113rd compared to Macedonia which was ranked in 32nd place. In 2011 Kosovo was ranked 117th, Macedonia 38th, and despite these rankings Kosovo received 133% of the total FDI Macedonia did.

Thus, if a country improves their Doing Business Report rankings, the correlation of the foreign direct investment with this ranking is not high and not always positive. Thus, even if we disregard all the shortcomings of the report, including the neglect of important economic factors, this report cannot be used as a driving force for policymaking of a country.

V. OTHER INDICATORS

Economic development plans drafted by the government should include a wide range of indicators that cover most, if not all, sectors in a country. A public policy platform that addresses a larger number of issues guarantees stimulation of economic development. On the other hand, potential investors base their decisions on all-inclusive indicators and analysis. Focusing the policymaking in a single report does not only affect negatively the prospect of sustainable economic development but also hinders attracting foreign investment. The following economic reports account for a number of economic indicators that aid both the investor perception and the sustainable economic development of a country.

5.1. CORRUPTION PERCEPTION INDEX³⁸

Every year, Transparency International publishes the Corruption Perception Index for 183 countries in the world, including Kosovo. This index measures the perception of the level of corruption in the public sector of a country and ranks countries based on the index from 0 to 10, where 0 equals high levels of corruption, whereas 10 equals no corruption. The rank in this list shows how well a country is doing in comparison to other countries included in the measurements. In this report, Kosovo is ranked 112th, with a 2.9 index. Kosovo ranks worst in the region, with the highest corruption perception index. Montenegro with an index of 4.0 is

³⁶ Doing Business Report: doing business in a more transparent world, World Bank. October 2011

³⁷ Foreign Direct Investment, World Bank. 2012

³⁸ Corruption Perception Index, Transparency International. 2011

ranked 66th, best in the region. Followed by Macedonia with a 3.9 index ranked 69th, Serbia with a 3.3 index ranked 86th, Bosnia and Herzegovina ranked 91st with a 3.2 index, and Albania with a 3.1 index ranked 95th. Kosovo in the corruption perception report is placed in the bottom 40% of the countries.

One of the major shortcomings of the Doing Business Report is omitting the corruption level in a country and this is best evident in the case of Afghanistan. This country has continuously ranked well in DBR, 29th and 28th in 2013 and 2012, respectively.³⁹ However, the business community in Afghanistan states that the DBR findings are only accurate for those who are prepared to pay the officials responsible for registering the businesses.⁴⁰ This is also evident in the Corruption Perception Index, where Afghanistan is one of the worst ranked countries. The country is ranked 180th, with a 1.5 index, with only two countries ranked worse. Thus, the reforms leading to a favorable DBR rank and the rank itself do not guarantee a well-established business environment in practice.

For potential investors, a high corruption perception index represents not only a high lack of trust of the society in the state-apparatus, but also a high level of risk of investment and additional complications for operating a business.

5.2. GLOBAL COMPETITIVENESS REPORT 41

This report is published by the World Economic Forum (WEF) and measures the level of competitiveness in a country based on the following 12 pillars: Institutions, Infrastructure, Macroeconomic Environment, Health and primary education, Higher education and training, Goods market efficiency, Labor market efficiency, Financial market development, Technological readiness, Market size, Business sophistication, and Innovation. These 12 pillars are divided into three categories, where the first four pillars belong to the first category of basic requirements that are crucial to factor-driven economies. Pillars five through 10 go into the second category as efficiency enhancers, characteristic of efficiency-driven economies, whereas the last two pillars complete the third category as innovation and sophisticated factors that are key to innovation-driven economies.

This report does not include Kosovo in its calculations. However, the countries of the region are all in the second phase of efficiency-driven economies. Based on the economic situation in Kosovo, inclusion in such a report would further highlight our lag behind the region. In an optimistic scenario, Kosovo would belong in the transitioning stage moving from phase one of the factor-driven economies towards phase two, that of the efficiency-driven economies. On the other hand, a more realistic scenario sets Kosovo in the first phase, that of the factor-driven economies. Montenegro is best ranked in the region, standing 72nd, followed by Macedonia in 80th place, Bosnia and Herzegovina placed 88th, Albania placed 89th and Serbia in the 95th spot.

Being placed in such a report would be of more interest to potential investors, having in mind that this report takes into account a greater number of factors in its methodology for determining the level of competitiveness of a country.

³⁹ Economic Profile: Afghanistan, Doing Business Report 2013, World Bank. October 2012.

⁴⁰ Uses and Abuses of Doing Business Report Indicators, USAID, Wade Channel. May 2008.

⁴¹ Global Competitiveness Report, Klaus Schwab, World Economic Forum. 2012

5.3. ECONOMIC FREEDOM INDEX⁴²

Published by the Heritage Foundation and the Wall Street Journal, this index is an analysis of ten specific components of economic freedom. The components are grouped into the following categories: Rule of Law (which includes property rights and freedom from corruption), Limited Government (fiscal freedom and government spending), Regulatory Efficiency (business freedom, labor freedom and monetary freedom), and Open Markets (trade freedom, investment freedom, and financial freedom).

This report does not include Kosovo in its rankings, but based on the economic reality in Kosovo, our country would not rank higher than countries in the region. Macedonia is ranked best from the region in 45th spot, Albania is 57th, Montenegro is 72nd, Serbia is 98th, and Bosnia and Herzegovina is 104th. Albania and Serbia, out of all the categories, have the lowest freedom from corruption index. Macedonia and Bosnia and Herzegovina have the lowest index in property rights, whereas Montenegro scores lowest in government spending. These three components are the most challenging for the region as a whole.

5.4. BERTELSMANN FOUNDATION TRANSFORMATION INDEX⁴³

Bertelsmann Foundation Transformation Index (BTI) examines and evaluates if and how developing countries and countries in transition stir social changes towards democracy and market economy. BTI is based in two indices, that of status and of management. The Status Index evaluates the political transformation towards democracy under the rule of law, and the economic transformation towards market economy under social justice principles. The Management Index evaluates the quality of governance and the influence of decision-making in steering political processes.

Out of 128 countries in this index, Kosovo is ranked 41st in the Status Index and is qualifies as a limited country. In political transformation Kosovo is ranked 43rd and is a defective democracy, whereas in the economic transformation Kosovo is ranked 58th and ranks as an economy with functional flaws. In the Status Index, countries of the region qualify as advanced countries. Croatia is ranked 15th, Serbia 21st, Macedonia 25th, Montenegro 27th, and Albania 31st. Bosnia and Herzegovina is ranked 39th falling in the category of limited countries.

In the Management Index, Kosovo and Albania are categorized as countries with moderate quality of management of governance, ranked 57th and 52nd respectively. Bosnia and Herzegovina is ranked worst in the region, standing 95th characterized as a country with poor government management. Serbia, Montenegro, Croatia, and Macedonia are considered as countries with good governance management.

5.5. THE PERCEPTION OF KOSOVO AND INTERNATIONAL AREA

Potential investor's perception of Kosovo depends on the international public opinion on Kosovo. The country is considered a state in transition and both politically and economically unstable. This also reflects on the belief that corruption is one of the biggest challenges to face

⁴² Economic Freedom Index 2012, The Heritage Foundation, The Wall Street Journal. 2012

⁴³ Bertelsmann Foundation Transformation Index, Bertelsmann Stiftung. 2012

when running a business. In a 2008 report published by the American Chamber of Commerce, 47% of businesses claim to believe that an effective business development is dependent on bribes given to Kosovo institutions. On the other hand, 12% of the businesses believe this is only true for certain institutions.⁴⁴

Moreover, the lack of transparency in Kosovo institutions and the lack of political stability affect the perception of Kosovo as a country with insufficient development policies and an instable economic environment. Policymaking processes in Kosovo need a broad focus addressing all the challenges our country faces.

Having in mind the great number of factors analyzed in different world reports that can influence the decision-making of potential investors, a narrow focus of policies only in improving the ranks in the World Bank doing business report becomes problematic. Kosovo has the potential for reforms in other areas, outside of those included in the Doing Business Report, which can influence the attraction of potential investors in a greater scale.

Fighting corruption, improving the infrastructure, investing in education and training of the work force, developing a well-established macroeconomic environment, including improvement of trading across borders, would have a greater impact in the perception of Kosovo from foreign investors. Moreover, successful advancement of these components would also have a positive impact in economic growth with local production as a backbone.

VI. CONCLUSIONS

The Doing Business Report is a useful tool that offers statistics about the quality of the doing business environment for 185 different countries worldwide. However, World Bank itself, the institution that publishes this report, publicly acknowledges a number of shortcomings such as the focus in the largest city only, in the formal economy and solely on small and medium enterprises.

Moreover, the World Bank states that directly that a sole focus on improving rankings of the DBR will not guarantee improvement of the doing business environment. As a result, as the experiences of other countries suggest, changes practice require policies beyond the DBR and investors do not consider the report as a tool for decision-making.

Kosovo institutions have used the DBR as a basis for developing policies related to doing business and even to the whole private sector development. Foundations of these policies are drafted in Bansko Plan, known officially as the Action Plan of the Economic Vision of Kosovo 2011-2014, which specifically states that the improvement in DBR rankings is the objective of 23 activities and foresees the creation of the doing business task force. As a result, the Government of Kosovo has adopted a series of laws to improve the business environment for SMEs. Ministry of Trade and Industry, relying on a report that does not guarantee real improvements of the situation, has implemented five reforms to increase the score of three DBR indicators.

⁴⁴ Impact of Corruption on the Business Community in Kosovo, Kushtrim Shaipi, American Chamber of Commerce. 2008

The World Bank report on the ease of doing business focuses largely on the regulations and legislative frameworks that govern each of the indicators measured in this report. Kosovo has so far shown great willingness to amend the laws and regulations to harmonize them with European directives and international best practices. However, Kosovo's major problem is not the lack of laws in line with international law, but rather their implementation. As a result, the improvement in the ranking of doing business report is directly related to the content of the laws and what they regulate, not their implementation. This means that improvement of ranks in the DBR does not present a clear picture of the real developments in the country.

Developing countries such as Kosovo, suffer even worse when policymakers are limited on selective reforms aiming solely at improving the position in the DBR, causing stagnation of private sector development. This is mainly because of all the political and administrative potential is focused on improving the DBR ranks, leaving aside all other important areas. After this analysis, we can conclude that such limitation has been wrong and has only had a negative impact on economic development. Moreover, despite all the exclusive commitments to improve the position in the DBR, Kosovo's institutions have not succeeded much, since the improvement has been only 19 places.

Kosovo may be in the top reformers of the report or even in the top 40 or 20 countries in the DBR ranking even if all future political and administrative reforms aim at it. However, even then, a growing economic crisis will not be prevented through foreign direct investment, since as it is seen from the practices of other countries, good DBR ranks do not guarantee an increase of foreign investment in a country. This is clear from the practices of countries like Macedonia and Georgia, whose success in the ranking of the Doing Business Report has not resulted in increased investments. Given that one of the most important goals of a developing economy, like Kosovo, is to attract foreign direct investment, concentrating almost exclusively in improving the DBR ranks of the country is a non-efficient focus of development policies.

As a country, that needs a fast and sustainable economic development, Kosovo cannot learn from its mistakes, as it has done this year with Doing Business Report. The mistakes of other countries, especially countries with a similar political, social, and above all economic situation, should serve as systematic instruction in public policy making. Success in limited indicators might sound good on paper, but it does not improve the business environment in Kosovo.

