

# Kosovo

In BEEPS V, the top three business environment obstacles identified by Kosovan firms were competitors' practices in the informal sector; electricity issues; and corruption (Chart 1). SMEs placed corruption ahead of electricity issues, while electricity issues; access to finance; and crime, theft and disorder topped the list for large firms. Crime, theft and disorder were also a concern for young firms. In BEEPS IV, crime, theft and disorder replaced competitors' practices in the informal sector to appear among the biggest challenges in the business environment.

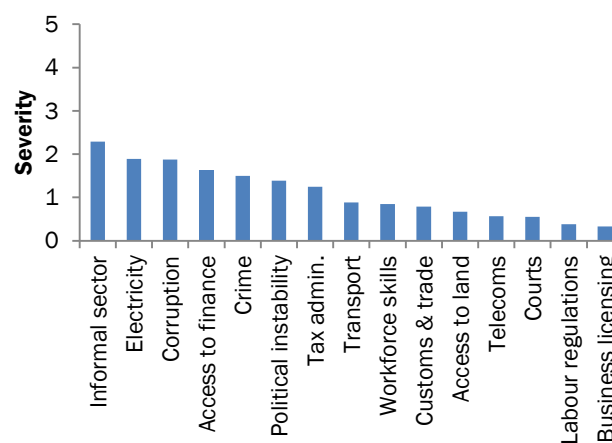
## Competition from the informal sector intensifies and corruption is a major concern

It is not surprising that **competitors' practices in the informal sector** appeared as the major obstacle to business in Kosovo. The share of firms that reported competing against firms in the informal sector amounted to 66% and was the highest among all the 30 countries covered in the survey (average of 39%); almost all SMEs operate informally – at least in part. Moreover, almost no progress has been seen in tackling informal sector competition since BEEPS IV when the share of firms that competed against informal sector firms was 64% (Chart 2).

**Electricity issues** were much worse in Kosovo than in most other transition countries and posed a huge problem for Kosovan firms in their day-to-day business. Most of them suffered from frequent power outages. In BEEPS V, 81% of Kosovan firms – the highest share among the countries covered – experienced on average 13.6 power outages per month. While this was a significant improvement on BEEPS IV, in terms of the share of firms experiencing outages and their frequency, both of these indicators were the worst in south-eastern Europe (SEE), where firms experienced on average 5.4 power outages per month. Frequency was second only to Uzbekistan. Firms also bore the highest losses from power outages in SEE – 11.3% of total annual revenue (Chart 3).

**Corruption** remained among the top three obstacles: the percentage of contract value typically paid to secure a government contract increased from 1% in BEEPS IV to 4.3% in BEEPS V. The share of firms asked to make an informal payment to obtain a construction-related permit increased from 0.7% to 9.6% in BEEPS V. In addition, the share of firms that were asked for informal payments by tax officials was 9.5% in BEEPS V, above the SEE average of 6.3%. Moreover, firms were perceived to spend 2.2% of total annual revenue on informal payments or gifts, almost four times the SEE average of 0.8%.

Chart 1. Business environment obstacles



Estimated for a hypothetical "average" firm. Higher values correspond to a weaker business environment.

Chart 2. Competition from the informal sector

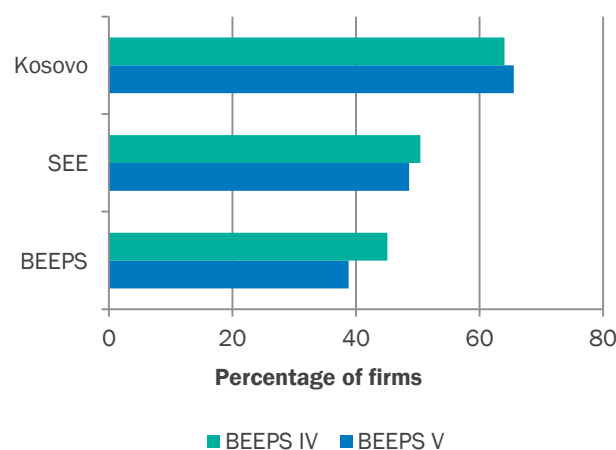


Chart 3. Losses due to power outages

