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# Institutional Procedures for the Establishment of Business and Obstacles in Business in the Area of Peja

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**Abstract:** *The state has a key role in business development, but with a clear vision as a regulator of the institutional environment, and not as the governor of businesses. Countries in the transition phase, which also include Kosovo, constantly tried to create more favorable conditions for businesses. This paper presents the administrative procedures that must be passed since the establishment of the business, and continuing maintenance licenses from various institutions, whether at central or local level in the city of Peja. During these procedures, it has been calculated that there is a cost for businesses and a negative impact on the environment too, which comes as a result of various institutions that should be visited. Removal of any of such proceedings is a relief for businesses. This work has confirmed that removal annual municipal tax for businesses (Fee for commercial economic activity) by the local government provides an incentive to do business in the Municipality of Peja. In the paper, there are included statistical data on the situation of business in Peja region, tax revenues for the analysis, and empirical findings. Based on the results it can be seen that the major impact by institutions on the flow of private businesses where businesses of politicians and their relatives are included, is the high corruption, the inability of institutions to fight the corruption, and many other causes that show a negative growth of businesses. The work will also have some important practical scientific issues on how some certain institutions should make a business environment.*

**Keywords:** *Institutions, Legislation, Regulation, Removal (abolition) of municipal tax, Natural environment, Institutional corruption, Municipality of Peja, Republic of Kosova*

## INTRODUCTION

It is considered that the government's policies have a decisive influence on the creation of conditions for sustainable business development (Mustafa, Kutllovci, Gashi & Krasniqi, 2006). With reference to some of the key components of the World Bank's (2013) methodology for measuring the business environment, the creation of a market economy depends largely on the quality of institutions, their capacities, and expertise for the creation, implementation, and enforcement of the rules of the game for economy market.

The critical role of a central and local government is to create a legal, suitable and institutional framework to induce starting a new business. In addition, the role of a state is decisive in the implementation of laws among others, and limiting the informal sector, tax evasion, and smuggling. There is always injustice and abuse, some of them are even more serious in market economy. However, it cannot be denied that today's private initiative and merchant spirit along with political democracy represents the best opportunity for the protection of the freedom providing a path to economic growth and prosperity for all (Çepani, 2006).

Changing the tax laws and the fluctuation of available capitals are just two situations that require alert managers to see which legal structure best supports their needs (Çepani, 2006). Legal basis that Peja's Municipality has undertaken to eliminate the annual municipal tax for manufacturing businesses and new businesses of 2013, represents a chance, in order to be a more convenient location to do business, but not for the other sectors which participate in the market more than production.

The modern state is, as Schumpeter (1954) observe, a "tax state". In the last instance, it is dependent upon the health of the wider economy to fund its own activity (Pierson C., 2009).

In addition to be as a regulator of a market economy, the state is also a regulator of the natural environment.

### Registration Process and Providing Different Business Licences in Peja

Small businesses are the backbone of the national economy. They are the basis of the economic system for free enterprise. For many people, owning a small business, because of the great independence and financial income that it brings, has become really attractive (Çepani, 2006). The main impulses for economic growth will certainly come from private sectors, especially small businesses whose development will have its roots in a more favorable economic environment, and will be supported by effective public and private services oriented by business. According to the official data KBRA's, presented in Table 1, 99.7% or 100% of the registered businesses in Peja's municipality from 2008 - in March 2013 are micro-enterprises.

**Table 1** :Size of enterprises

Size	Nr of businesses util March 2013	Nr of businesses 2012	Nr of businesses 2011	Nr of businesses 2010	Nr of businesses 2009	Nr of businesses 2008
Microenterprises	150	478	366	356	339	364
Small enterprises	0	1	1	1	2	0
Medium enterprises	0	0	0	0	0	0
Large enterprises	0	0	0	0	0	0

Source: Kosovo Business Registration Agency (KBRA), 2016

Registration of so many micro-businesses, which are individual businesses, is because of the unique and direct involvement of the manager of a small firm (who is usually the owner of the firm), in decision-making and controlling over resource allocations. In small firms, the owner has a more direct control compared to larger firms in which decision-making is the responsibility of a larger group and more diversified managers (Krasniqi, 2012).

All businesses must operate within legal and regulatory requirements that are set by the state in which the business is running in (Cambell & Craig, 2005). The World Bank's report (2013) indicates that the countries of Eastern Europe and the Central Asia are global leaders when it comes to the pace of business reforms, in the second consecutive year. Western Balkan countries have improved their business environments in 10 major categories, including the cost of starting and closing a business, hiring and dismissing the workers, registering property, getting loans, across border trading, protecting investors, and enforcement of contracts. Kosova is ranked in the 98th place out of 185 countries in total as included in the study, while the countries of the region are as follows: Macedonia 23<sup>rd</sup>, Montenegro 51<sup>th</sup>, Croatia 84<sup>th</sup>, Albania 85<sup>th</sup>, Serbia 86<sup>th</sup>, and Bosnia 126<sup>th</sup><sup>1</sup>.

The process of creating and developing a business in Peja is not an adventure, but a real challenge. In order to help businessmen in this regard, it is of utmost importance that the state should create a favorable business environment. Currently, according to a research, the process of establishing a business type company with limited liability, includes several steps<sup>2</sup>:

<sup>1</sup> World Bank. 2013. Doing Business 2013: Reforming through Difficult Times, World Bank, Washington D.C.

<sup>2</sup> Procedures are shown in whether in public and private institutions.

- ✓ Opening a bank account and depositing the funds needed,
- ✓ Be provided with the Business Registration Certificate with the document of "Business Information" (including the number of business and Fiscal number),
- ✓ Adjusting the stamp business,
- ✓ The decision for "work permit" (Payment for Annual Municipal Tax on businesses),
- ✓ Inspection of the municipal Technical Commission,
- ✓ Inspection of business by the Tax Administration,
- ✓ Registration for the VAT,
- ✓ Registration of Workers from TAK.<sup>3</sup>

The analysis in this study is focused on the process of creating C.L.L - For the reason that such types of businesses have a greater chance for creating employment and economic development.

Article 12, paragraph 12.1 of the Basic Law. Law. 04/L-006 on the amendment to the Law on business No.02/L-123 for trading societies (Assembly of Kosova, 2009) is amended as follows: "Businesses do not pay the registration fee. Minister with bylaw will determine the list of taxes that would be paid for other services provided by the Agency." Businesses are registered free of charge and within a short time frame, one day for individual businesses and three business days for joint stock companies, it is possible to integrate the system, where businesses receive a certificate with two numbers: the number of business and the fiscal number. There are payments unspecified in the law, but the ministry with its bylaws will charge businesses with other payments.

The current model according to the above distribution business establishment includes eight steps necessary to complete the business registration. There are also other licenses depending on the activities, where business owners have to travel to center, respectively in Pristina, both at the beginning, and also every year.<sup>4</sup> So businessmen spend approximately 170 km to perform work, visiting various institutions, which directly affects the higher expenses of the owner or the authorized person, and fuel costs. According to research, the average number of registered businesses per year in Peja is 300 businesses, most of which are presented in the following tables indicating the amount of spent fuel, and produced carbon dioxide in the atmosphere.

**Table 2:** Quantity (assumed) required of spent fuel

Businesses	Km distance (Peja-Pristina-Peja)	Kg necessary	Total Kg fuel
300	170	25	1,275,000

Table 2 shows fuel costs assuming that there are 300 businesses and considering that a car spends 25 liters in 170 km. The amount of pollution is shown in Table 3 according to the methodology of the U.S. Environmental Protection Agency.

**Table 3:** Carbon dioxide

Total Kg	The average value of the gas released (kg)	Kg CO <sub>2</sub> released
1,275,000.00	9.45	12,048,000.00

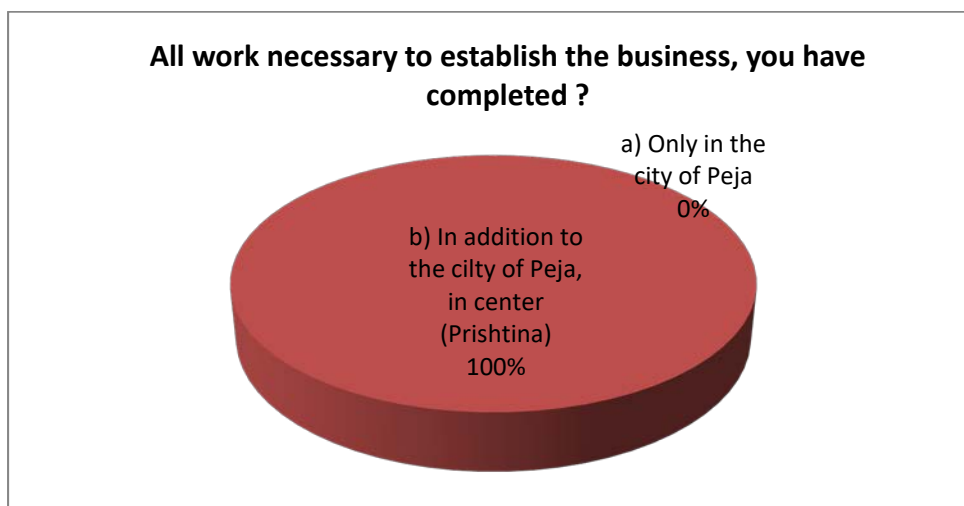
According to the EPA, the average carbon dioxide out of the smoke from the vehicles using oil derivatives and gas is 10.1 kg/gallon and 8.9 kg/gallon, respectively (U.S. Environmental Protection Agency - EPA, 2011). The number 9.45 presented in Table 3 shows the average cost of either oil or fuel. As we all know not all vehicles

<sup>3</sup> The number of steps is increased if its foreign business, but the object of this paper is on the internal enterprises

<sup>4</sup> Eg. Creation of C.L.L. for agricultural products circulation, require licenses from the Ministry of AFRD – which can only be issued in Pristina, and costs € 80 and must be renewed every year; Creation of C.L.L, for money exchange (exchange), requires a license from CBK and depositing € 100,000 procedure lasts three months, and then activity number code is issued by KBRA, etc

move with the same kind of fuel, so, we assume that one half uses petrol, and the other half uses diesel. Therefore, these businesses spend 1,275,000 kg of fuel while delivering 12,048,000 liters CO<sub>2</sub> from their vehicles into the nature to get licenses. There is even more CO<sub>2</sub> released than calculated by EPA, given that the vehicles in Peja are outdated (half used).

To do more realistic research, and to have a stronger argument, there was an interview with the businesses. More specifically, there were 50 businesses interviewed in the municipality of Peja, about their registration, tax payments, obstacles etc. 38% of the interviewed businesses were established from 2008 to 2013, 36% of them were established after the war from 1999 to 2007, 2% of them during the 60's, 4% of them in the 70's, 8% in 80's, 12% from 1990 to 1997. The businesses which were established before the war, had to re-register after the war, and the interview gives information about their experience.



**Graph 1.** Services performed at a central and local level

**Source:** Survey conducted by the author with 50 businesses in the region of Peja (Republic of Kosovo), the paper of the empirical research.<sup>5</sup>

It shows that to establish a business in the Peja region, it is necessary to go to Pristina. So business respondents stated that 100% of businesses have gone except Pec to Pristina for business registration, and no company could perform services only in Peja.

### **Municipal Annual Business Tax Elimination**

Placing the high taxes encourages avoidance of payment (tax evasion). So, for a friendly business environment, lower taxes extended on a wider scale are preferred (Mustafa et al., 2006). According to the Article 8, the law on local government finances nr.03/L-049 (Assembly, June 2008), municipalities have the right to collect revenues from income categories that are permitted by law municipalities, among them, tax on business activity license is also included. Recently, there have been different approved projects, the number of laws has gone higher, or the existing ones have been improved, directly or indirectly affecting the development of businesses in the city of Peja.

The office of the Mayor of Peja<sup>6</sup> (Municipality of Peja, September 2012) has taken a decision to approve a new regulation for the revenues, under which businesses would be exempt from annual municipal tax on business, which was fees for enterprise activities, an act that was seen as an incentive for investment in the private sector of production.

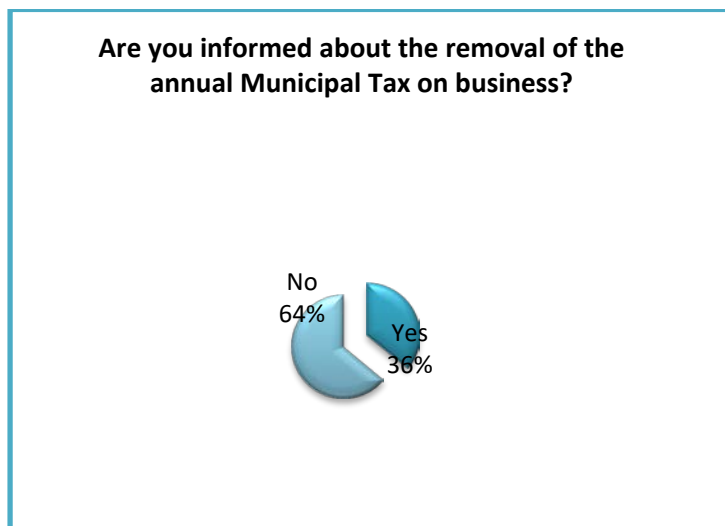
<sup>5</sup> Power of these businesses is 173 employed workers.

<sup>6</sup> Municipality of Peja. Office of the Mayor of Peja. Decision Nr.400 – 8862/2012, 17 December 2012.

It became clear that the right to remove the tax applies to all new businesses registered from January 1st in 2013, and the current manufacturing businesses with up to 5 employees (Municipality of Peja, 2012). But for active businesses, it did not take such a decision. But why only new businesses, not others? For local government, a right decision for businesses to create a better business environment would pose a "threat" to smaller revenue sources for the municipality, in the following lines, the municipality's own revenues have been presented.

Peja's municipality has collected revenues, in the amount of 2.53236 million euros in 2010<sup>7</sup>, 2.60437 million euros in 2011<sup>8</sup>, 2,859,942 euros in 2012<sup>9</sup>. While only the collected income from the exercise of business activities was € 180,057 in 2012; € 176.284.70 in 2011, and € 176,572 in 2010.

According to empirical analysis that have been carried out, questions were focused on 50 businesses in Peja where their main activities were as follows: 6% Production activities, 2% Wholesale Trading, 58% Retail trading, 34% Service activities.



**Graph 2.** Informing businesses about the decision to remove the annual Municipal Tax on business (commercial economic activity fee)

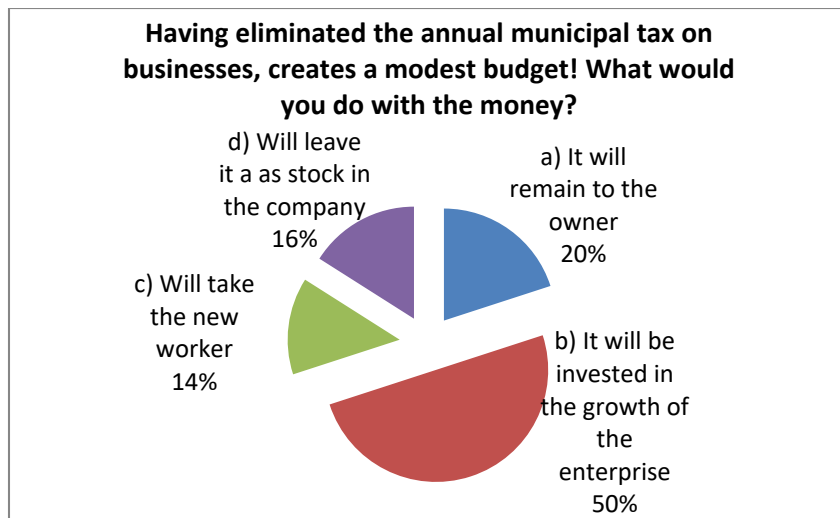
**Source:** Survey conducted by the author with 50 businesses in the region of Peja (Republic of Kosova), the paper of the empirical research

In this questionnaire, it was aimed to present the opinion of businesses on how well they follow the trends of the developing environment. 64% of businesses were not aware of the decision regarding the removal of the annual municipal tax on business, the problem was and still is the bad contact between the municipality and businesses. The remaining 36% were informed of such decision, the source of information was television, society or colleagues.

<sup>7</sup> Municipality of Peja. 04.01.2011. 1-year Work Report (2010) of the Municipal Government of Peja. Peja. Republic of Kosovo: Municipality of Peja.

<sup>8</sup> Municipality of Peja, 03.01.2012. 1-year Work Report (2011) of the Municipal Government of Peja. Peja. Republic of Kosovo: Municipality of Peja.

<sup>9</sup> Municipality of Peja. 21.12.2012. 1-year Labor Market Report (2012) of the Municipal Government of Peja. Peja. Republic of Kosovo: Municipality of Peja.



**Graph 3.** Allocation of resources (money), that remain from the removal of annual municipal tax (Tariff Elimination of commercial economic activity)

**Source:** Survey conducted by the author with 50 businesses in the region of Peja (Republic of Kosova), the paper of the empirical research

According to the analysis, 50% of observed businesses are in development and will be expanded. In conversation with them, they declared that they would employ more workers, because their activities will be expanded and the current workers will be unable to perform all the necessary work. 14% of businesses stated that they would hire new workers, because they thought that employees were loaded with extra work, or wanted to hire workers for their needs. Unlike these companies, 20% of the respondents were seen to have no desire to change perhaps they had a successful business, and the owner was then assigning personal expenses, so for the owner, they would only remain as personal matters not a business. In 16% of businesses, there was seen a stagnation in business, they needed stocks, or cash in circulation for the enterprises. For those businesses that needed stocks, removal of the municipal tax was good in order to stay in the market.

**Business Obstacles - Corruption in Institutions**

Bureaucratic rules and procedures of the government, business and the obligations to comply with them, are also factors that inhibit the development of entrepreneurship in Kosova, or in other cases, create space for the development of businesses that know how to use their possibilities through connections and favor opportunities to create their own entrepreneurial networks. Greater access to certain people and institutions provides the best chance for progress of several businesses, and this inhibits some other businesses.

**Table 4.** Factors that hamper the business of the enterprise

Various fees and license for business	2,65
Administrative burdens of municipal administration	2,53
High taxes	1,52
Legislation (laws and their implementation)	2,07
Corruption in institutions	1,10

**Source:** Survey conducted by the author with 50 businesses in the region of Peja (Republic of Kosova), the paper of the empirical research

The above table presents the operating constraints of business, rated as follows 1 = major obstacle, 2 = biggest obstacle, 3 = an obstacle, 4 = minor obstacle, 5 = not an obstacle. While the codification of figures was made

based on the average value of respondents. The respondents have scored all the points but there were some that did not answer all the points.

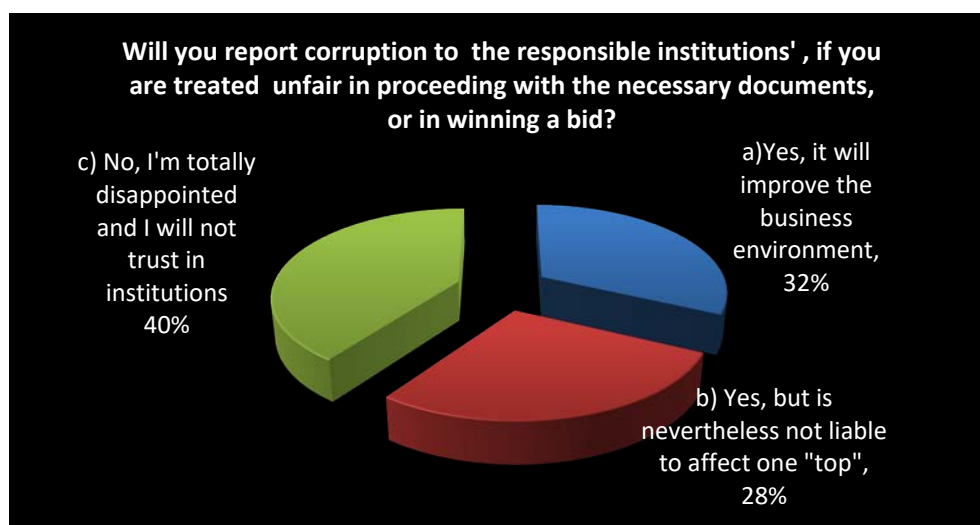
The result of the empirical analysis in fifty businesses has shown that the greatest obstacle appeared in this ranking is corruption in institutions which was 1.10 in scale which is a really huge obstacle. The cause of the problem of created weak business environments by institutions is that the administrators are always corrupted according to the data declarations issued by the businesses. Corruption is found in institutions since the establishment of the business, during the business, in business profit, or in public-private partnership until the termination of the business. It was found that businesses were followed by institutions with corruption in all phases of the business cycle, and this presents a crime.

Also, high taxes and political instability are the major obstacles to business on a scale of 1.52 point and 1.64 points.

Fees, permissions and licenses, the administrative burdens, and the legality of municipal administrations (laws and their enforcement) represent an average degree of the obstruction, which worth 2.65, 2.53, and 2.7, for the businesses interviewed, because the registration procedures have improved quite a lot by applying the law in institutions, but there is still a problem because it is needed to travel to Pristina, otherwise it would not appear as an obstacle.

The presence of high corruption is one of the critical factors impeding the creation of friendly business environment and favorable economic activity. According to the organization (Transparency International, 2012), Kosovo is ranked 105<sup>th</sup> according to the Corruption Perception Index (Corruption Perceptions Index), among 174 countries of the world. In fact, Kosova has a special institution for combating it, known as the Anti-Corruption Agency. However, its result so far in its mission has been unnoticeable and insignificant. In addition, to its larger mission of the European Union Rule of Law Mission in Kosova, known as EULEX was placed immediately after the declaration of independence on February 17<sup>th</sup> in 2008, with the primary mission to fight corruption and organized crimes. Unfortunately, there is nothing concrete on a large scale in this direction. This may be why the citizens of Kosova have gradually lost faith in the credibility of institutions and generally described it as corrupted.

A more personal question that comes next is how an individual behaves in case of corruption. They were asked whether there were any cases, and what they would do in case of facing a corrupted person. At the same time, it was tried to find their opinion on trust in the institutions responsible for combating corruption.



Graph 4: Reporting corruption

Source: Survey conducted by the author with 50 businesses in the region of Peja (Republic of Kosova), the paper of the empirical research

According to the results of the survey conducted in 50 different business profiles in the Municipality of Peja, the following results have been found: 40% of the respondents did not represent corruption, they were totally frustrated and did not trust in institutions. 28% of the surveyed businesses would report corruption but they were convinced that none of them would be punished because of the influence from the "top". Only 32% of the respondents according to the empirical analysis reported institutional corruption to the responsible institutions which would improve business environment, since they have begun to take more comprehensive measures for combating corruption. The empirical analysis has shown that in three points, only one third of the businesses stated that they trust in institutions and they will report corruption. This has represented a small figure of their faith in the institutions. While two thirds of the respondents stated that they are disappointed and have lost faith in the institutions responsible for combating corruption.

## **Conclusions**

The businesses involved in the case studies, have given the impression of the deterioration of the institutional and business environment which can be used as the flaws, if not for the growth and development of the businesses, at least some benefits of some entrepreneurial opportunities have been offered by these flaws in general. This relationship that even when the environment is not so favorable, someone may benefit from it, in the general level of the economy, as noted in the case of Peja, cannot be a good basis for more sustainable development of businesses and improvement of the economic competitiveness. Entrepreneurial availability is of primary importance at the microeconomic level, but it would be more beneficial in the longer term if the legal and institutional framework, or the rules of the game, are better formulated and applied, which will benefit more to entrepreneurial business and the economy as a whole.

For businesses, traveling to Prishtina is an obstacle that costs more than doing their work in their own city, carrying competences to the local authority or in the contrary, to the central government to open an office in the city of Peja. Despite environmental laws based on the European Convention governing air, the governmental institutions should be aware of this and take appropriate measures to make businesses reduce fuel costs and emissions of the polluting gases into the environment.

The government and institutions of Kosovo should review the legislations regulating the business environment in Kosova. Measures should focus on the harmonization of the laws and regulations that reduce the bureaucratic procedures for registration of the firms for easier access to institutional services, eliminate the favors and cliental relations between some local businesses and many other discriminations.

The role and function of the state in economic policy leadership, realization of the market stability and price in the level of satisfactory employment, balancing the payments and realization of the degree of growth and economic development are unquestioned.

Reporting and fighting corruption remain one of the main challenges in Kosova that have been hurting business development. Some of the analyzed businesses would not take that step. Besides, various international reports have considered Kosovo as the most corrupted in the region, and this phenomenon has been highlighted by the businesses interviewed. While its presence to the reported extent, there is a consensus that, the determination to fight it should focus on taking concrete measures after all of these denunciations. The first step in this direction should be against the so-called "big fish" in the state and public institutions, otherwise there is a danger of practicing it as normal, and hindering the environment for businesses.

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