



USAID
NGA POPULLI AMERIKAN
OD AMERIČKOG NARODA

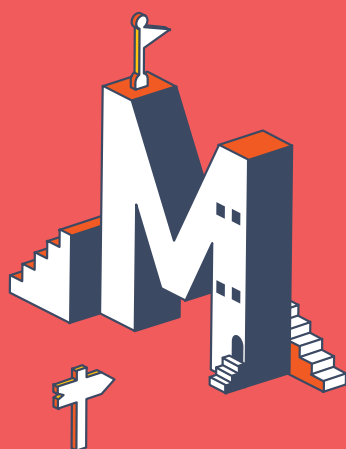
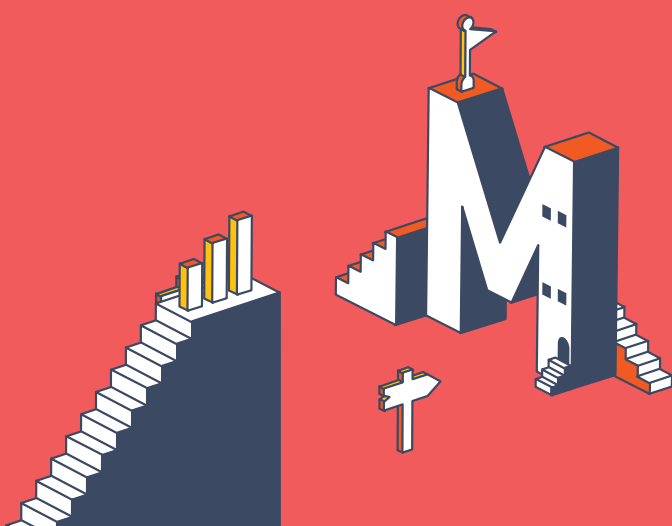
MUNICIPAL COMPETITIVENESS INDEX

2018



CONTENTS

ABBREVIATIONS	4	5. POLICY WEIGHTED MCI.....	60
1. OVERVIEW OF THE ECONOMIC BACKGROUND AND BUSINESS ENVIRONMENT	5	6. FINDINGS FROM THE FOCUS GROUPS	63
2. WHAT IS MCI?	6	7. MCI METHODOLOGY	67
3. MCI INDEX AND SUB-INDEXES SCORES	8	7.1. COLLECTION	68
4. SUB-INDEX RESULTS	11	SURVEY DESIGN	68
4.1. SUB-INDEX 1: BARRIERS TO ENTRY	11	SAMPLE.....	68
4.2. SUB-INDEX 2: TRANSPARENCY	17	DATA COLLECTION	69
4.3. SUB-INDEX 3: PARTICIPATION AND PREDICTABILITY	23	7.2. CONSTRUCTION	70
4.4. SUB-INDEX 4: TIME COST	29	7.3. CALIBRATION	71
4.5. SUB-INDEX 5: TAXES AND FEES	36	7.4. FOCUS GROUP DISCUSSIONS- METHODOLOGY	73
4.6. SUB-INDEX 6: LOCAL ADMINISTRATION.....	42	8. CONCLUSIONS	75
4.7. SUB-INDEX 7: LABOR MARKET AND SUPPORT FOR BUSINESSES	48	9. APPENDIX	76
4.8. SUB-INDEX 8: LOCAL INFRASTRUCTURE	54		



ABBREVIATIONS

EGI

Economic Governance Index

FGD

Focus Groups Discussion

KBRA

Kosovo Business Registration Agency

MCI

Municipal Competitiveness Index

NGO

Non-Governmental Organization

SMEs

Small and Medium Enterprises

USAID

United States Agency for International Development

VAT

Valued Added Tax

EXECUTIVE SUMMARY

The purpose of the Kosovo Municipal Competitiveness Index (MCI) study is to measure the competitiveness of municipal governance in providing a favorable local business environment. This is the fifth year that USAID Kosovo implements this study with the aim of guiding policy reforms which are based on evidence.¹

The MCI has started as a necessity to identify strengths and barriers that business sector faces when interacting with their municipalities and to identify areas for creating the preconditions of a well-equipped private sector. As such, the most significant contribution of the MCI is its local scope of research and the policy relevant findings. The majority of studies and policies related to the business environment are focused on the national level, and MCI provides complementary information for more coherent policy reforms at both the central and local level of governance.

The MCI has started as a necessity to identify strengths and barriers that business sector faces when interacting with their municipalities and to identify areas for creating the preconditions of a well-equipped private sector. As such, the most significant contribution of the MCI is its local scope of research and the policy relevant findings. The majority of studies and policies related to the business environment are focused on the national level, and MCI provides complementary information for more coherent policy reforms at both the central and local level of governance.

The Municipal Competitiveness Index (MCI) is an index that is carried out in different countries individually or as part of a broader region inside a country. The methodology used for constructing the index is based on the standardized methodology of Local Economic Governance Index (ELGI) from Asia Foundation. The MCI is a construct of 8 standardized sub-indexes measuring key dimensions of the impact of local governance on the business environment. The study is

based on primary data collected through the survey with 3350 firms in all of the 38 Kosovo municipalities employing a stratified randomized sample.

An important feature of this year's MCI is the inclusion of focus group discussions. Seven focus groups were organized in seven regions of Kosovo with the goal of highlighting the output coming from experiences and suggestions of municipal officials, local NGOs and businesses in a supplementary qualitative way to the conducted survey.

The composite MCI shows that municipalities can provide a favourable business environment regardless of their size. The 5 best ranked municipalities are Lipjan/Lipljan, Rahovec/Orahovac, Viti/Vitina, Junik and Hani i Elezit/Elez Han, while the rest of the best performing municipalities are of a mixed size and include: Gjakovë/Đakovica, Podujevë/Podujevo, Obiliq/Obilić, Prishtinë/Priština, Suharekë/Suva Reka

From an aggregate perspective, the findings show that the index of **Time Costs** is the sub-index with the highest score, showing that businesses, country-wide are not burdened with time consuming bureaucracy. The Barriers to entry sub-index is the following highest sub-index, confirming a favorable environment for starting a business from the perspective of the administrative barriers related with it. On the other hand, **Transparency** sub-index has received the lowest score, showing a limited accessibility to data and information from the municipalities.

The report is organized in eight main sections. The **first** section discusses the general business environment based on existing literature. The **second** section is an overview of the MCI. The **third** section presents the indexes at an aggregate level. The **fourth** section is divided in 8 parts that discuss the MCI sub-indexes. The **fifth** section gives an overview of MCI policy weights. Focus groups are discussed in the **sixth** section. The **seventh** section explains the methodology used in constructing the indices. Finally, the **eighth** section summarizes the report in a conclusion.

¹ MCI 2018 has been implemented after a 4 year gap, with the last MCI in Kosovo implemented in 2014.

1

OVERVIEW OF THE ECONOMIC BACKGROUND AND BUSINESS ENVIRONMENT

The focus of this study is to analyze the role and impact of local governance in creating a sound and healthy environment for businesses and private sector at large. The performance of businesses plays a major role in creating the prerequisites for a sustainable and long-term economic development. The private sector in Kosovo, which is dominated by micro-enterprises, has been underperforming and only recently become the main driver of growth. Despite the positive trend of economic growth during the last decade, Kosovo's economic growth rates were not transformational, i.e. they were unable to tackle pressing development challenges like high unemployment and high poverty. The economic situation in Kosovo is still characterized by major macroeconomic imbalances which are reflected with a high unemployment rate (standing at around 30 percent)²; high levels of informality (standing at around 31 percent)³ and high trade deficit (standing at around 35 percent as share of GDP).⁴ The slow progress in raising productivity and supporting production and exports, indicated that Kosovo lacks an integrated framework of economic policies. This, in turn, is reflected in low competitiveness and moderate growth rates.

In the 2018 World Bank's Doing Business ranking, Kosovo has marked a remarkable leap, occupying 40th place compared to 86th place four years ago. This has put Kosovo's economy among the top ten reformers in the world.⁵ In par-

ticular, the establishment of one-stop shops in 26 municipalities has ameliorated some aspects of entry barriers and this was picked up also by the Municipal Competitiveness Index. While significant improvements were made in all Doing Business indicators, Kosovo's business environment still faces many obstacles. The Balkan Barometer Index suggests that Kosovo has a long way ahead to achieve a sustainable institutional environment for business support⁶

Domestically, the main risks are primarily associated with policy uncertainty that could affect investment and growth. Businesses are faced with many infrastructural barriers (such as quality of roads and railways), institutional barriers (such as corruption; tax evasion and informality; cost of finance; quality of the judiciary system; quality of tax administration, among others) and skill-internal barriers (such as quality and availability of labor supply). All of them combined show that the business environment does not foster a rapid private sector development. Therefore, actions that address these obstacles and bottlenecks, at both local and central level, are of paramount importance, especially in Kosovo's current stage of development.

In doing so, this report seeks to understand what policy adjustments need to be made to enable the private sector to unlock its potential and increase competitiveness, both internally at the municipal level and externally at a regional and global level.

² Kosovo Agency of Statistics (2017) Labor Force Survey.

³ Riinvest (2017). Business Environment in Kosovo. From SMEs perspective.

⁴ Riinvest (2017) – Forum 2015, "Pergjigje ndaj sfidave te rritjes ekonomike".

⁵ <http://www.worldbank.org/en/news/press-release/2017/10/31/doing-business-2018-kosovo-among-top-ten-reformers-in-the-world>.

⁶ Regional Cooperation Council (2017). Business opinion survey - Balkan Barometer.

2

WHAT IS MCI?

The Municipal Competitiveness Index (MCI) is an index that is carried out in different countries individually or as part of a broader provincial region inside a country. The purpose of this Index is to develop an indicator at the municipal level which will show the performance of local governance while attempting to capture different dimensions of local competitiveness. Contrary to the methodology used for various doing business indexes at the national level, the Municipal Competitiveness Index uses a methodology developed specifically to be used at the municipal level. In this research, eight sub-indexes are extracted and also a separate index is created for each municipality.

The methodology used for extracting sub-indexes is discussed in a separate methodology section. MCI introduces a new opportunity to understand the barriers that businesses identified within their respective municipalities. These results give a clear picture of the main priorities where municipalities should focus on, increasing competitiveness and at the same time creating better conditions for doing business.

A competitiveness index for municipal and provincial administrative units that rank cities, regions or provinces across different topics is conducted by different organizations on different regional level, namely, the Global Competitiveness Report conducted by the World Economic Forum and the EU Regional Competitiveness Index prepared by European Commission, measuring different levels of competitiveness related to the competencies of the central governments, such as health, education, technology and innovation. The used for Kosovo is based on the Economic Governance Index (EGI) developed by the Asia Foundation. The methodology of EGI has a prominent presence in the South East Asian countries, and it has received widespread attention from policymakers in Vietnam, Bangladesh, Indonesia, Cambodia, Philippines, and Sri Lanka. These indexes were developed based on the specifics of each country, where the focus of research has been at the provincial or regional level of each

country. Thus, the construction of indexes also reflect differences among these places. However, the common final goal for each reviewed EGI is to inform policy makers about their opportunities to improve the productivity and performance of private sector by reducing barriers, eliminating redundant administrative procedures, enhancing a fair legal environment and providing necessary infrastructure conditions. The cornerstone of the EGI methodology used in all the surveyed economies is to gather primary data through surveys with business owners and entrepreneurs.

Given the need for improvements of local government business competitiveness, United States Agency for International Development (USAID) has started with a country tailored EGI methodology for Kosovo called MCI. MCI has been conducted in Kosovo every year since 2010 except for 2014 and 2015. The research in the past years was well received by policy makers in Kosovo. What differs from the past MCI report is that this year the methodology includes discussions with focus groups in a way that complements the results from the quantitative data with the findings from qualitative data.

The Kosovo case differs in that the sub-indexes are based on extracting data on how much municipalities have the power to create conditions for the development of economic competitiveness in relation to businesses. Consequently, the purpose of these reports to assess economic governance at the municipal level and initiate discussions on the local strategies that increase the level of interaction between the needs of the private sector in providing products that increase the productivity and competitiveness of each municipality. Further analysis of the methodology used with all the specifics to Kosovo is explained in the methodology chapter.

3

MCI INDEX AND SUB-INDEXES SCORES

The MCI is designed to assess the ease of doing business and the role of economic governance in ensuring a favorable business environment at the municipal level. As a quantified measurement, the MCI also provides a benchmark for municipalities to track their progress in ensuring a good business environment and a platform for exchanging successful practices with each other.

The MCI is a construct of 8 standardized sub-indexes measuring key dimensions of the impact of local governance on the business environment:



1

Barriers to Entry - the costs related to entering the market and the fairness of the competition in the local market.



2

Transparency - the overall business access to information and different public documents at local level.



3

Participation and Predictability - the extent to which municipalities involve businesses in decision making and the confidence of businesses in predicting the policy environment.



4

Time Costs - the time firms spend complying with regulations and time spent on business inspections by municipal agencies.



5

Taxes - how businesses perceive the overall burden of levied taxes and charged fees.



6

Municipal Administration - municipal official capabilities and attitudes towards business and fairness in tendering.



7

Labour Market and Business Support - the satisfaction of businesses with the level of education and professional skills offered in the market.



8

Infrastructure - the quality of roads and road maintenance, water and sanitation services.

Each of the sub-indexes has a maximum of 10 points, and the MCI is a simple average of the 8 sub-indexes. In section 8, the index is weighted based on the policy relevance of the areas that the sub-indexes cover, yet in the following discussion the index is still equally weighted.









Table 3.1 presents the sub-index scores at the national level. From an aggregate perspective, the index of **Time Costs** is the sub-index with the highest score (9.2), showing that businesses, country-wide are not burdened with time consuming bureaucracy.

The **Barriers to entry** sub-index is the following highest sub-index (7.9), confirming a favorable environment for starting a business from the perspective of the bureaucracy related with it.

On the other hand, **Transparency** sub-index has received the lowest score (4.1), showing a limited accessibility to data and information from the municipalities.

Figure 3.1 shows the composite MCI index for each municipality. The variation of the municipal index values is not widespread, as the index provides a simple average of sub-index values, and thus disregards the variation within the indexes (presented in the following sections). The ten best performing municipalities are listed in Table 5.2, with Lipjan/Lipljan and Rahovec/Orahovac leading the list. The same best municipalities also fall on the upper quartile of the list, confirming the limit of the top 10 performers.

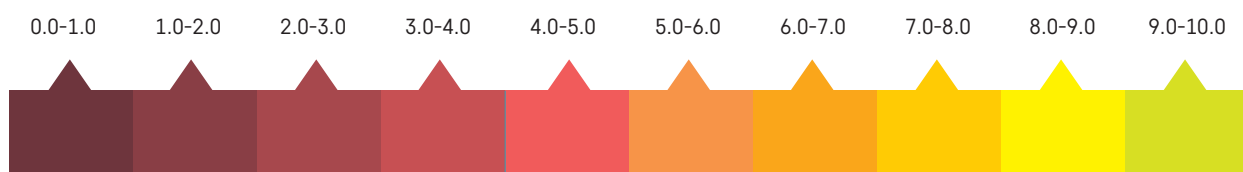
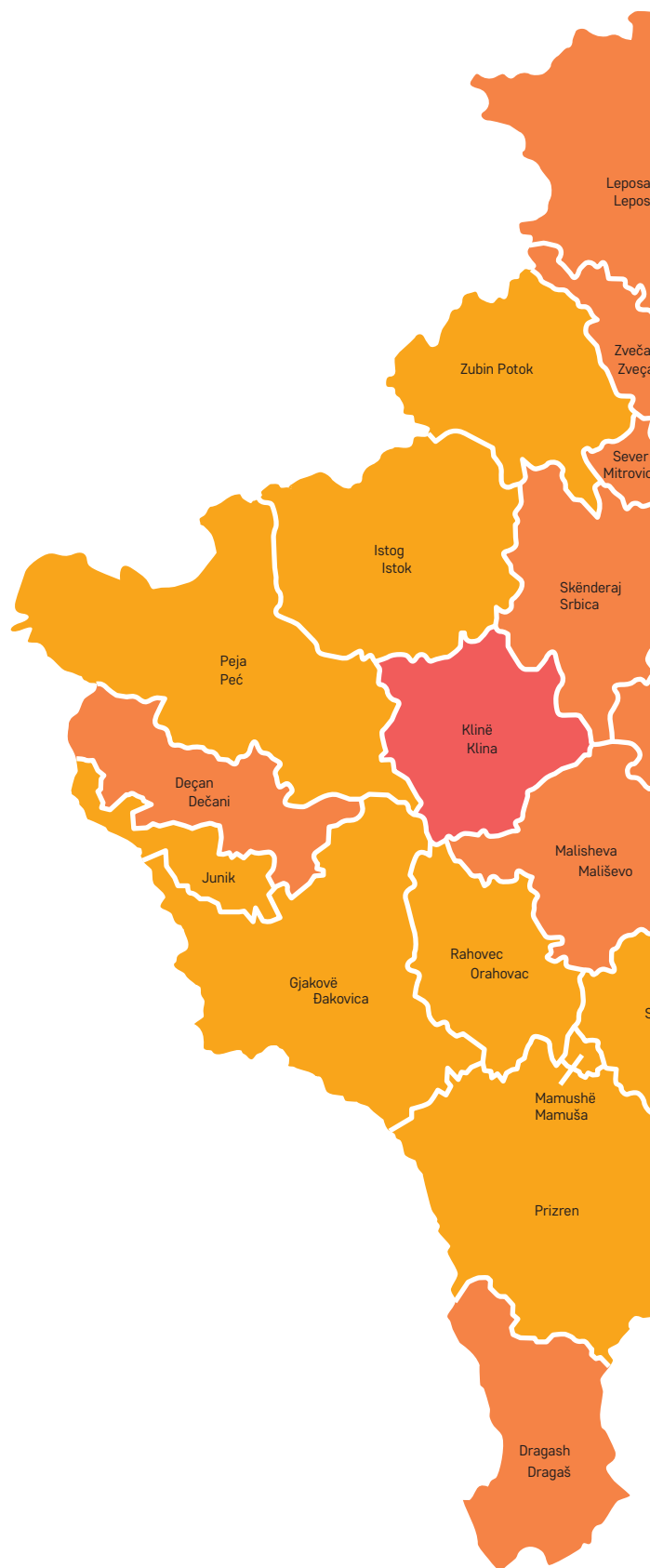
TABLE 3.1 MCI- sub-indexes, national aggregates

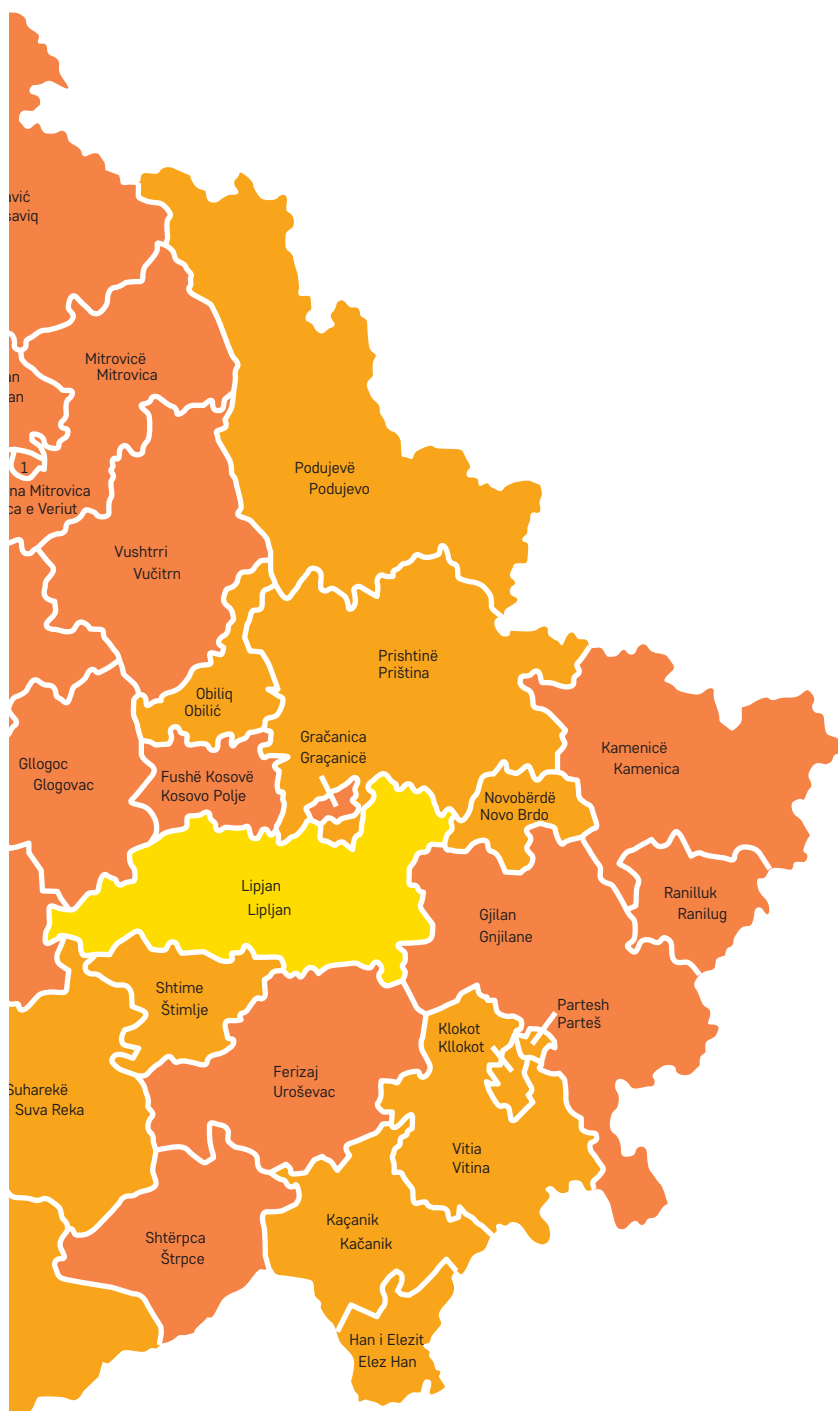
		NATIONAL SCORE
	Barriers to entry	7.9
	Transparency	4.1
	Predictability and Participation	5.3
	Time Costs	9.2
	Taxes and Fees	6.2
	Municipal Administration	4.6
	Labor and Business Support Services	4.7
	Municipal Infrastructure	6.5

MUNICIPAL COMPETITIVENESS INDEX 2018

MCI - BEST PERFORMING MUNICIPALITIES

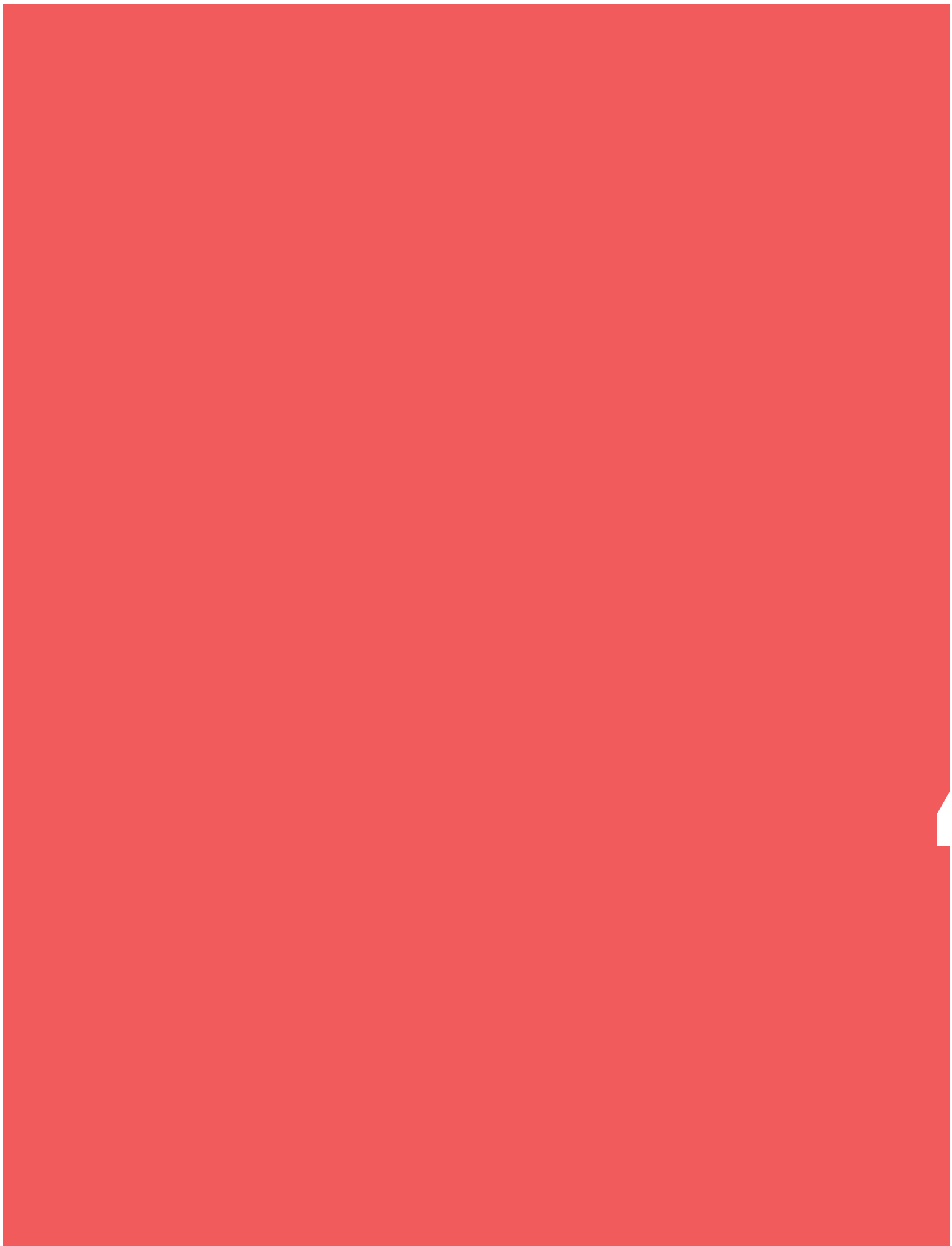
	MUNICIPALITY	MCI
1	Lipjan / Lipljan	7.0
2	Rahovec / Orahovac	6.8
3	Viti / Vitina	6.6
4	Junik	6.6
5	Hani i Elezit / Elez Han	6.5
6	Gjakovë / Đakovica	6.5
7	Podujevë / Podujevo	6.3
8	Obiliq / Obilić	6.3
9	Prishtinë / Priština	6.3
10	Suharekë / Suva Reka	6.3





MUNICIPALITY	MCI
Lipjan/Lipljan	7.0
Rahovec/Orahovac	6.8
Viti/Vitina	6.6
Junik	6.6
Hani i Elezit/Elez Han	6.5
Gjakovë/Đakovica	6.5
Podujevë/Podujevo	6.5
Obiliq/Obilić	6.3
Prishtinë/Priština	6.3
Suharekë/Suva Reka	6.3
Parteš/Partesh	6.3
Istog/Istok	6.3
Klokot/Kllokot	6.2
Pejë/Peć	6.2
Kaçanik/Kaçanik	6.2
Novobërdë/Novo Brdo	6.2
Zubin Potok	6.1
Mamushë/Mamuşa	6.1
Shtime/Štimlje	6.1
Prizren	6.1
Skenderaj/Srbica	6.0
Malishevë/Mališevo	6.0
Mitrovicë/Mitrovica	6.0
Glogoc/Glogovac	6.0
Vushtrri/Vučitrn	5.9
Ferizaj/Uroševac	5.9
Gračanica/Graçanicë	5.9
Ranilluk/Ranillug	5.9
Kamenicë/Kamenica	5.9
Dragash/Dragaš	5.8
Deçan/Deçani	5.8
Gjilan/Gnjilane	5.8
Fushë Kosovo/ Kosovo Polje	5.7
Štrpce/Shtërpçë	5.7
Severna Mitrovica/Mitrovica e Veriut	5.4
Zveçan/Zveçan	5.4
Leposavić/Leposaviq	5.3
Klinë/Klina	5.0

Source: Survey 2018, authors' calculations



4

**SUB-INDEX
RESULTS**



SUB-INDEX 1: BARRIERS TO ENTRY

Barriers to entry for businesses is an important indicator of the business environment that depicts the fairness of the competition in the local market as well as the costs related to entering the market. In World Bank's Doing Business report, Kosovo has climbed to the 40th position globally, showing a substantial improvement on the conditions for starting a business and operation of a local firm. The national government has been working with the World Bank to facilitate new measures that reduce barriers to entry. One of the biggest policies implemented was the delegation of registration services from the national registration at the Kosovo Business Registration Agency (KBRA) to KBRA offices at the municipal administration. The new model has helped businesses complete the registration procedures in fewer days and with less costs involved. Other measures have focused on reducing the number of documents, permits and taxes required for registration.

MCI sub-index of barriers to entry evaluates the barriers from businesses by focusing particularly on barriers that appear at the local level. The variation in barriers among municipalities is evaluated from two main perspectives: time and documents required to register a business and barriers to entry.

Figure 4.1.1 shows the barriers to entry sub-index results for all municipalities in Kosovo. While interpreting the results, it should be kept in mind that businesses in smaller municipalities have access to more abundant and flexible services from the municipality compared to municipalities with greater density of businesses.

The MCI – Barriers to entry sub-index shows that the municipality with the best rank is Klokot/Kllklot, with an almost perfect index of 9.9 out of a maximum of 10. The following top performing municipalities are Mamushë/Mamuşa (9.5), Novobërdë/Novo Brdo (9.0), Pejë/Peć (9.0), Podujevë/Podujevo (8.8), Gračanica/Gračanicë (8.5), and Prishtinë/Priština (8.5).

On the opposite side of the figure, the municipalities that appear more difficult for new businesses to enter Malishevë/Mališevo, Deçan/Dečani, Klinë/Klina, Glllogvc/Glllogovac, Ferizaj/Uroševac.

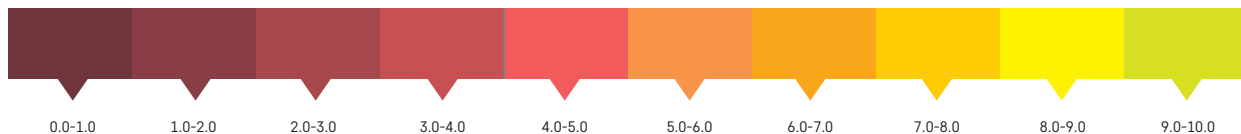
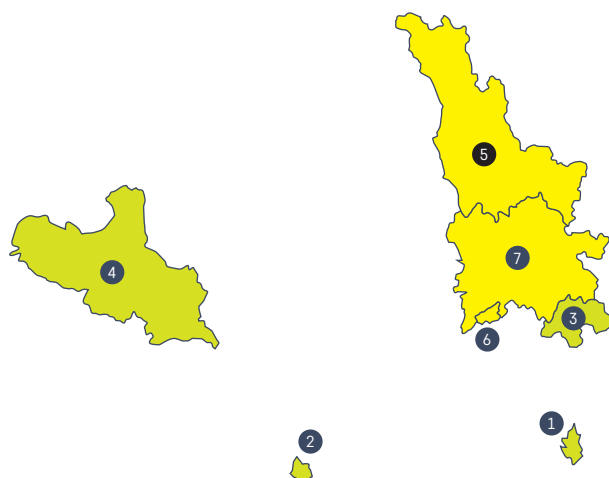


Figure 4.1.1.1 BEST PERFORMING MUNICIPALITIES



MUNICIPALITY	SUB-INDEX 1: BARRIERS TO ENTRY
1 Klokot/Kllokot	9.9
2 Mamushë/Mamuša	9.5
3 Novobërdë/Novo Brdo	9.0
4 Pejë/Peć	9.0
5 Podujevë/Podujevo	8.8
6 Gračanica/Gračanicë	8.5
7 Prishtinë/Priština	8.5

SOURCE: SURVEY 2018, AUTHORS' CALCULATIONS.

Figure 4.1.1 ALL MUNICIPALITIES PERFORMING

MUNICIPALITY	SUB-INDEX 1: BARRIERS TO ENTRY
Klokot/Kllokot	9.9
Mamushë/Mamuša	9.5
Novobërdë/Novo Brdo	9.0
Pejë/Peć	9.0
Podujevë/Podujevo	8.8
Gračanica/Gračanicë	8.5
Prishtinë/Priština	8.5
Junik	8.5
Rahovec/Orahovac	8.4
Gjakovë/Đakovica	8.3
Shtime/Štimlje	8.2
Suharekë/Suva Reka	8.1
Hani i Elezit/Elez Han	8.1
Lipjan/Lipljan	8.1
Leposavić/Leposaviq	8.0
Kamenicë/Kamenica	7.9
Parteš/Partesh	7.9
Mitrovicë/Mitrovica	7.9
Ranilluk/Ranillug	7.9
Skenderaj/Srbica	7.8
Dragash/Dragaš	7.8
Viti/Vitina	7.7
Fushë Kosovo/ Kosovo Polje	7.7
Obiliq/Obilić	7.7
Severna Mitrovica/Mitrovica e Veriut	7.7
Zvečan/Zveçan	7.6
Istog/Istok	7.5
Kaçanik/Kaçanik	7.5
Gjilan/Gnjilane	7.4
Zubin Potok	7.3
Štrpce/Shtërpçë	7.1
Prizren	7.1
Vushtrri/Vučitrn	7.1
Ferizaj/Uroševac	7.0
Glogovc/Glogovac	6.9
Klinë/Klina	6.8
Deçan/Dečani	6.4
Malishevë/Mališevo	6.3


The Barriers to Entry sub-index presents the time and documents required for businesses to join the market, the extent to which they see these costs as barriers and the extent to which they consider that they are dealing with competition engaged in the informal economy.

At the national level, the number of days businesses take to collect all the documents required and to complete the processes related to the registration of the business is 7 days, whereas the number of documents required, regardless of the type of the business legal entity is 4. So, on average, setting up a business is fairly fast and efficient. Table 5.1.2 and the discussion that follows shows that there are many municipalities where the process takes longer (for instance in Podujevë/Podujevo, the process lasts up to an average of 83 days per year).

Informal economy, on the other hand, as discussed in the background section, poses a major obstacle to a fair competition in Kosovo. As such, in order to maintain their competitiveness, businesses, in an environment where informality is up to an estimated 35 percent of the GDP, businesses are pushed to engage in some type of informal economy. On average, 62.4 percent of businesses think that their competitors are engaged in the informal economy.

At a disaggregated level presented in Table 5.1.3, the variation of the results of the components of MCI sub-index 2, Barriers to Entry, is greater. The number of days to open a business ranges from 2 days in Novobërdë/Novo Brdo to 88 in Podujevë/Podujevo. The number of documents required for the registration of the business varies from between 1-2 documents on average in Novobërdë/Novo Brdo, Parteš/Partesh and Mamushë/Mamuşa, to an average of 14 documents in Hani i Elezit/Elez Han.

TABLE 4.1.2 Barriers to entry sub-index components at the national level



SUB-INDEX: BARRIERS TO ENTRY	NATIONAL AVERAGE
How many did it take to start the business? (number of days)	7.0
How many documents were required for the business registration? (number)	4.0
Do you think your competitors are engaged in informal economy?	62.4%
Do you consider the number of documents required for opening the business as a barrier? (% yes)	20.6%

SOURCE:
SURVEY 2018,
AUTHORS'
CALCULATIONS.

TABLE 4.1.3 Barriers to Entry sub-index for each region and municipality

Region	Ferizaj/Uroševac	Mitrovica	Prishtinë/Priština	Prizren
	19.0	19.0	24.3	10.8
	7.3	5.0	4.5	3.6
	68%	59%	57%	61%
	20.3%	28.6%	15.1%	12.7%
	35.7%	6.7%		
	11.1%			
	20.8%			
	11.1%			
	13.9%			
	33.9%			
	6.0%			
	12.8%			
	68.9%			
	15.3%			
	9.7%			
	24.0%			
	0.0%			
	9.4%			
	27.6%			
	30.0%			
	12.4%			
	28.5%			
	44.2%			
	17.5%			
	40.2%			
	10.6%			
	38.7%			
	1.4%			
	12.9%			
	11.5%			
	15.4%			
	7.4%			
	15.0%			
	8.3%			
	2.7%			
	28.6%			
	17.2%			
	5.2%			



To see if there is any pattern in terms of barriers to entry at different size level of municipalities, we have split municipalities into three groups: (i) those that have with less than 50 thousand inhabitants, (ii) 50-80 thousands inhabitants, and (iii) municipalities with more than 80 thousand inhabitants. According to this classification, municipalities with more than 80000 inhabitants are associated with less barriers to entry.

TABLE 4.1.4 Barriers to entry sub-index score by municipalities' size

MUNICIPALITY SIZE	SCORE
0-50 000 inhabitants	7.9
50 000 – 80 0000 inhabitants	7.6
Above 80 000 inhabitants	8.1

SOURCE:
SURVEY 2018,
AUTHORS'
CALCULATIONS.



MCI sub-index of barriers to entry evaluates the barriers from businesses by focusing particularly on barriers that appear at the local level. The variation in barriers among municipalities is evaluated from two main perspectives: time and documents required to register a business and barriers to entry.



SUB-INDEX 2: TRANSPARENCY

Transparency is an essential component of democratic governance at both national and local levels. Transparent government institutions where external accountability mechanisms are present, provide solid grounds for socio-economic development of a country. Moreover, dissemination of public information is a prerequisite for citizens to exercise their individual rights. Kosovo is still struggling to build transparent and accountable institutions which would ensure higher level of accountability towards its citizens. However, according to a recent report published by watchdog organization Transparency International, Kosovo improved ranking on the corruption index jumping three points or 10 places in the world ranking since 2016.⁷ This improvement may be attributed to the joint efforts of the governmental institutions, international donors and civil society. Currently, there are several ongoing initiatives aiming to improve transparency in public institutions, mainly in the judicial system.⁸

The MCI sub-index on transparency captures the overall business access to information and different public documents at the local level. This sub-index consist of several indicators regarding business' perception about access to municipal budget, public tenders, information about licenses, and regulations pertaining to business-related operating procedures.

The following table ranks the top performing municipalities as far as transparency is concerned. Municipality of Lipjan/Lipljan received the highest index score of 7.1 out of 10, followed by Gjakovë/**Đakovica** (6.9), Prishtinë/Priština (6.9), Hani i Elezit/Elez Han (6.7), Zubin Potok (6.4) and so on.

On the other hand, as the figure 4.2.1 below shows, at the bottom of the list are ranked Ferizaj/Uroševac (3.6), Dragash/Dragaš (3.7) and and Klinë/Klina (4.1).

7 Transparency International (2017). Corruption Perception Index. Kosovo. Available online. https://www.transparency.org/news/feature/corruption_perceptions_index_2017

8 USAID. Justice System Strengthening Program. News and information. Available online. <https://www.usaid.gov/kosovo/fact-sheets/justice-system-strengthening-program>

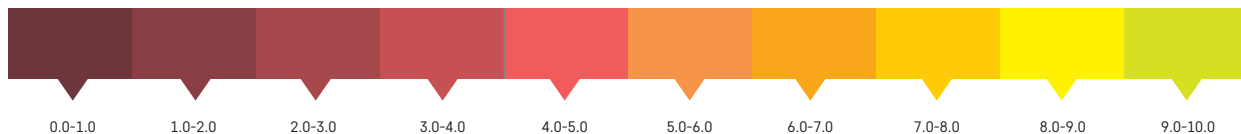
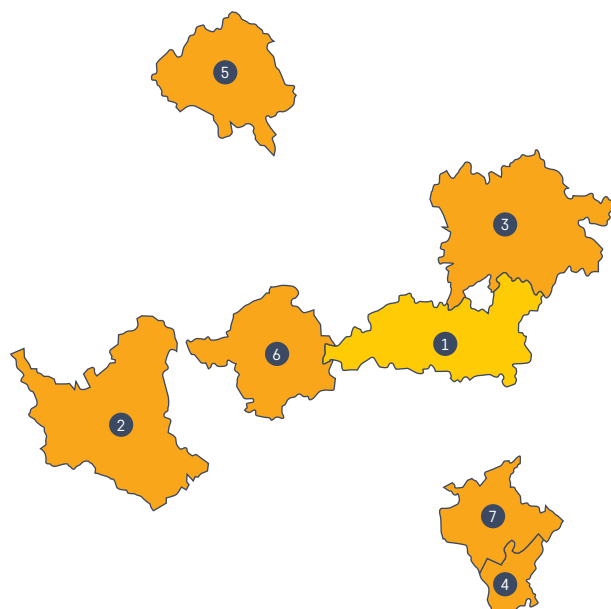


Figure 4.2.1 BEST PERFORMING MUNICIPALITIES



MUNICIPALITY	SUB-INDEX 2: TRANSPARENCY
1 Lipjan/Lipljan	7.1
2 Gjakovë/Đakovica	6.9
3 Prishtinë/Priština	6.7
4 Hani i Elezit/Elez Han	6.5
5 Zubin Potok	6.4
6 Malishevë/Mališevo	6.3
7 Kaçanik/Kaçanik	6.3

SOURCE: SURVEY 2018, AUTHORS' CALCULATIONS.


Figure 4.2.1 ALL MUNICIPALITIES PERFORMING

MUNICIPALITY	SUB-INDEX 2: TRANSPARENCY
Lipjan/Lipljan	7.1
Gjakovë/Đakovica	6.9
Prishtinë/Priština	6.7
Hani i Elezit/Elez Han	6.5
Zubin Potok	6.4
Malishevë/Mališevo	6.3
Kaçanik/Kaçanik	6.3
Junik	6.2
Viti/Vitina	6.2
Istog/Istok	6.0
Shtime/Štimlje	5.9
Podujevë/Podujevo	5.9
Obiliq/Obilić	5.9
Glogovc/Glogovac	5.9
Parteš/Partesh	5.9
Rahovec/Orahovac	5.7
Prizren	5.5
Mitrovicë/Mitrovica	5.4
Deçan/Dečani	5.3
Vushtrri/Vučitrn	5.2
Gračanica/Gračanicë	5.1
Novobërdë/Novo Brdo	5.1
Leposavić/Leposaviq	5.0
Suharekë/Suva Reka	4.9
Štrpce/Shtërpçë	4.8
Skenderaj/Srbica	4.7
Severna Mitrovica/Mitrovica e Veriut	4.7
Pejë/Peć	4.7
Ranilluk/Ranillug	4.5
Gjilan/Gnjilane	4.5
Klokot/Kllokot	4.5
Fushë Kosovo/ Kosovo Polje	4.5
Mamushë/Mamuša	4.4
Kamenicë/Kamenica	4.2
Zvečan/Zveçan	4.2
Klinë/Klina	4.1
Dragash/Dragaš	3.7
Ferizaj/Uroševac	3.6

Information on transparency related indicators were collected through four different questions (see table 4.2.2) about perception of businesses related to transparency of local governments. More specifically, businesses were asked to rate each indicator on a scale of 1 to 5, where 1 indicates no access and 5 easy access to information. At the aggregate level, the average score of access to information on municipal budget was 2.9 while access to information about local business related regulations was 3.1. Somewhat more satisfactory is the level of transparency when it comes to information on local business licenses; the average score at national level was 3.2 intensity points. On the other hand, the lowest score, as far as transparency indicators are concerned, received perception of businesses in Kosovo regarding the access to information on public tenders at the local level (table 4.2.3).

At a more disaggregated level as depicted in Table 4.2.3,⁹ we can see that businesses in Prishtinë/Priština and Gjakovë/Đakovica regions rated transparency indicators on average higher as opposed to other regions. Lower level of transparency is more evident in Prizren, Gjiilan/Gnjilane, and Pejë/Peć regions. Information on local public procurement activity seems to be the most common concern of businesses regarding transparency at the local level. This is particularly evident in Pejë/Peć region, namely municipality of Pejë/Peć, Deçan/Dečani, Klinë/Klina and Istog/Istok.

TABLE 4.2.2 Transparency sub-index components at the national level



SUB- INDEX: TRANSPARENCY	NATIONAL AVERAGE
How do you rate the access to information on municipal budget?	2.9
How do you rate the access on information about local regulations?	3.1
How do you rate the access on information regarding local business licenses for business operation?	3.2
How would you rate the access on information regarding the upcoming tenders to be announced by your municipality?	2.6

SOURCE:
SURVEY 2018,
AUTHORS'
CALCULATIONS.

⁹ Cells highlighted in red indicate low transparency level (intensity score less than first 2.75 or first quartile) while cells in green indicate higher level of transparency (intensity score higher than 3.25 or third quartile).

Table 4.2.3 Transparency sub-index for each region and municipality

Region	Access to information on municipal budget	Access on information about local regulations	Access on information regarding local business licenses for business operation	Access on information regarding the upcoming tenders at local level	Access to information on municipal budget	Access on information about local regulations	Access on information regarding local business licenses for business operation	Access on information regarding the upcoming tenders at local level
Region	Ferizaj/Uroševac	2.9	3.2	3.0	2.7	2.9	3.2	2.5
	Ferizaj/Uroševac	2.1	2.3	2.3	2.2	2.3	4.1	2.5
	Hani i Elezit/Elez Han	3.4	3.5	3.4	3.0	3.0	3.0	2.9
	Kaçanik/Kaçanik	3.4	3.6	3.8	2.4	2.5	3.5	2.2
	Štrpce/Shtërpçë	2.6	3.3	2.6	2.6	2.9	2.9	2.3
	Shtime/Štimlje	3.2	3.2	3.2	2.7	3.2	3.2	2.4
	Zubin Potok	3.4	3.4	3.5	3.4	3.4	3.5	3.4
	Zvečan/Zveçan	2.1	2.2	2.2	2.1	2.2	3.3	2.0
Region	Gjakovë/Dakovica	3.6	3.5	3.6	3.3	3.4	3.4	2.8
	Gjakovë/Dakovica	3.7	3.7	4.1	3.3	3.4	3.4	2.0
	Junik	3.3	3.3	3.3	2.6	2.9	2.9	2.3
	Malishevë/Mališevo	3.5	3.4	3.2	2.7	3.2	3.2	2.4
Region	Gjilan/Gnjilane	2.6	3.0	2.9	3.2	3.3	3.1	3.1
	Gjilan/Gnjilane	2.7	2.8	2.7	3.2	3.3	3.1	3.1
	Kamenice	2.6	2.6	2.5	2.5	2.7	2.9	2.0
	Klokot/Kllokot	2.5	2.5	2.6	2.6	3.0	3.4	2.3
	Novobërdë/Novo Brdo	3.0	2.8	2.8	3.8	4.0	4.0	3.0
	Partesh/Partesh	3.1	3.2	3.2	3.2	3.3	3.5	2.6
	Ranilluk/Ranillug	2.6	2.6	2.5	3.4	3.5	3.2	2.6
	Viti/Vitina	2.3	3.9	3.9	3.7	3.5	3.5	3.5
Region	Pejë/Peç	2.7	3.1	3.1	2.6	2.7	3.0	2.6
	Deçan/Deçani	2.3	3.4	3.6	2.3	2.4	2.3	1.8
	Istog/Istok	3.2	3.5	3.4	2.6	2.4	2.7	2.3
	Klinë/Klina	2.4	2.6	2.7	2.7	2.8	3.6	2.9
	Pejë/Peç	2.7	2.8	2.7	3.1	3.1	3.1	3.1
	Suharekë/Suva Reka	2.5	2.5	2.5	2.5	2.5	3.1	2.9



Finally, in order to see if there is any pattern in terms of transparency level at different size level of municipalities, we have split municipalities into three groups: (i) those that have with less than 50 thousands inhabitants, (ii) 50-80 thousands inhabitants, and (iii) municipalities with more than 80 thousand inhabitants. According to this classification mid-size municipalities between 50 and 80 thousands inhabitants are associated with higher level of transparency.

TABLE 4.2.4 Transparency entry sub-index score by municipalities' size

MUNICIPALITY SIZE	SCORE
0-50 000 inhabitants	5.2
50 000 – 80 0000 inhabitants	5.7
Above 80 000 inhabitants	5.4

SOURCE:
SURVEY 2018,
AUTHORS'
CALCULATIONS.



The MCI sub-index on transparency captures the overall business access to information and different public documents at local level. This sub-index consist of several indicators regarding business' perception about access to municipal budget, public tenders, information about licenses, and regulations pertaining to business-related operating procedures.



SUB-INDEX 3: PARTICIPATION AND PREDICTABILITY

Sub-index 3 covers the extent to which businesses in Kosovo are participating in local decision making and the extent to which they consider that the government is opened to cooperating with them towards achieving mutual goals. An ordinary form of interaction between institutions of governance and businesses at the local level are public debates. Municipalities are required by law to meet with businesses twice a year¹⁰ to discuss about the occurring regulation changes, strategic plans and governance. This is a measure that not only promotes the interests of both parties, but also levels the expectations of each side and facilitates smoother business cycles. In this regard, expectations are important from the business perspective in order to allow them to build and implement longer term strategies for growth.

MCI sub-index 3 of Participation and Predictability focuses on deriving a measure that estimates the degree of municipal administration cooperation with businesses. The two dimensions assessed within this index are the (1) extent to which municipalities involve businesses in public debates and decision making, and (2) how confident businesses feel about predicting policy changes or regulations.

Figure 4.3.1 shows the sub-index 3 results for all municipalities in Kosovo. In general, this is one of the sub-indexes that reflects a more critical situation from the overall sub-indexes. In a scale of 1-10, none of the municipalities reaches an index greater than 6.6 (Junik). Lipjan/Lipljan is the next best performer with a score of 6.0. The rest of the municipalities that are ranked the highest are: Zubin Potok, Prishtinë/Priština, Obiliq/Obilić, Viti/Vitina, Hani i Elezit/Elez Han, and Ferizaj/Uroševac. Although, still, most of them receive a very low score (from 5.5 for Zubin Potok to 4.7 for Hani i Elezit/Elez Han and Ferizaj/Uroševac). The remaining 30 municipalities reach even lower scores, with 20 of them having a score of 4.0 or below. .

Thus, we can conclude that the Participation and Predictability sub-index reflects an environment of local governance where businesses are not engaged, or participant in guiding policy making. This is also manifested with businesses not being able to predict the potential shifts in regulations or policies, or the degree of their implementation.

¹⁰ Assembly of Kosovo (2008). Law on local self-government, *Law Nr. 03/L-040*.

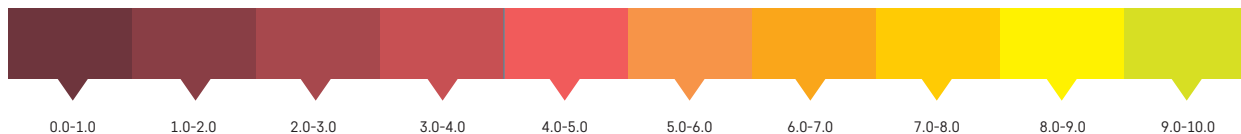
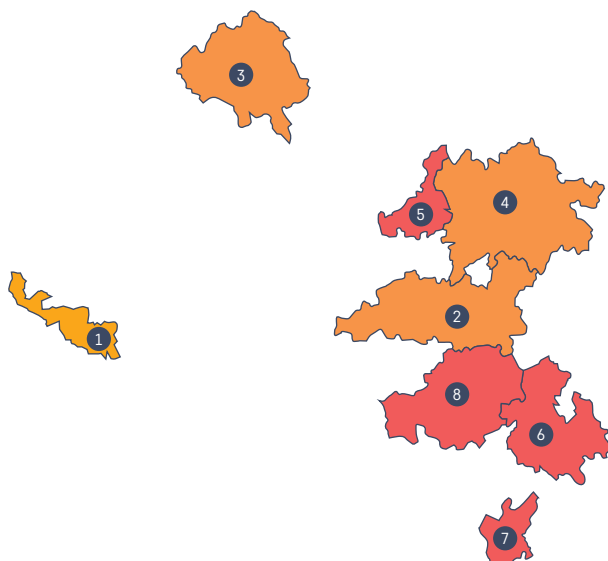


Figure 4.3.1 BEST PERFORMING MUNICIPALITIES



**SUB-INDEX 3:
MUNICIPALITY PARTICIPATION AND PREDICTABILITY**

Rank	Municipality	Score
1	Junik	6.6
2	Lipjan/Lipljan	6.0
3	Zubin Potok	5.5
4	Prishtinë/Priština	5.3
5	Obiliq/Obilić	5.0
6	Viti/Vitina	4.8
7	Hani i Elezit/ Elez Han	4.7
8	Ferizaj/ Uroševac	4.7

SOURCE: SURVEY 2018, AUTHORS' CALCULATIONS.

Figure 4.3.1 ALL MUNICIPALITIES PERFORMING

**SUB-INDEX 3:
PARTICIPATION AND PREDICTABILITY**

MUNICIPALITY	Score
Junik	6.6
Lipjan/Lipljan/ Lipljan	6.0
Zubin Potok	5.5
Prishtinë/Priština	5.3
Obiliq/Obilić	5.0
Viti/Viti/Vitina	4.8
Hani i Elezit/Hani i Elezit/Elez Han	4.7
Ferizaj/Uroševac/Uroševac	4.7
Parteš/Parteš/Parteshh	4.6
Štrpce/Shtërpçë	4.6
Deçan/Deçani/Deçani	4.5
Shtime/Štimlje	4.5
Istog/Istog/Istok	4.4
Rahovec/Rahovec/Orahovac	4.3
Prizren	4.2
Skenderaj/Srbica/Srbica	4.2
Suharekë/Suharekë/Suva Reka	4.1
Novobërdë/Novobërdë/Novo Brdo	4.1
Pejë/Peć	4.0
Podujevë/Podujevë/Podujevo	4.0
Gjilan/Gnjilane	3.9
Kaçanik/Kaçanik	3.9
Gračanica/Gračanicë	3.9
Malishevë/Mališevo	3.8
Kamenicë/Kaminca	3.7
Ranilluk/Ranillug	3.7
Mamushë/Mamuša	3.6
Gjakovë/Đakovica	3.6
Vushtrri/Vučitrn	3.5
Glogovac/Glogovc/Glogovac	3.5
Mitrovicë/Mitrovicë/Mitrovica	3.4
Klinë/Klinë/Klina	3.4
Klokot/Klokot/Kllokot	2.9
Fushë Kosovë / Kosovo Polje	2.9
Severna Mitrovica / Mitrovicë e Veriut	2.8
Zvečan/Zveçan	2.8
Dragash/Dragaš	2.7
Leposavić/Leposaviq	2.7

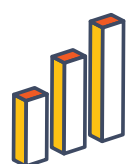
The average ranking of the component questions of sub-index 3 are presented in table 5.3.2. The national averages present the survey responses, on a scale of 1 to 5, explaining frequency, where 1 is never and 5 is always.

On average, at the national level, businesses have scored the timelines of information from institutions 2.5 out of a maximum of 5. Whereas the actual participation in public debates from businesses has received the lowest score of 1.8. The rest of the Sub-index 3 component questions also score low in a range between 2.2 and 2.9.

So, there is a nation-wide low performance of municipal administrations in cooperating with businesses and having their interests actively aligned with municipal activity that affect businesses.

At a disaggregated level pictured in Table 4.3.3, the variation of the results of the components of MCI sub-index 2, Participation and Predictability is presented for each region and municipality. The performance scores are low across the board and signal a unified result for the index regardless of the region.

TABLE 4.3.2 Participation and predictability sub-index components at the national level



SOURCE:
SURVEY 2018,
AUTHORS'
CALCULATIONS.

SUB- INDEX: PARTICIPATION AND PREDICTABILITY

NATIONAL AVERAGE
SCALE OF 1 TO 5

Are you informed on time about the changes in administrative regulations and instructions from the municipality? (1- never, 5- always)

2.47

How often have your participated in public debates that are organized by the municipality? (1- never, 5- always)

1.8

How often do you think the new municipal regulations and administrative instructions raised during public debates, defend the interests of businesses? (1- never, 5- always)

2.4

How often do you expect municipal regulations to be implemented? (1- never, 5- always)

2.9

Are you informed on time about municipal public debates related to changes on municipal policies, rules and regulations? (1- never, 5- always)

2.2

Table 4.3.3 Participation and Predictability sub-index for each region and municipality

Region	Ferizaj/Uroševac	2.7	2.1	2.4	3	2.5	Region	Mitrovica	2.1	1.7	2.2	2.7	2
		timeliness of information about new regulations and policies	frequency of public debates from municipalities	new regulations protect business' interests	expectations of municipal regulations being enforced	timely information about public debates			timeliness of information about new regulations and policies	frequency of public debates from municipalities	new regulations protect business' interests	expectations of municipal regulations being enforced	timely information about public debates
	Ferizaj/Uroševac	2.1	2.5	2.3	3.5	2.7		Leposavić/Lep-osaviq	1.9	1.4	1.9	2.2	1.5
	Hani i Elezit /Elez Han	3	2	2.9	3	2.5		Mitrovica	2.2	1.9	1.4	2.8	2
	Kaçanik/Kaçanik	3	1.5	1.9	2.7	2.4		Severna Mitrovica/ Mitrovica e Veriut	1.9	1.4	2	2.3	1.5
	Štrpce/Shtërpçë	2.9	2.1	2.6	3.2	2.2		Skenderaj/Srbica	2.4	1.9	2.6	2.8	2.4
	Shtime/Štimlje	2.7	2.1	2.6	2.8	2.4		Vushtrri/Vučiitrn	1.7	1.5	2.6	2.9	1.8
	Zubin Potok	3	3	3.1	3.1	3		Zvečan/Zvečan	3	3	3.1	3.1	3
	Zvečan/Zvečan	1.7	1.4	2.2	2.3	1.5		Pristinë/Priština	1.7	1.4	2.2	2.3	1.5
Region	Gjakovë/Đakovica	2.4	1.6	2.7	3.3	2.1	Region	Pristinë/Priština	2.6	1.7	2.7	3.1	2.5
	Gjakovë/Đakovica	2.1	1.2	2.2	3.2	2		Glogovac/Glogovac	1.8	1.2	2.7	3.1	1.8
	Junik	3.6	3.1	3.6	3.8	3.3		Fushe Kosovo/ Kosovo Polje	1.5	1.2	2.3	3	1.3
	Malishevë/Mališevo	2.2	1.3	2.8	3.2	1.8		Gračanica/Gračan-icë	2.5	1.5	2.4	2.6	2.3
Region	Gjilan/Gnjilane	2.6	1.9	2.1	2.9	2.2		Lipjan/ Lipjan	3.7	2	3.4	3.8	3.2
	Gjilan/Gnjilane	3.1	1.4	2	2.5	2.5		Obiliq/Obilić	2.9	2.2	2.9	3	2.8
	Kamenice	2.2	1.5	2.1	3.1	2.2		Podujevë/Podujevo	2.5	1.5	2.3	2.6	2.7
	Klokot/Kllokot	2.6	1.7	1.6	1.7	1.7		Pristinë/Priština	3.3	2.1	2.9	3.6	2.8
	Novobërdë/Novo Brdo	2.6	2.4	2.3	2.3	2.2		Pritzen	2.2	1.6	2.4	2.9	2.2
	Partesh/Partesh	3.2	3	2.2	2.2	2.4	Regioni	Dragash/Dragaš	1.6	1.4	1.9	2.5	1.4
	Ranilluk/Ranillug	2.4	2.4	2.1	2.1	2		Mamushë/Mamuša	1.9	1.6	3	2.3	1.9
	Viti/Vitina	2.5	1.8	2.1	4.7	2.4		Pritzen	2.3	2	2.5	3.2	2.2
Region	Pejë/Peć	2.5	1.7	2.3	3.1	2.3		Rahovec/Drahovac	2.9	1.3	2.5	2.9	2.8
	Deçan/Dečani	3.3	1.5	2.2	2.9	2.9		Suharekë/Suva Reka	2.3	1.7	2.1	3.4	2.4
	Istog/Istok	2.4	2	2.4	3.1	2.6							
	Klinë/Klina	1.8	1.5	1.9	3.3	1.7							
	Pejë/Peć	2.4	1.7	2.7	3.1	1.9							



When classified based on the size of the municipalities, municipalities with more than 80000 inhabitants are associated with slightly better participation and predictability.

TABLE 4.3.4 Participation and Predictability sub-index score by municipalities' size

MUNICIPALITY SIZE	SCORE
0-50 000 inhabitants	4.0
50 000 – 80 0000 inhabitants	4.1
Above 80 000 inhabitants	4.3

SOURCE:
SURVEY 2018,
AUTHORS'
CALCULATIONS.



MCI sub-index 3 of Participation and Predictability

focuses on deriving a measure that estimates the degree of municipal administration cooperation with businesses. The two dimensions assessed within this index are the (1) extent to which municipalities involve businesses in public debates and decision making, and (2) how confident businesses feel about predicting policy changes or regulations.



SUB-INDEX 4: TIME COST

Local governments play a crucial role in delivering services to the public and businesses in particular. Extensive bureaucratic procedures except hinder efficient operations of businesses. Furthermore, frequent contacts between businesses and public officials nurture familiarity among them which then may promote corrupt behaviors. However, as the data from the MCI survey shows, in general businesses in Kosovo have relatively infrequent formal visits and contacts with public officials. Moreover, according to the World Bank Doing Business Report for the year 2018, Kosovo is among the top 10 reformers in the world. Currently, Kosovo ranks 40th (compared to the 60th place for the year 2017) out of 190 economies for the ease of doing business.¹¹

The sub-index related to time cost that business face, was calculated using the data on the time they spend during the year with local government officials for fulfilling their obligations toward local authorities. More specifically, information on the number of offices that businesses have to visit as well as the number of days that businesses spend with public officials during the year, and the number of visits from relevant local inspectors, have been used to construct this sub-index.

Table no. 4.4.1 below lists top seven performing municipalities as perceived by businesses for time cost related indicators. As expected, the score is higher for small municipalities which serve low number of businesses as opposed to large municipalities. Municipality of Novobërdë/Novo Brdo is ranked as a top performer with the score of 7.1 out of 10, followed by Viti/Vitina and five other municipalities which received the same score (9.5).

There is no big difference in terms of the sub-index score between top performers and those ranked at the bottom of the list. As the figure 4.4.1 shows, the lowest performing municipalities, albeit with relatively high score, are Gračanica/Gračanicë (8.4), Prishtinë/ Priština (8.5) and Deçan/ Dečani (8.7).

¹¹ World Bank (2018). Doing Business 2018.Economy profile-Kosovo <http://www.doingbusiness.org/~media/wbg/doingbusiness/documents/profiles/country/ksv.pdf>

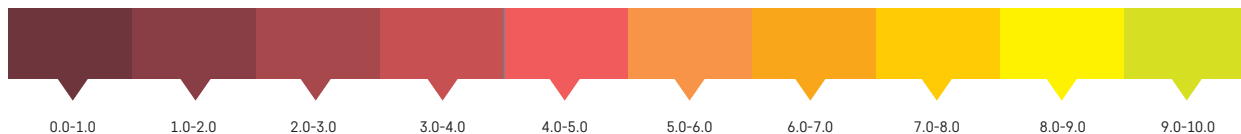
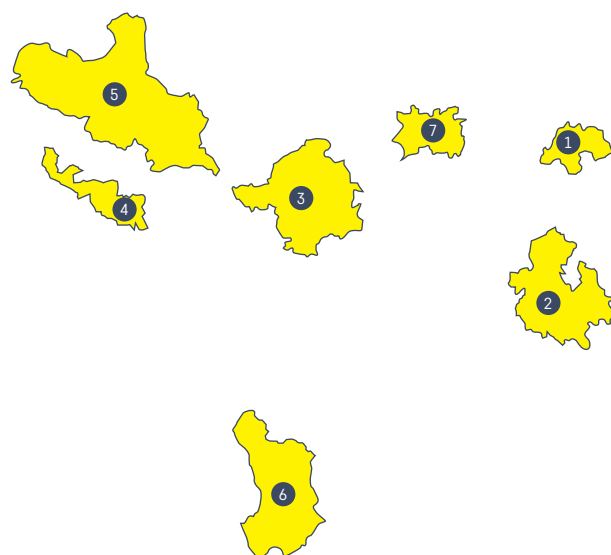


Figure 4.4.1 BEST PERFORMING MUNICIPALITIES



MUNICIPALITY	SUB-INDEX 4: TIME COST
1 Novobërdë/Novo Brdo	9.6
2 Viti/Vitina	9.5
3 Malishevë/Mališevo	9.5
4 Junik	9.5
5 Pejë/Peć	9.5
6 Dragash/Dragaš	9.5
7 Fushë Kosovë / Kosovo Polje	9.5

SOURCE: SURVEY 2018, AUTHORS' CALCULATIONS.

Figure 4.4.1 ALL MUNICIPALITIES PERFORMING

MUNICIPALITY	SUB-INDEX 4: TIME COST
Novobërdë/Novo Brdo	9.6
Viti/Vitina	9.5
Malishevë/Mališevo	9.5
Junik	9.5
Pejë/Peć	9.5
Dragash/Dragaš	9.5
Fushë Kosovo/ Kosovo Polje	9.5
Rahovec/Orahovac	9.4
Mamushë/Mamuša	9.4
Leposavić/Leposaviq	9.4
Prizren	9.4
Glogovac/Glogovac	9.4
Ranilluk/Ranillug	9.4
Gjakovë/Đakovica	9.4
Severna Mitrovica/Mitrovica e Veriut	9.4
Parteš/Partesh	9.3
Podujevë/Podujevo	9.3
Vushtrri/Vučitrn	9.3
Zvečan/Zveçan	9.3
Istog/Istok	9.3
Lipjan/Lipljan	9.2
Hani i Elezit/Elez Han	9.2
Skenderaj/Srbica	9.2
Suharekë/Suva Reka	9.2
Kaçanik/Kaçanik	9.2
Shtime/Štimlje	9.1
Zubin Potok	9.0
Mitrovicë/Mitrovica	9.0
Gjilan/Gnjilane	9.0
Klinë/Klina	9.0
Klokot/Kllokot	8.9
Obiliq/Obilić	8.9
Štrpce/Shtërpçë	8.9
Kamenicë/Kamenica	8.7
Ferizaj/Uroševac	8.7
Deçan/Dečani	8.7
Prishtinë/Priština	8.5
Gračanica/Graçanicë	8.4

At the national level, the average score is the average of actual number of days (or number of times in the case of visits from local inspectors) that businesses spend during one year for each indicator that was used to calculate this sub-index. Businesses in Kosovo spend on average 3.9 days during the year for formal meetings and contacts with local officials. On the other hand, they are visited by local inspectors on average 4.4 times per year. The low number of offices that businesses need to visit in order to comply with local government regulations and obligations (i.e. taxes), is an indication that bureaucratic procedures in local public institutions are not being perceived as impediment to business operations in Kosovo (table 4.4.2).

Table 4.4.3 below presents the scores for each indicator at the local as well as regional level. Businesses in Ferizaj/Uroševac region are visited by local inspectors throughout the year on average two times more than the national average while businesses operating in the municipalities of Mitrovica and Gjilan/Gnjilane region spend more time with local officials (4.3 days on average). Prishtinë/Priština region and the municipality of Prishtinë/Priština in particular, seem to be more bureaucratic as business operating in this region on average visit at least three offices when fulfilling their obligations toward local administration.

TABLE 4.4.2 Time cost sub-index components at the national level



SOURCE:
SURVEY 2018,
AUTHORS'
CALCULATIONS.

SUB- INDEX: TIME COSTS

NATIONAL AVERAGE

How many days within a year do you have contacts with municipal officials, regarding fulfilment of obligations towards the municipality?

3.9

How many times during the year have you been visited from different inspectors?

4.4

On average, how many offices do you need to visit within a year to fulfil your obligations towards the municipality?

2.0

Table 4.4.3 Time cost sub-index for each region and municipality

	How many days within a year do you have contacts with municipal officials, regarding fulfilment of obligations towards the municipality?	How many times during the year have you been visited from different inspectors?	On average, how many offices do you need to visit within a year to fulfil your obligations towards the municipality?	How many days within a year do you have contacts with municipal officials, regarding fulfilment of obligations towards the municipality?	How many times during the year have you been visited from different inspectors?	On average, how many offices do you need to visit within a year to fulfil your obligations towards the municipality?
Region	3.8	6.4	2.5	4.3	3.4	2.1
Ferizaj/Uroševac				Mitrovica		
Ferizaj/Uroševac	2.6	12.5	3	Leposavić/Leposaviq	6.1	1.3
Hani i Elezit/Elez Han	5.0	0.8	3	Mitrovica	3.9	6.0
Kaçanik/Kaçanik	3.9	6.0	2	Severna Mitrovica/Mitrovica e Veriut	4.6	3.0
Štrpce/Shtërpçë	4.4	10.9	2	Skenderaj/Srbica	3.0	4.4
Shtime/Štimlje	3.2	1.7	4	Vushtri/Vučitrn	2.7	3.5
				Zubin Potok	5.7	3.4
Region	3.4	3.1	1.0	Zvečan/Zveçan	4.1	2.4
Gjakovë/Dakovica				Prishtinë/Prishtina	3.3	3.4
Gjakovë/Dakovica	3.1	3.2	2	Glogovac/Glogovac	3.8	3.1
Junik	4.0	3.8	0	Fushe Kosovo/Kosovo Polje	1.5	3.9
Malishevë/Mališevo	3.0	2.3	1	Gračanica/Gračanicë	7.1	10.0
				Lipjan/Lipljan	3.8	3.1
Region	4.3	4.2	2.0	Obiliq/Obilić	6.7	5.0
Gjilan/Gnjilane				Podujevë/Podujevo	3.0	4.0
Gjilan/Gnjilane	6.5	4.8	2	Prishtinë/Prishtina	5.6	8.2
Kamenice	6.3	6.3	4	Prizren	2.4	2.9
Klokot/Kllokot	6.7	6.1	2	Dragash/Dragaš	1.9	3.2
Novobërdë/Novo Brdo	2.3	2.4	1	Mamushë/Mamuša	1.9	3.9
Partesh/Partesh	3.1	3.3	2	Prizren	2.3	2.8
Ranilluk/Ranillug	3.5	3.5	1	Rahovec/Rahovac	3.0	2.6
Viti/Vitina	2.0	2.9	1	Suharekë/Suva Reka	2.8	1.9
Region	3.7	4.9	2.4			
Pejë/Peç						
Deçan/Deçani	7.0	7.9	3			
Istog/Istok	3.6	2.9	2			
Klinë/Klina	4.0	5.4	3			
Pejë/Peç	2.1	3.3	1			



When disaggregating data based on the size of municipalities, we see that the overall sub-index score related to time cost is high regardless of the size. Although the difference is negligible, there is a positive correlation of time related costs sub-index score and the size of municipalities.

TABLE 4.4.4 Time cost sub-index score by municipalities' size

MUNICIPALITY SIZE	SCORE
0-50 000 inhabitants	9.1
50 000 – 80 0000 inhabitants	9.3
Above 80 000 inhabitants	9.3

SOURCE:
SURVEY 2018,
AUTHORS'
CALCULATIONS.



The sub-index related to time cost that business face, was calculated using the data on the time they spend during the year with local government officials for fulfilling their obligations toward local authorities. More specifically, information on the number of offices that businesses have to visit as well as the number of days that businesses spend with public officials during the year, and the number of visits from relevant local inspectors, have been used to construct this sub-index.



SUB-INDEX 5: TAXES AND FEES

Sub-index 5 presents the ease of complying with taxes and the informality of negotiating taxes with institutions. In Kosovo, the only municipal tax that is paid by business in all municipalities is property tax. Share of property tax is specified and collected by municipalities, but the specification must fall within the range determined by the Kosovo Law on Property Tax. In addition, municipalities are also the competent institutions for municipality fees such as city fees, fees for certain industries, environment, etc..

The rest of the taxes are organized and collected from the central level – the Tax Administration of Kosovo. Generally, taxation in Kosovo is not considered a major barrier for business development. The World Bank's Doing Business Report (2017) ranks Kosovo as the 45th economy in the world on the ease of paying taxes. At the national level, the number of tax payments that is completed each year is 10, placing Kosovo in the same level with the OECD countries.

The MCI sub-index 5 for taxes and fees looks at how businesses perceive the overall burden of levied taxes and charged fees. Additionally, the sub-index assesses the extent to which businesses consider acceptable the informality of negotiating taxes.

Figure 4.5.1 shows sub-index 5 results for all municipalities and regions in Kosovo. In a scale of 1-10, the maximum score of 7.9 for the sub-index of Taxes and Fees is achieved by the municipality of Lipjan/Lipljan, followed by Viti/Vitina, Podujevë/Podujevo, and Pejë/Peć.

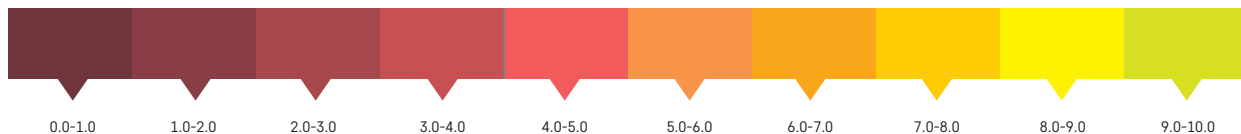
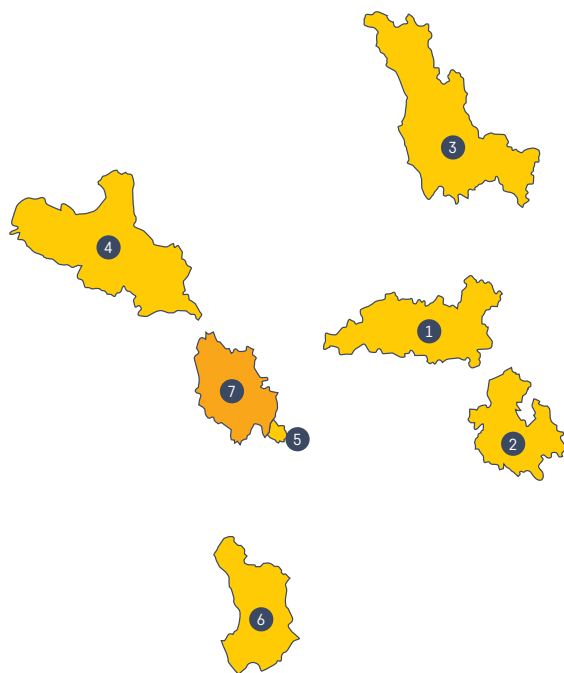


Figure 4.5.1 BEST PERFORMING MUNICIPALITIES



MUNICIPALITY	SUB-INDEX 5: TAXES AND FEES
1 Lipjan/Lipljan	7.9
2 Viti/Vitina	7.7
3 Podujevë/Podujevo	7.5
4 Pejë/Peć	7.4
5 Mamushë/Mamuša	7.2
6 Dragash/Dragaš	7.1
7 Rahovec/Orahovac	7.0

SOURCE: SURVEY 2018, AUTHORS' CALCULATIONS.

Figure 4.5.1 ALL MUNICIPALITIES PERFORMING

MUNICIPALITY	SUB-INDEX 5: TAXES AND FEES
Lipjan/Lipljan	7.9
Viti/Vitina	7.7
Podujevë/Podujevo	7.5
Pejë/Peć	7.4
Mamushë/Mamuša	7.2
Dragash/Dragaš	7.1
Rahovec/Orahovac	7.0
Gjakovë/Đakovica	6.9
Klokot/Kllokot	6.9
Istog/Istok	6.9
Novobërdë/Novo Brdo	6.9
Ranilluk/Ranillug	6.8
Parteš/Partesh	6.7
Prizren	6.7
Suharekë/Suva Reka	6.7
Deçan/Dečani	6.4
Fushë Kosovo/ Kosovo Polje	6.4
Ferizaj/Uroševac	6.2
Malishevë/Mališevo	6.2
Kaçanik/Kaçanik	6.1
Mitrovicë/Mitrovica	6.1
Glogovc/Glogovac	6.1
Gračanica/Graçanicë	6.0
Skenderaj/Srbica	6.0
Gjilan/Gnjilane	6.0
Vushtrri/Vučitrn	6.0
Kamenicë/Kamenica	6.0
Junik	6.0
Obiliq/Obilić	6.0
Shtime/Štimlje	5.6
Hani i Elezit/Elez Han	5.6
Prishtinë/Priština	5.5
Zvečan/Zveçan	4.8
Klinë/Klina	4.7
Leposavić/Leposaviq	4.6
Štrpce/Shtërpçë	4.4
Severna Mitrovica/Mitrovica e Veriut	4.3
Zubin Potok	4.2

The average rankings of the component questions of sub-index 5 are presented in table 4.5.2. The national averages present the survey responses. First, firms believe that in their respective industries, firms declare 77 percent of sales for taxation purposes.

The following sub-index component measures the extent to which firms consider informal communication with municipal officials as acceptable. On a score of 1 to 5, where 1 is 'do not agree' and 5 is 'agree fully', at the national level, firms have evaluated with an average of 2.9 the acceptability of informal communication with officials.

The remaining two sub-index components directly measure if the local taxes and fees are considered significant barriers in doing business. The aggregate results are in line with the overall consent that taxes do not impede the market functionality in the current situation in Kosovo. Firms have shown a neutral attitude towards claims of taxes being barriers for their business, or municipal fines being too high.

TABLE 4.5.2 Taxes and Fees sub-index components at the national level


	INDICATOR: TAXES AND FEES	NATIONAL AVERAGE
<p><i>SOURCE:</i> SURVEY 2018, AUTHORS' CALCULATIONS.</p>	<p>What percentage of annual sales, an enterprise on your business sector declares for taxation purposes? (Avg.)</p>	<p>77.4%</p>
	<p>Informal communication with municipal officials is accepted. (1 - do not agree at all, 5 - agree fully)</p>	<p>2.9</p>
	<p>Taxation and municipal taxes are a huge barrier for the business. (1 - do not agree at all, 5 - agree fully)</p>	<p>2.9</p>
	<p>How do you evaluate the level of municipal fines? (1 - Very low, 5 - Very high)</p>	<p>3.1</p>

TABLE 4.5.3. Taxes and Fees sub-index for each region and municipality

Region	Ferizaj/Uroševac	Mitrovica	Region	Prishtinë/Prishtina	Region	Gjakovë/Dakovica	Region	Gjilan/Gnjilane	Region	Pejë/Peć
	79.4	62.4		86.5		78.7		87.4		72.1
% of sales declared for taxation	79.4	62.4		86.5		78.7		87.4		72.1
informal communication with municipal officials is acceptable	3	3.4		3		3.4		2.5		2.4
municipal taxes and fees are a barrier for businesses	3.2	3.2		3.1		2.7		2.7		2.7
municipal fines are high	2.9	3.3		3.4		3.7		2.9		2.8
Ferizaj/Uroševac	83.5	40.8	Leposavić/Leposaviq	3.2	2.7	3.8	3.7	3.7	3.1	2.5
Hani i Elezit/Elëz Han	80.7	84.8	Mitrovica	3.3	4.3	3.5	2.6	3.1	3.3	2.1
Kaçanik/Kaçanik	71.1	37.1	Severna Mitrovica/Mitrovica e Veriut	3.2	3.3	2.7	2.9	2.6	3.1	3.5
Štrpce/Shtërpçë	12	70.7	Skenderaj/Srbica	3.6	3.3	2.4	3.1	2.8	2.8	1.8
Shtime/Štimlje	84.9	75.2	Vushtrri/Vučitrn	3.8	2.8	3.6	2.8	2.8	2.7	1.3
Region	78.7	62.4	Region	3	3.1	3.4	3.7	87.4	2.4	2.8
Gjakovë/Dakovica	89.6	13.2	Zubin Potok	3.5	2.7	2.2	3.8	2.7	2.7	2.5
Junik	74.1	44	Zvečan/Zveçan	3.2	2.7	2.7	3.3	3.1	2.7	1.9
Mališevë/Mališevo	71.5	86.5	Prishtinë/Prishtina	3	3.4	2.7	3.7	3.7	3.7	3.4
Region	87.4	69	Region	3.1	3.5	3.2	3.1	2.5	3	3.6
Gjilan/Gnjilane	70.6	92.1	Glogovac	2.6	3.1	3.1	3.7	3.7	2.6	2.7
Kamenice	67.7	100	Fushe Kosovo/Kosovo Polje	4	3.6	3.1	3.3	3.1	3.3	3
Klokot/Kllokot	98.3	99.9	Gračanica/Gračanicë	1.9	2.2	2.6	2.8	2.6	2.8	2.7
Novobërdë/Novo Brdo	100	79.6	Lipjan/Lipjan	3	3.4	2.8	2.8	2.8	1.8	3.5
Parteš/Partesh	100	98	Obiliq/Obilić	3.8	3.3	2.8	2.8	2.8	1.8	3.5
Ranilluk/Ranillug	95	69.5	Podujevë/Podujevo	2.2	3	2.8	2.8	2.8	3.1	3.1
Viti/Vitina	97.3	93.2	Prishtinë/Prishtina	2.8	3	2.8	2.8	2.8	3.4	3.4
Region	72.1	93.2	Rajoni	2.8	3	2.4	2.8	2.7	2.8	3.6
Deçan/Dečani	83.5	92.8	Prizren	2.1	2.7	2.7	2.8	2.6	2.7	3
Istog/Istok	60.2	77.7	Dragash/Dragaš	3.3	2.1	2.7	2.9	2.6	2.7	3.2
Klinë/Klina	46.7	98.9	Mamushë/Mamuša	2.8	3.4	2.1	2.6	2.6	3.4	3.9
Pejë/Peć	98.9	93.4	Prizren	3.4	2.9	3.4	2.6	2.6	2.9	3.6
		98.6	Rahovec/Orahovac	3.4	3.8	3.5	2.6	2.6	2.7	4.2
			Suharekë/Suva Reka	3.4	3.8	2.7	2.9	2.9	2.9	



When classified based on the size of the municipalities, municipalities with more than 50000 inhabitants are associated with slightly better taxes and fees.

TABLE 4.5.4 Taxes and fees sub-index score by municipalities' size

MUNICIPALITY SIZE	SCORE
0-50 000 inhabitants	6.0
50 000 – 80 0000 inhabitants	6.2
Above 80 000 inhabitants	6.2

SOURCE:
SURVEY 2018,
AUTHORS'
CALCULATIONS.



The MCI sub-index 5 for taxes and fees looks at how businesses perceive the overall burden of levied taxes and charged fees. Additionally, the sub-index assesses the extent to which businesses consider acceptable the informality of negotiating taxes.



SUB-INDEX 6: LOCAL ADMINISTRATION

Local government has increasingly been playing a vital role in local economic development. Capability of local government's administration in creating an enabling business environment, is an essential factor for business activities in a local economy. A professional and efficient local administration is an imperative to ensure the quality of life for the citizens.

Local administration's efficiency and professionalism was assessed through several indicators aiming to capture the impact that it has on business activities. Businesses were asked to rate the professional level of local officials, provide information about potential engagement in corrupt practices with local officials as well as their perception about the importance of connections with regard to local public procurement activities. In addition, businesses provided information about subsidies received from local government and also whether the municipality where they operate have a business support office for promoting investment opportunities in that municipality.

Based on the information from the above indicators, in general, local administration in Kosovo is not being perceived as highly professional. Small size municipalities in Kosovo, most of them with less than 50 thousand inhabitants, are ranked at the top of the list. The highest index score is 5.8 and belongs to the municipality of Rahovec/Orahovac followed by Lipjan/Lipljan (5.5) and Dragash/Dragaš (5.4). The list of top seven performers is provided in the table 4.6.1.

The bottom five municipalities regarding public administration, received a score of less than 4 points. Among those five are two large municipalities, namely Mitrovica and Gjilan/Gnjilane with 3.7 respectively 3.9 average score (figure 4.6.1).

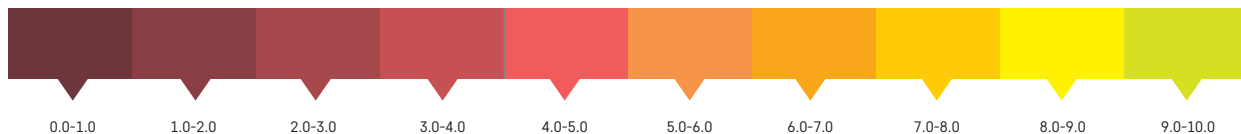
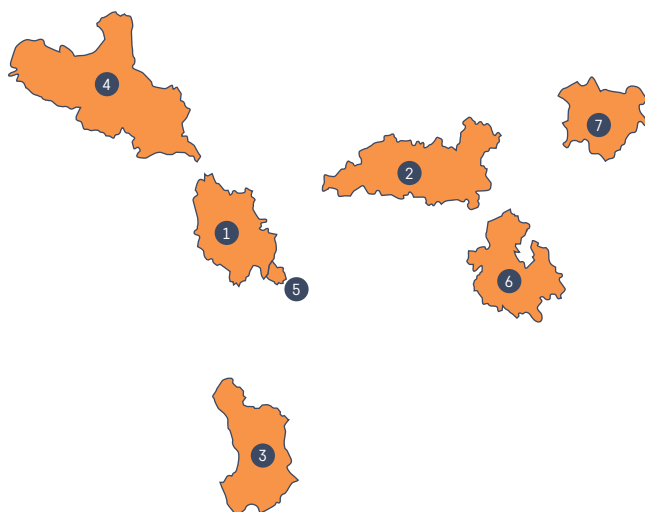


Figure 4.6.1 BEST PERFORMING MUNICIPALITIES



MUNICIPALITY	SUB-INDEX 6: LOCAL ADMINISTRATION
1 Rahovec/Orahovac	5.8
2 Lipjan/Lipljan	5.5
3 Dragash/Dragaš	5.4
4 Zubin Potok	5.3
5 Mamushë/Mamuša	5.3
6 Viti/Vitina	5.2
7 Ranilluk/Ranillug	5.2

SOURCE: SURVEY 2018, AUTHORS' CALCULATIONS.

Figure 4.6.1 ALL MUNICIPALITIES PERFORMING

MUNICIPALITY	SUB-INDEX 6: LOCAL ADMINISTRATION
Rahovec/Orahovac	5.8
Lipjan/Lipljan	5.5
Dragash/Dragaš	5.4
Zubin Potok	5.3
Mamushë/Mamuša	5.3
Viti/Vitina	5.2
Ranilluk/Ranillug	5.2
Suharekë/Suva Reka	5.1
Gjakovë/Đakovica	5.0
Glogovac/Glogovac	5.0
Obiliq/Obilić	4.9
Malishevë/Mališevo	4.9
Štrpce/Shtërpçë	4.9
Istog/Istok	4.9
Hani i Elezit/Elez Han	4.9
Prizren	4.9
Ferizaj/Uroševac	4.8
Pejë/Peć	4.7
Kamenicë/Kamenica	4.7
Prishtinë/Priština	4.6
Kaçanik/Kaçanik	4.6
Junik	4.6
Fushë Kosovo/ Kosovo Polje	4.6
Shtime/Štimlje	4.5
Novobërdë/Novo Brdo	4.5
Vushtrri/Vučitrn	4.4
Leposavić/Leposaviq	4.4
Deçan/Dečani	4.3
Podujevë/Podujevo	4.3
Skenderaj/Srbica	4.2
Zvečan/Zvečan	4.1
Severna Mitrovica/Mitrovica e Veriut	4.1
Gračanica/Gračanicë	4.0
Gjilan/Gnjilane	3.9
Klokot/Kllokot	3.9
Parteš/Partesh	3.8
Mitrovicë/Mitrovica	3.7
Klinë/Klina	3.4

At the national level, local administration was one of the two lowest-rated sub-indexes. This can be seen also when looking at the data on each individual indicator. The professional level of local officials on a scale from 1 to 5 (where 1 is low and 5 high), on average was rated with a score of 3.2, indicating moderate level of professionalism. However, only 2.4% of all surveyed businesses admitted that they have bribed local officials in the past. In addition, businesses indicated that bribing local officials is not efficient as the average score on this issues was 2.4 on a scale from 1 to 5, with 1 being very inefficient and 5 very efficient. Number of firms that benefited from local subsidies is relatively small (4.2%), while 19% of them declared that they are aware that in their municipalities there are special offices for promoting business and investment oppor-

tunities. Connections seem to be perceived, to some extent, as important for getting public tenders as the average score at the national level is 3.6 on a scale from 1 to 5, where 1 is 'do not agree at all' and 5 is 'fully agree' (table 4.6.2).

At the regional level, the least professional local officials are in Mitrovica region, according to businesses operation in that region. Local corruption is more prevalent in Gjilan/Gnjilane region, mainly in the two largest municipalities, Gjilan/Gnjilane and Kamenica. Businesses in Ferizaj/Uroševac region seem to have benefited, on average, more than other regions as 4.7% of business (15% in municipality of Ferizaj/Uroševac) had access to local subsidies during the last three years (table 4.6.3).¹²

TABLE 4.6.2 Local administration sub-index components at the national level



SOURCE:
SURVEY 2018,
AUTHORS'
CALCULATIONS.

SUB- INDEX: LOCAL ADMINISTRATION	NATIONAL AVERAGE
How do you rate the professional level of local officials?	3.2
How your ever bribed local officials?	2.4 % Yes
How efficient is bribing of local officials to obtain public services?	2.8
Did your company benefited from local subsidies during the last 3 years?	4.2% Yes
Does your municipality have a special office for promoting investment opportunities?	19.2% Yes
Connections are important to get public tenders at local level.	3.6

¹² Cells highlighted in red indicate unsatisfactory score (the score less than the first quartile) while cells in green indicate acceptable score (the score higher than the third quartile).

TABLE 4.6.3 Local administration sub-index for each region and municipality

Region	How do you rate the professional level of local officials?	How ever bribed local officials?	How efficient is bribing of local officials to obtain public services?	Did your company benefited from local subsidies during the last 3 years?	Does your municipality have a special office for promoting investment opportunities?	Connections are important to get public tenders at local level.
Region	3.4	3.1%	2.5	5.7%	12.7%	3.6
Ferizaj/Uroševac	3.4	3.1%	2.5	5.7%	12.7%	3.6
Ferizaj/Uroševac	3.3	7.1%	2.6	15.0%	6.0%	3.5
Hani i Elezit/Elez Han	3.4	0.0%	2.7	2.0%	13.3%	2.9
Kaçanik/Kaçanik	3.2	5.1%	2.3	4.1%	16.0%	4.1
Štrpce/Štrpcepë	3.6	1.3%	2.6	4.1%	26.3%	3.7
Shtime/Štimlje	3.6	0.0%	2.8	1.0%	0.0%	3.3
Region	3.2	0.4%	2.0	4.2%	38.1%	4.1
Gjakovë/Dakovica	3.2	1.0%	1.4	8.1%	23.1%	4.3
Gjakovë/Dakovica	3.6	0.0%	2.8	0.0%	8.3%	3.6
Junik	3.0	0.0%	2.5	2.5%	56.1%	4.2
Malishevë/Mališevo	3.1	7.8%	3.0	4.7%	10.6%	3.4
Region	3.1	7.8%	3.0	4.7%	10.6%	3.4
Gjilan/Gjiljane	3.1	25.0%	3.6	2.0%	23.8%	4.7
Gjilan/Gjiljane	3.2	12.2%	2.8	6.3%	19.4%	3.6
Kamenice	2.2	0.0%	3.3	0.0%	4.2%	3.3
Klokot/Klokot	3.3	0.0%	3.7	5.3%	5.5%	2.7
Novobërdë/Novo Brdo	2.9	2.0%	4.2	2.0%	2.0%	3.5
Parteš/Partesh	3.2	0.0%	3.3	20.9%	21.4%	2.4
Ranilluk/Ranillug	3.5	3.0%	1.4	2.0%	3.2%	3.0
Viti/Vitina	3.0	1.8%	3.0	2.5%	22.8%	3.9
Region	3.0	1.8%	3.0	2.5%	22.8%	3.9
Pejë/Peć	2.8	2.0%	2.5	0.0%	17.2%	4.0
Deçan/Dečani	3.2	2.0%	2.9	4.1%	42.9%	3.8
Istog/Istok	2.5	3.0%	4.3	4.0%	0.0%	4.0
Klinë/Klina	3.4	0.0%	2.9	2.1%	30.0%	4.0
Pejë/Peć	4.2	0.0%	2.2	6.0%	6.5%	3.6
Suharekë/Suva Reka	3.4	0.0%	2.7	7.9%	70.0%	3.1
Rahovec/Drahovac	3.5	5.8%	2.3	0.8%	14.8%	3.6
Manushë/Mamuša	3.5	1.3%	1.8	2.6%	0.0%	2.2
Prizren	3.5	1.8%	2.2	4.0%	20.0%	2.9
Dragash/Dragaš	3.2	1.0%	1.8	3.0%	8.6%	2.3
Prishtinë/Prishtina	3.6	2.4%	2.8	3.5%	18.0%	3.8
Podujevë/Podujevo	3.3	0.0%	3.5	2.0%	11.8%	3.6
Glogovc/Glogovac	3.1	1.0%	2.9	1.1%	58.7%	3.8
Fushe Kosovo/Kosovo Polje	3.2	0.0%	2.1	0.0%	5.3%	3.7
Gračanica/Graçanicë	3.7	0.0%	4.2	10.0%	10.2%	4.3
Lipjan/Lipljan	3.6	2.0%	2.1	6.2%	50.0%	3.8
Obiliq/Obilić	3.7	2.0%	2.4	5.1%	9.5%	3.4
Prishtinë/Prishtina	3.6	2.4%	2.8	3.5%	11.8%	3.6
Prishtinë/Prishtina	3.6	2.4%	2.8	3.5%	18.0%	3.8
Region	3.6	1.8%	2.2	4.0%	20.0%	2.9
Prizren	3.2	1.0%	1.8	3.0%	8.6%	2.3
Manushë/Mamuša	3.5	1.3%	1.8	2.6%	0.0%	2.2
Prizren	3.5	5.8%	2.3	0.8%	14.8%	3.6
Rahovec/Drahovac	3.4	0.0%	2.7	7.9%	70.0%	3.1
Suharekë/Suva Reka	4.2	0.0%	2.2	6.0%	6.5%	3.6



The perception of businesses does not differ significantly when controlling for the size of municipalities (figure 4.6.2). However, as we have also seen from the list above, mid-size municipalities were ranked higher.

TABLE 4.6.4 Local administration sub-index score by municipalities' size

MUNICIPALITY SIZE	SCORE
0-50 000 inhabitants	4.6
50 000 – 80 0000 inhabitants	4.8
Above 80 000 inhabitants	4.6

SOURCE:
SURVEY 2018,
AUTHORS'
CALCULATIONS.



Local administration's efficiency and professionalism was assessed through several indicators aiming to capture the impact that it has on business activities. Businesses were asked to rate the professional level of local officials, provide information about potential engagement in corrupt practices with local officials as well as their perception about the importance of connections with regard to local public procurement activities.



SUB-INDEX 7: LABOUR MARKET AND SUPPORT FOR BUSINESSES

Sub-index 7 depicts the quality of labor available to businesses in each municipality, as well as the support services that municipal administrations offer to them.

The labor market in Kosovo is characterized with a high inactivity rate of 56.5 percent of the working age population¹³. Overall unemployment rate is 30 percent, while the rates are higher within the female and youth share of the working age population.

Problems exist both in the demand and supply side of the market. A frequently identified issue is the mismatch of the existing skills and their quality demanded by employers and the gap with the skills offered by the market. MCI survey data (MCI 2018) show that on a national level, 40 percent of the firms have had problems hiring new employees in the last two years because of the lack of skilled job seekers.

MCI sub-index 7 explores these phenomena by assessing the satisfaction of businesses with the level of education and professional skills offered in the market. The indicator also evaluates the extent to which municipalities are engaged in supporting a better interaction between labor and businesses such as consulting and support services.

Figure 4.7.1 shows the sub-index 7 results for all municipalities in Kosovo. The overall performance of municipalities in this indicator is unsatisfactory. The sub-index score at the national level is 4.7, signaling a poor match of labor demand from businesses, and insufficient business support.

At the municipal level, the top performers are Parteš/Partesh, Klokot/Kllokot, Ferizaj/Uroševac, Rahovec/Orahovac, Skenderaj/Srbica and Vushtrri/Vučitrn.

¹³ Kosovo Agency of Statistics (2017). Labour Market Survey. <http://ask.rks-gov.net/media/3815/labour-force-survey-q3-2>

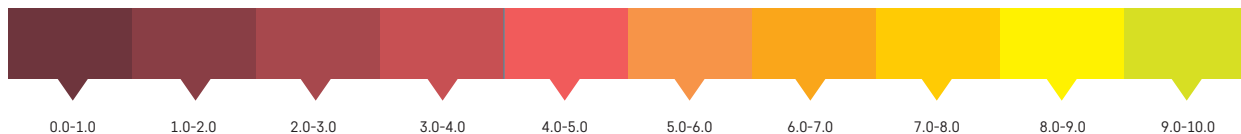
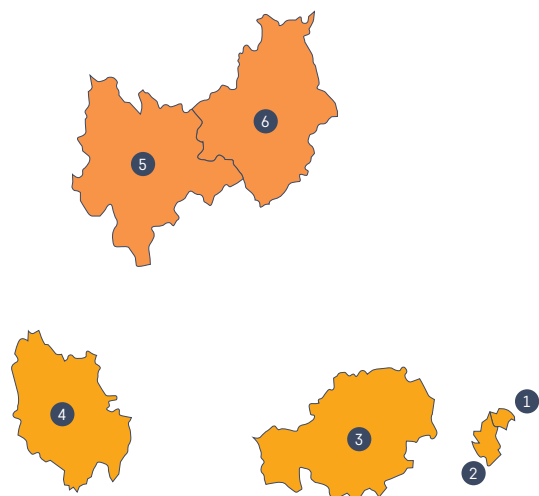


Figure 4.7.1 BEST PERFORMING MUNICIPALITIES



MUNICIPALITY	SUB-INDEX 7: LABOUR MARKET AND SUPPORT SERVICES
1 Parteš/Partesh	6.4
2 Klokot/Kllokot	6.4
3 Ferizaj/Uroševac	6.3
4 Rahovec/Orahovac	6.2
5 Skenderaj/Srbica	6.0
6 Vushtrri/Vučitrn	6.0

SOURCE: SURVEY 2018, AUTHORS' CALCULATIONS.

Figure 4.7.1 ALL MUNICIPALITIES PERFORMING

MUNICIPALITY	SUB-INDEX 7: LABOUR MARKET AND SUPPORT SERVICES
Parteš/Partesh	6.4
Klokot/Kllokot	6.4
Ferizaj/Uroševac	6.3
Rahovec/Orahovac	6.2
Skenderaj/Srbica	6.0
Vushtrri/Vučitrn	6.0
Hani i Elezit/Elez Han	5.8
Obiliq/Obilić	5.7
Kaçanik/Kaçanik	5.4
Mitrovicë/Mitrovica	5.4
Glogovac/Glogovac	5.2
Kamenicë/Kamenica	5.1
Gjakovë/Đakovica	5.1
Lipjan/Lipljan	5.0
Suharekë/Suva Reka	4.9
Deçan/Dečani	4.9
Podujevë/Podujevo	4.8
Viti/Vitina	4.7
Gjilan/Gnjilane	4.7
Prishtinë/Priština	4.7
Junik	4.7
Istog/Istok	4.5
Zubin Potok	4.5
Novobërdë/Novo Brdo	4.4
Malishevë/Mališevo	4.3
Gračanica/Gračanicë	4.2
Štrpce/Shtërpçë	4.1
Fushë Kosovo/ Kosovo Polje	4.0
Zvečan/Zvečan	4.0
Dragash/Dragaš	4.0
Shtime/Štimlje	4.0
Prizren	3.9
Severna Mitrovica/Mitrovica e Veriut	3.8
Pejë/Peć	3.5
Leposavić/Leposaviq	3.3
Ranilluk/Ranillug	3.3
Klinë/Klina	3.2
Mamushë/Mamuša	3.0

Table 4.7.2 reports the average scores of the component questions of sub-index 7. The national averages present the survey responses.

On a scale of 1 to 5, where 1 is very low and 5 is excellent, on average, businesses rate the quality of education of the local labor market at the national level at 3.3. Similarly, they rate the quality of vocational training of the workers in the local market at 3.2.

The remaining two sub-index components assess the existing support service from municipalities for business operations, including support in recruitment services. This indicator shows that only 40 percent of the businesses interviewed said that the municipalities in which they are based offer business support services.

TABLE 4.7.2 Labor market and support services sub-index components -national level



SOURCE:
SURVEY 2018,
AUTHORS'
CALCULATIONS.

INDICATOR: BUSINESS SUPPORT SERVICES	NATIONAL AVERAGE
How do you rate the quality of education of workers that the local labor market offers? (1- very low, 5- excellent)	3.3
How do you rate the quality of vocational training of the workers that the local market offers? (1- very low, 5- excellent)	3.2
Does your municipality offers supporting services for businesses? (% yes)	40.3%
If yes, did you ever rely on these services that the municipality offers? (% yes)	14.2%

TABLE 4.7.3 Labor market and business support sub-index for each region and municipality

Region	quality of education of the labour market	quality of professional skills	support services for businesses	usage of support services	quality of education of the labour market	quality of professional skills	support services for businesses	usage of support services
Region	3.4	3.4	0.41	0.204	Mitrovica	3.4	0.682	0.075
Ferizaj/Uroševac	3.5	3.4	71.90%	38.60%	Leposavić/Leposaviq	3.1	0.00%	0.00%
Hani i Elezi/Elez Han	3.4	3.3	50.00%	44.40%	Mitrovica	3.3	77.30%	3.50%
Kaçanik/Kaçanik	3.3	3.5	50.00%	29.20%	Severna Mitrovica/Mitrovica e Veriut	3	25.70%	3.90%
Štrpce/Štërpçë	3.4	3.2	17.20%	5.30%	Skenderaj/Srbica	3.5	90.90%	9.80%
Shtime/Štimlje	3.4	3.4	5.30%	5.30%	Vushtri/Vučitrn	3.6	81.10%	18.80%
Zubin Potok	3.5	3.4	28.60%	2.60%	Zvečan/Zveçan	3.2	27.60%	2.20%
Region	3.4	3	0.513	0.059	Pristinë/Priština	3.4	0.437	0.087
Gjakovë/Đakovica	3.1	3.1	72.00%	4.20%	Glogovac/Glogovac	3.4	64.20%	6.40%
Junik	3.6	3.4	22.20%	16.70%	Fushe Kosovo/ Kosovo Polje	3.3	16.70%	4.90%
Mališevë/Mališevo	3.6	2.8	33.70%	6.50%	Gračanica/Gračanicë	3.1	32.70%	11.00%
Region	3	2.9	0.498	0.266	Lipjan/Lipljan	3	66.10%	5.00%
Gjilan/Gnjilane	2.8	3	62.90%	8.80%	Obiliq/Obilić	3.3	74.70%	19.40%
Kamenice	3.1	3.1	61.70%	17.60%	Podujevë/Podujevo	3.9	15.50%	5.80%
Klokot/Klokot	3.2	3.3	79.50%	47.10%	Pristinë/Priština	3.7	18.80%	9.90%
Novobërdë/Novo Brdo	2.4	2.3	58.70%	25.50%	Rajoni	3.3	0.279	0.049
Parteš/Partesh	3.6	3.5	52.90%	60.60%	Dragash/Dragaš	3.3	14.00%	2.00%
Ranilluk/Ranillug	2.3	2.2	17.90%	20.00%	Mamushë/Mamuša	2.2	2.60%	19.20%
Viti/Vitina	3.3	3	19.20%	39.30%	Prizren	3.2	23.60%	0.80%
Region	3.1	3.1	0.223	0.11	Rahovec/Rahovac	3.6	85.70%	12.30%
Pejë/Peć	2.9	3.2	42.70%	12.30%	Suharekë/Suva Reka	4.2	15.20%	4.00%
Deçan/Dečani	3.1	3.2	28.40%	33.30%				
Istog/Istok	3	2.9	0.00%	0.00%				
Klinë/Klina	3.4	3	2.60%	0.00%				



When classified based on the size of the municipalities, mid-size municipalities with 50000-80000 inhabitants are associated with better Labor Market and Support Services.

TABLE 4.7.4 Labor Market and Support Services sub-index score by municipalities' size

MUNICIPALITY SIZE	SCORE
0-50 000 inhabitants	4.5
50 000 – 80 0000 inhabitants	5.5
Above 80 000 inhabitants	4.7

SOURCE:
SURVEY 2018,
AUTHORS'
CALCULATIONS.



MCI sub-index 7 explores these phenomena by assessing the satisfaction of businesses with the level of education and professional skills offered in the market. The indicator also evaluates the extent to which municipalities are engaged in supporting a better interaction between labour and businesses such as consulting and support services.



SUB-INDEX 8: LOCAL INFRASTRUCTURE

The final sub-index presents the perception of businesses related to different aspects of local infrastructure. A decent physical infrastructure enables businesses connecting supply chains and efficiently move goods and services across regions. Infrastructure affects, directly or indirectly, the local social - economic activities. The lack of physical infrastructure can be a difficult and costly obstacle to overcome for businesses. The territory of Kosovo has a relatively good road infrastructure; the road network consist of around 630 km of main roads.¹⁴

Except for the quality of roads, the MCI sub-index on infrastructure assesses also the quality of the sewage system, maintenance and collection of waste and garbage, access to the public water supply network, as well as regular supply of energy and water. It also provides information on the collection rate from water utility business consumers.

Based on the perception of businesses, the table below shows the ranking of the top seven performing municipalities in terms of local infrastructure. The municipality of Rahovec/Orahovac tops the list with an average sub-index score of 7.6 points, followed by Suharekë/Suva Reka (7.5) and Lipjan/Lipljan (7.3)

The full ranking will all 38 municipalities is provided in the figure 4.8.1. Municipalities that received the lowest score are Leposavić/Leposaviq (5.2), Deçan/Deçani (5.6) and Klinë/Klina (5.6).

¹⁴ Government of Kosovo. Bizneset/Infrastruktura/Rrugët. Available in Albanian. <https://www.rks-gov.net/en-US/Bizneset/Infrastruktura/Pages/Rruget.aspx>

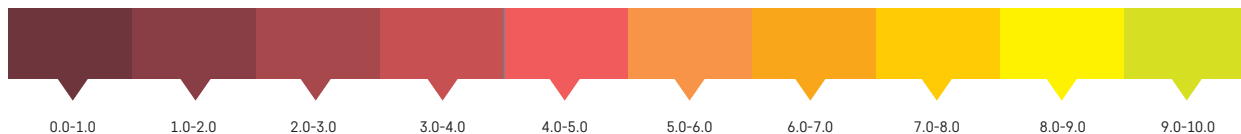
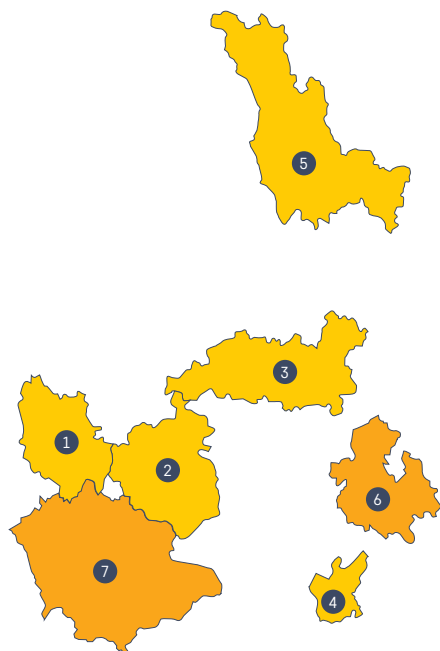


Figure 4.8.1 BEST PERFORMING MUNICIPALITIES



MUNICIPALITY	SUB-INDEX 8: LOCAL INFRASTRUCTURE
1 Rahovec/Orahovac	7.6
2 Suharekë/Suva Reka	7.5
3 Lipjan/Lipljan	7.3
4 Hani i Elezit/Elez Han	7.2
5 Podujevë/Podujevo	7.1
6 Viti/Vitina	7.0
7 Prizren	7.0

SOURCE: SURVEY 2018, AUTHORS' CALCULATIONS.

Figure 4.8.1 ALL MUNICIPALITIES PERFORMING

MUNICIPALITY	SUB-INDEX 8: LOCAL INFRASTRUCTURE
Rahovec/Orahovac	7.6
Suharekë/Suva Reka	7.5
Lipjan/Lipljan	7.3
Hani i Elezit/Elez Han	7.2
Podujevë/Podujevo	7.1
Viti/Vitina	7.0
Prizren	7.0
Gračanica/Gračanicë	7.0
Mitrovicë/Mitrovica	6.9
Shtime/Štimlje	6.9
Istog/Istok	6.9
Pejë/Peć	6.8
Zubin Potok	6.8
Prishtinë/Priština	6.7
Obiliq/Obilić	6.7
Kamenicë/Kamenica	6.6
Junik	6.6
Gjakovë/Đakovica	6.6
Mamushë/Mamuša	6.6
Gjilan/Gnjilane	6.6
Štrpcë/Shtërpçë	6.5
Kaçanik/Kaçanik	6.5
Malishevë/Mališevo	6.4
Fushë Kosovo/ Kosovo Polje	6.3
Ranilluk/Ranillug	6.3
Klokot/Kllokot	6.2
Skenderaj/Srbica	6.1
Dragash/Dragaš	6.1
Severna Mitrovica/Mitrovica e Veriut	6.1
Zvečan/Zveçan	6.1
Novobërdë/Novo Brdo	6.0
Vushtrri/Vučitrn	6.0
Ferizaj/Uroševac	6.0
Parteš/Partesh	5.8
Gllgovc/Glogovac	5.8
Klinë/Klina	5.6
Deçan/Dečani	5.6
Leposavić/Leposaviq	5.2

The aggregated data at the national level shows that 21% of businesses in Kosovo do not have access to the public water supply network. Moreover, businesses in Kosovo in general are not satisfied with the maintenance of sewage system by local authorities. On a scale from 1 to 5, where 1 being 'very low' and 5 'excellent', the average score at the national level regarding maintenance of sewage system is 2.8 intensity points. Electricity and water supply are also an issue that businesses in Kosovo face on a regular basis; on average, businesses in Kosovo face 20 hours of power outages and 13 hours of water outages monthly. On the

other hand, the average score on collection rate from water utility consumers seems satisfactory with a score of 4.2 on a scale from 1 to 5 (table 4.8.2).¹⁵

Water outages are more evident in the northern part of Kosovo, namely Mitrovica region while municipalities in the region of Gjilan/Gnjilane and Prizren have the lowest access rate as far as public water supply network is concerned. Municipalities in Pejë/Peć region received the lowest score regarding maintenance of waste and the sewage system (table 4.8.3).

TABLE 4.8.2 Local infrastructure sub-index components at the national level



SOURCE:
SURVEY 2018,
AUTHORS'
CALCULATIONS.

INDICATOR: BUSINESS SUPPORT SERVICES	NATIONAL AVERAGE
How do you rate the quality of local roads?	3.1
How do you rate the maintenance and collection of garbage at the local level?	3.0
How do you rate the maintenance of sewage system in your municipality?	2.8
Do you have access on the public water supply network?	79%
How many hours a months do you have water outages/cuts? (Number of hours)	13.2
How many hours per month do you have electricity outages/cuts? (Number of hours)	20.1
Regional water supplier collects 100% of water payments/bills from your business.	4.2

¹⁵ Collection rate of water bills was rated by businesses on a scale from 1 to 5, where 1 being 'never' and 5 'always'.

TABLE 4.8.3 Local infrastructure sub-index for each region and municipality

Region	How do you rate the quality of local roads?	How do you rate the maintenance and collection of garbage at the local level?	How do you rate the maintenance of sewage system in your municipality?	Do you have access on the public water supply network?	How many months do you have water outages/cuts? (Number of hours)	How many hours per month do you have electricity outages/cuts? (Number of hours)	Regional water supplier collects 100% of water payments/bills from your business.
Region	3.1	2.7	2.9	82.5%	4.9	12.7	4.1
Ferizaj/Uroševac	3.1	2.7	2.9	82.5%	4.9	12.7	4.1
Ferizaj/Uroševac	2.1	1.88	3.1	88.0%	3.24	9.2	4.7
Hani i Elezit/Elez Han	3.1	3.29	3.1	77.6%	11.88	16.2	2.5
Kacanik/Kaçanik	2.9	2.92	2.8	83.8%	9.74	16.9	4.1
Štrpce/Shtrpçë	4.0	2.59	2.1	96.0%	3.00	10.7	4.9
Shitme/Štimlje	3.6	3.25	3.2	68.0%	2.63	13.4	3.9
Region	3.1	3.24	2.9	89.0%	9.70	29.7	4.6
Gjakovë/Dakovica	3.1	3.24	2.9	89.0%	9.70	29.7	4.6
Gjakovë/Dakovica	2.9	3.45	3.0	98.0%	11.00	30.1	4.7
Junik	3.6	3.40	3.4	97.8%	0.67	66.7	5.0
Mališeve/Mališevo	3.0	3.03	2.7	78.2%	14.69	14.7	4.2
Region	3.1	3.20	2.8	60.2%	3.91	6.0	4.2
Gjilan/Gnjilane	3.1	3.20	2.8	60.2%	3.91	6.0	4.2
Gjilan/Gnjilane	3.0	3.16	2.3	91.0%	2.36	5.9	4.6
Kamenice	2.8	3.16	2.4	65.2%	2.49	7.4	3.1
Klokot/Kllokot	2.8	2.96	2.9	54.2%	6.00	11.5	4.3
Novobërdë/Novo Brdo	3.1	3.13	2.9	6.8%	4.17	3.5	3.5
Partesh/Partesh	2.9	2.98	3.1	45.1%	20.00	22.9	4.7
Raniluk/Ranilug	3.3	3.33	2.8	52.4%	1.06	2.3	5.0
Viti/Vitina	3.7	3.51	3.4	78.0%	7.68	7.0	4.6
Region	2.8	2.55	2.5	90.7%	6.10	19.6	4.5
Pejë/Peć	2.8	2.55	2.5	90.7%	6.10	19.6	4.5
Deçan/Dečani	2.6	1.94	2.1	95.0%	6.89	49.6	4.8
Istog/Istok	3.6	3.45	2.8	93.0%	4.60	10.8	4.8
Klinë/Klina	1.9	1.84	2.0	84.2%	9.75	15.6	4.1
Pejë/Peć	3.2	2.99	3.1	90.7%	2.46	6.9	4.5
Region	2.9	2.9	2.9	91.7%	31.8	37.7	4.2
Mitrovica	2.9	2.9	2.9	91.7%	31.8	37.7	4.2
Leposavić/Leposaviq	2.0	2.0	1.9	79.3%	51.9	13.6	4.3
Mitrovica	2.9	3.4	3.4	100.0%	0.6	21.1	4.6
Severna Mitrovica e Verut	2.1	2.3	2.2	94.3%	28.3	15.5	3.3
Skenderaj/Sribca	3.7	3.0	3.4	91.3%	45.7	76.7	4.6
Vushtri/Vučitrn	3.3	2.8	3.1	78.8%	26.9	42.1	4.8
Zubin Potok	3.9	3.9	3.8	100.0%	60.1	58.9	4.5
Zvečan/Zveçan	2.1	2.4	2.0	97.9%	69.8	24.0	2.2
Region	3.6	3.12	2.9	84.4%	11.90	20.74	4.4
Prishtinë/Prishtina	3.6	3.12	2.9	84.4%	11.90	20.74	4.4
Glogovac/Glogovac	3.1	2.87	2.7	80.4%	46.23	50.01	4.5
Fushe Kosova/Kosovo Poje	3.2	2.93	2.7	61.5%	7.63	4.12	4.5
Graçanica/Graçanicë	3.7	3.44	3.0	98.0%	10.83	9.14	5.0
Lipjan/Lipjan	4.1	3.80	3.5	69.0%	7.88	11.10	3.9
Obiliq/Obiliç	3.3	3.17	3.3	90.9%	6.59	23.46	4.9
Podujevë/ Podujevo	3.6	3.09	2.5	90.0%	0.72	25.83	3.1
Prishtinë/Prishtina	3.8	2.67	2.5	95.9%	4.63	11.69	4.6
Region	3.3	3.26	3.0	65.9%	4.76	10.46	4.1
Prizren	3.3	3.26	3.0	65.9%	4.76	10.46	4.1
Dragash/Dragaš	2.8	3.2	2.2	19.8%	4.3	21.7	2.4
Mamuša/Mamuša	2.7	2.3	2.3	2.9%			
Prizren	3.4	3.5	3.0	95.0%	7.1	7.4	4.6
Rahovec/Rahovec	3.6	3.6	3.7	90.2%	2.8	5.4	3.9
Suharekë/Suva Reka	4.0	3.4	3.7	96.0%	2.9	2.5	4.5



Finally, size of municipalities to some extent seem to be positively correlated with the quality of local infrastructure. When splitting municipalities in three sub-groups according to their size, the average score on local infrastructure is slightly higher in municipalities with more than 50 thousand inhabitants compared to those with less than 50 thousand (figure 4.8.2).

TABLE 4.8.4 Local infrastructure sub-index score by municipalities' size

MUNICIPALITY SIZE	SCORE
0-50 000 inhabitants	6.4
50 000 – 80 0000 inhabitants	6.7
Above 80 000 inhabitants	6.7

SOURCE:
SURVEY 2018,
AUTHORS'
CALCULATIONS.



Except the quality of roads, the MCI sub-index on infrastructure assesses also the quality of quality of sewage system, maintenance and collection of waste and garbage, access to the public water supply network, as well as regular supply with energy and water. It also provides information on the collection rate from water utility business consumers.

5

POLICY WEIGHTED MCI

The MCI policy weights applied a greater weight to four of the sub-indexes which are found as more relevant policy wise on the analysis explained in the Methodology section of the report. The four more important indexes in Kosovo are: **(1) Transparency, (2) Participation and Predictability, (3) Time Costs and (4) Taxes.** Compared to the unweighted MCI where each of the sub-indexes has an equal weight on the overall score, the weighted MCI has 15 percent rounded weights of each of these four sub-indexes, compared to the less important sub-indexes which have a 10 percent weight.

Table 5.1 shows the weights outputted from the data analysis for each of the sub-indexes, and also the rounded weights used for generating the policy relevant MCI.

The usage of policy weights alters slightly the ranking of the top performers. Tables 5.2 and 6.3 show that except for Lipjan/Lipljan, the position of the rest of the municipalities is changed. Suharekë/Suva Reka is also no longer on the list, while Parteš/Partesh is a new entrant. The top ten performers are also the third or upper quartile of the full list of municipalities. Graph 1 shows the weighted policy index for each municipality.

TABLE 5.1 MCI- sub-indexes, national aggregates

	MCI SUB-INDEX	WEIGHTS FROM ANALYSIS	ROUNDED WEIGHTS
01	Barriers to entry	10.2%	10%
02	Predictability and Participation	13.3%	15%
03	Transparency	16.9%	15%
04	Time Costs	15.2%	15%
05	Taxes and Fees	15.2%	15%
06	Municipal Administration	11.4%	10%
07	Labor and Business Support Services	9.9%	10%
08	Municipal Infrastructure	7.9%	10%

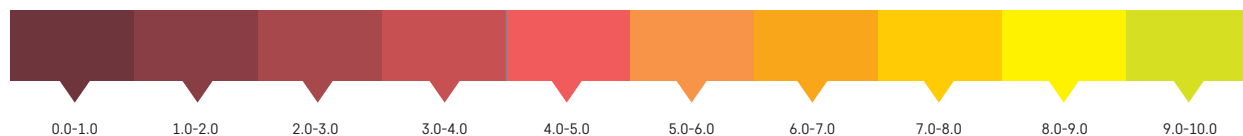


TABLE 5.2 MCI- unweighted

	MUNICIPALITY	MCI
1	Lipjan/Lipljan	7.0
2	Rahovec/Orahovac	6.8
3	Viti/Vitina	6.6
4	Junik	6.6
5	Hani i Elezit/Elez Han	6.5
6	Gjakovë/Đakovica	6.5
7	Podujevë/Podujevo	6.3
8	Obiliq/Obilić	6.3
9	Prishtinë/Priština	6.3
10	Suharekë/Suva Reka	6.3

TABLE 5.3 MCI- policy weighted

	MUNICIPALITY	MCI
1	Lipjan/Lipljan	6.4
2	Rahovec/Orahovac	6.0
3	Viti/Vitina	6.0
4	Junik	6.0
5	Hani i Elezit/Elez Han	5.9
6	Gjakovë/Đakovica	5.8
7	Podujevë/Podujevo	5.8
8	Obiliq/Obilić	5.8
9	Prishtinë/Priština	5.7
10	Suharekë/Suva Reka	5.7

Figure 5.1
MUNICIPAL COMPETITIVENESS INDEX 2018 – WEIGHTED FOR POLICY RELEVANCE

MUNICIPALITY

Lipjan/Lipljan	6.40
Junik	6.03
Rahovec/Orahovac	6.02
Viti/Vitina	6.02
Fushë Kosovo/ Kosovo Polje	5.87
Podujevë/Podujevo	5.82
Parteš/Partesh	5.80
Gračanica/Gračanicë	5.80
Prishtinë/Priština	5.71
Obiliq/Obilić	5.70
Istog/Istok	5.68
Novobërdë/Novo Brdo	5.64
Kaçanik/Kaçanik	5.59
Pejë/Peć	5.57
Suharekë/Suva Reka	5.57
Klokot/Kllokot	5.53
Zubin Potok	5.50
Mamushë/Mamuša	5.48
Prizren	5.48
Shtime/Štimlje	5.47
Malishevë/Mališevo	5.46
Glogovc/Glogovac	5.45
Skenderaj/Srbica	5.44
Vushtrri/Vučitrn	5.37
Mitrovicë/Mitrovica	5.31
Deçan/Dečani	5.31
Ranilluk/Ranillug	5.31
Hani i Elezit/Elez Han	5.30
Gjilan/Gnjilane	5.21
Kamenicë/Kamenica	5.18
Dragash/Dragaš	5.18
Gjakovë/Đakovica	5.13
Ferizaj/Uroševac	5.13
Štrpce/Shtërpçë	5.03
Leposavić/Leposaviq	4.83
Severna Mitrovica/Mitrovica e Veriut	4.75
Zvečan/Zveçan	4.74
Klinë/Klina	4.54

6

FINDINGS FROM THE FOCUS GROUPS

The findings from focus group discussions have been grouped into thematic observations organized according to the topics covered by sub-indexes, making a summary of the discussions and categorizing findings in the form of recommendations for municipalities. The general outcome of the discussions of these focus groups was that the current situation in the private sector in Kosovo has improved compared to previous years. Participants in the focus group stated that many improvements were made in relation to the barriers to entry, as supported also by the findings from our survey conducted with businesses. However, participants' stated that Kosovo is behind other countries in the region and they were not satisfied with the business opportunities at present where a lot should be achieved in order to improve the local governance competitiveness of each municipality.

The current situation is discouraging mainly when it comes to assessing the state of local infrastructure (roads, water supply, sewage system, and waste management). Municipalities' especially small and medium ones have to be able to attract projects from the central government and compete for foreign loans and grants by international institutions and

organizations. In most municipalities in Kosovo, business registration is done at one-stop-shop centers established by KBRA with offices located in 29 municipalities in Kosovo. This was rated by municipal officials, NGO representatives, but also by businesses themselves as a positive thing that has expedited business registration time. One of the main findings and in particular a major problem identified was the shortage of skilled workers. Another issue raised was insufficient number of skilled municipal officials. Furthermore, improving business support services was another measure which needs immediate attention. Establishing an office within one of the municipality directorates would improve the transparency of municipalities. This was highlighted by businesses as a problem when contacted by municipal officials. Regarding obtaining permits and licenses, NGO representatives stated that complaints from businesses mainly occur in the construction sector where permits are delayed and there are numerous irregularities in obtaining such permits. Another issue that has been mentioned is the need to amend the Law on Land Use and Exchange of Communal Immoveable Property. This is one of the many issues that needs to be address in cooperation with the central government as it involves drafting or amending new and existing laws.

FINDINGS FROM FOCUS GROUP DISCUSSIONS CAN ALSO BE SUMMARIZED BASED ON SEVEN REGIONS OF KOSOVO AND ANALYZE THEM ACCORDING TO SUB-INDEXES USED IN THE MCI SURVEY.

REGION	FINDINGS
 <p>Prishtinë / Priština</p>	<ul style="list-style-type: none"> ➔ One-stop-shops in small municipalities in Prishtinë/Priština region such as Obiliq/Obilić and Fushë Kosovë/Kosovo Polje have reduced the business registration time and this has been claimed by municipal representatives to have had quite a positive impact on business performance. ➔ Municipality of Prishtinë/Priština has identified the inadequate legal framework as a barrier which limits the competencies of municipalities and especially municipality of Prishtinë/Priština as the biggest city in the country and also as the administrative, economic, cultural and political center of Kosovo. ➔ Another important challenge identified by municipalities of Prishtinë/Priština region has to do with bureaucratic administrative procedures. Municipalities in this region claimed to have taken action on simplification of administrative procedures, with particular emphasis on issuing permits and licenses.
 <p>Prizren</p>	<ul style="list-style-type: none"> ➔ Businesses representatives in this region have stated that it would be beneficial for businesses to have a special office that deals only with addressing business demands. Additionally, steps should be taken in improving transparency for business information. NGO representatives stressed that following the example of Prishtinë/Priština and Gjakovë/Đakovica, it would be useful to set-up parallel municipal websites with updated information and publications would be the first step in improving transparency. ➔ Improving information on potential subsidies, municipal grants and upcoming public debates was mentioned as an issue that requires immediate attention.
 <p>Gjakovë / Đakovica</p>	<ul style="list-style-type: none"> ➔ Also in this region it is emphasized the lack of transparency in information from municipalities. ➔ In 2014-2015 in Gjakovë/Đakovica and Malishevë/Mališevo municipal taxes were removed for most businesses with the exception of certain categories of businesses (gambling, bars and gas stations). ➔ Representatives of NGOs have said that employees in the municipal administration have insufficient knowledge, do not provide advice or guidance for business or novice entrepreneurs and do not know well the regulations.
 <p>Pejë / Peć</p>	<ul style="list-style-type: none"> ➔ Pejë/Peć is one of the municipalities that has performed very well in the barriers to entry sub-index, not only in the registration of businesses indicator but also in opportunities to start and maintain a business. ➔ According to the focus group discussion for Pejë/Peć region was that an initiative has been discussed to form a local employment group, where actors in the economic development and a significant number of businesses can participate. However, this has not been achieved yet. ➔ There are significant improvements as 10 of the obligatory business procedures have fallen into 3 procedures. This was attributed to the improved performance of KBRA offices. ➔ In the sub-index of municipal administration this region has not shown much improvement. Participants agreed with this finding mentioning the lack of training and capacity building in the municipalities as one of the reasons for poor performance in this sub-index.

REGION

FINDINGS

Gjilan / Gnjilane

- One of the outcome of this focus group discussion was that in the municipality of Gjilan/Gnjilane there has been improvement regarding transparency in information especially attendance of public debates has increased in recent years.
- Businesses in the municipality of Kamenica are informed by telephone on upcoming bids and grants. However, the municipality of Kamenica has not taken any measure in reducing taxes and fees for businesses
- Shortage of skilled workers is one of the issues that businesses face in this region. Professional schools or universities across Kosovo have not been able to deliver skilled workers, thus creating difficulties for businesses.

Ferizaj / Uroševac

- Participants in this focus group identified two main obstacles which hinder business environment. Transparency in business information is lacking in this region and businesses complain that the municipalities have not improved the access of businesses to public data and information.
- Another topic raised concerns labor market. Businesses in Ferizaj/Uroševac region stated that since this region is one of the largest in terms of production capacity in Kosovo, more often than not businesses struggle to find qualified labor force.

Mitrovica

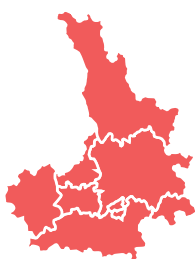
- In this region, discussions have shown that municipalities have improved relationship with businesses in some of the sub-indexes, however there are many barriers which need to be addresses such as transparency in business information and increasing business supporting services.

The general outcome of the discussions of these focus groups was that the current situation in the private sector in Kosovo has improved compared to previous years.

BELOW WE HAVE PRESENTED SOME CONCRETE RECOMMENDATIONS THAT MUNICIPALITIES COULD APPLY IN A SHORT TIME FRAME.

SUB-INDEXES	RECOMMENDATIONS
TIME COSTS	<ul style="list-style-type: none"> → Establish business advisory offices in the form of Municipal Contact Points so that individuals with entrepreneurial skills can have access to assistance on how to develop new business ideas.
BUSINESS SUPPORTING SERVICES	<ul style="list-style-type: none"> → For operating businesses it is of a paramount importance to provide them with all the necessary guidance on filling administrative forms, paying fees and taxes and reduce unnecessary bureaucracy procedures. These contact points could further serve to provide assistance to businesses that are in difficulty in compiling different requests in relation to the municipal administration.
MUNICIPAL ADMINISTRATION	<ul style="list-style-type: none"> → Offer capacity building for municipal officials in the form of trainings and workshops. This way municipal officials would be more aware and knowledgeable about the importance of business-municipality relationship.
BUSINESS SUPPORTING SERVICES	<ul style="list-style-type: none"> → Prioritize the private sector and make municipal governance a bridge between citizens' and business needs. → Deeper engagement with the local private sector. → Organize conferences of local donors or investors. Inclusion of businesses in public hearings has been identified and continuously mentioned as necessary for municipalities to address businesses' needs and demands.
TRANSPARENCY	<ul style="list-style-type: none"> → Improve the methods of informing entrepreneurs about public debates organized by the municipality. → Improve access to information regarding various grants or changes to regulations affecting businesses.
MUNICIPAL ADMINISTRATION	<ul style="list-style-type: none"> → Draft local strategies after consultations with representatives from business sectors.
TAXES AND FEES	<ul style="list-style-type: none"> → Decrease or remove some municipal fees that do not bring large increases to the municipal budget. This will be beneficial especially for newly established and small businesses.
OTHER	<ul style="list-style-type: none"> → Identify comparative advantages in municipal or regional level in order to increase competitiveness that can attract and maintain successful firms.

TOP THREE SUB-INDEXES IDENTIFIED BY FOCUS GROUP DISCUSSIONS IN THE SEVEN REGIONS OF KOSOVO THAT REQUIRE IMMEDIATE IMPROVEMENTS.



PRISHTINË/PRIŠTINA

- 1 Local infrastructure
- 2 Participation and predictability
- 3 Business supporting services



PRIZREN

- 1 Transparency in information
- 2 Business supporting services
- 3 Local infrastructure



PEJË/PEĆ

- 1 Business supporting services
- 2 Transparency in information
- 3 Municipal administration



FERIZAJ/UROŠEVAC

- 1 Transparency in businesses information
- 2 Participation and predictability
- 3 Municipal administration



GJILAN/GNJILANE

- 1 Local infrastructure
- 2 Participation and predictability
- 3 Business supporting services



MITROVICË / MITROVICA

- 1 Transparency in information
- 2 Business supporting services
- 3 Local infrastructure



GJAKOVË/ĐAKOVICA

- 1 Business supporting services
- 2 Transparency in information
- 3 Municipal administration

The current situation is discouraging mainly when it comes to assessing the state of local infrastructure (roads, water supply, sewage system, and waste management). Municipalities' especially small and medium ones have to be able to attract projects from the central government and compete for foreign loans and grants by international institutions and organizations.

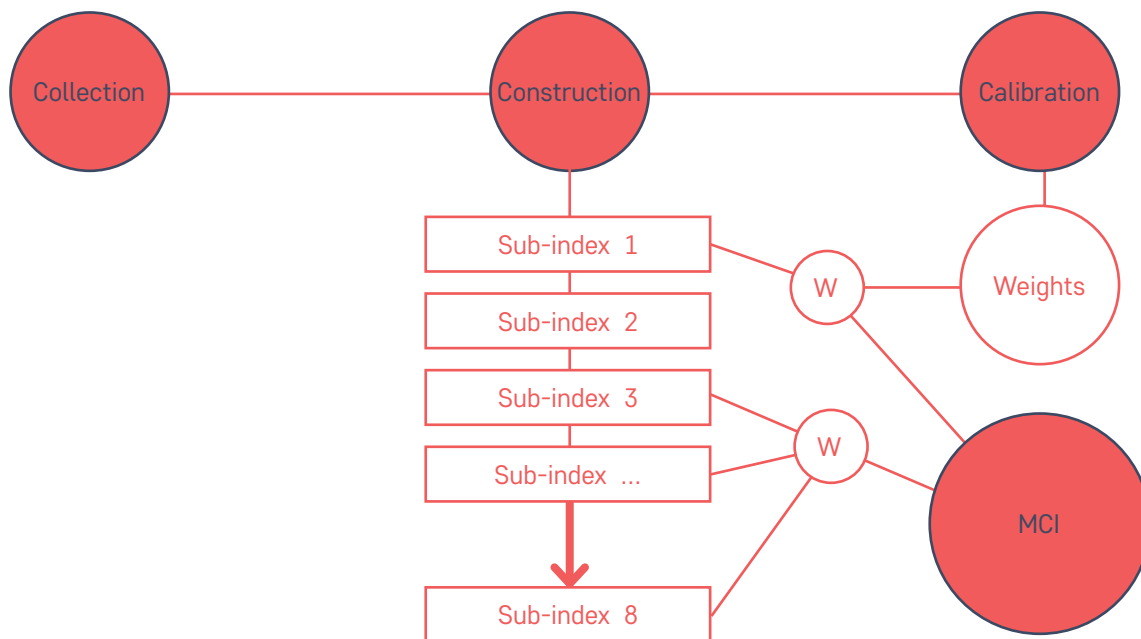
7

MCI METHODOLOGY

The MCI methodology is based on the standardized methodology of the Local Economic Governance Index (EGI) from the Asia Foundation. The competitiveness indexes and sub-indexes are created based on economic transition literature and close consultations with key stakeholders in local economic development. Although details of the methodologies differ slightly among countries where indexes have been created, all EGIs involve the same core elements, which are: **Collection, Construction, and Calibration.** This year's Kosovo MCI is anchored on USAID's (2011) methodology for governance indexes which contextualizes the research framework to the Kosovar setting¹⁶ As such, the report allows transition from the previous reports and indexes for the country.

A distinct contribution of this report is the assessment of indexes in both a simple additive form, as well as in the policy weighted version. The latter version addresses the variation on the importance of each sub-index in explaining the local governance (i.e. governance transparency is more important than the number of days to register the business in the overall governance competitiveness in competitive business environment). To determine the index weights, a three steps statistical approach including Factor Analysis was used. The technique is explained in section 3 of the methodology.

FIGURE 7.1. MCI Methodology framework



¹⁶ USAID Kosovo (2011). The Kosovo Municipal Competitiveness Index Report 2011.

7.1. Collection

Data collection is the first stage of research implementation and involves the selection of governance indicators relevant to private sector development at the municipal level. The indicators are decided based on relevant theoretical and country-specific literature, as well as input from economic experts. The data used is primarily collected through the survey conducted in 38 Kosovo municipalities. The main instrument used for the collection of data was the survey with businesses in Kosovo.

Survey Design

MCI is an aggregate indicator comprising of an established set of 8 core primary sub-indexes to measure competitiveness. In order to design the 8 sub-indexes, 48 questions were asked. This is the fifth year of implementation of MCI in Kosovo from USAID, and the questionnaire used maintained coherence with the questions used to derive indexes in the past.

The first 6 questions were general questions about the local economic sentiment and general firm performance. These questions were used to describe the characteristics of the firm interviewed, and the local business environment as perceived by the firms.

The rest of the questions were organized in groups of 5 to 7 questions, with each group specifying a sub-index including: (1) Barriers to Entry, (2) Transparency, (3) Participation and Predictability, (4) Time Costs, (5) Taxes, (6) Municipal Administration, (7) Municipal Business Support, and (8) Infrastructure. New questions were added to the indexes in an attempt to update the context of the research. Questions were articulated with the use of understandable words and concepts which were also tested during the test stage.

Sample

The population from which a stratified randomized sample of 3350 firms for 38 Kosovo municipalities was drawn, is the list of active businesses from KBRA, with n=100 firms for each applicable municipality. The randomized sampling started with obtaining the database of active Kosovo businesses from the KBRA and filtering for active businesses only, as there is a significant presence of 'Ghost firms'. To do this, the team compared the KBRA database to information from the Kosovo Tax Administration.

Consequently, since the purpose of the research was to compare governance between municipalities, 38 separate samples of firms at the municipal level were randomly generated by controlling for differences on the industry, municipality and type of legal status of the firms, based on the practice of the Kosovo MCI design.

In general, the targeted sample of 100 interviews per municipality was achieved in the majority of the municipalities. The municipalities with a smaller sample are typically small municipalities where the population of businesses is smaller than 100. In these cases, all the population was surveyed (i.e. Hani i Elezit/Elez Han and Junik). Bigger municipalities like Prishtinë/Priština, Mitrovica, and Prizren, on the other hand, have slightly larger survey samples of up to 190 responses.

TABLE 7.1.1 MCI 2018 Sample distribution

Municipality	# of Surveys completed	Municipality	# of Surveys completed
Deçan/Deçani	101	Mitrovicë/Mitrovica	101
Dragash/Dragaš	101	Severna Mitrovica/Mitrovica e Veriut	89
Glogovc/Glogovac	98	Novobërdë/Novo Brdo	76
Ferizaj/Uroševac	100	Obiliq/Obilić	100
Fushe Kosove/Kosovo Polje	92	Parteš/Partesh	51
Gjakovë/Đakovica	100	Pejë/Peć	97
Gjilan/Gnjilane	100	Podujevë/Podujevo	100
Gračanica/Graçanicë	100	Prishtinë/Priština	129
Hani i Elezit/Elez Han	51	Prizren	121
Istog/Istok	100	Rahovec/Orahovac	102
Junik	47	Ranilluk/Ranillug	43
Kaçanik/Kaçanik	99	Štrpcë/Shtërpçë	77
Kamenice	100	Shtime/Štimlje	100
Klinë/Klina	101	Skenderaj/Srbica	92
Klokot/Kllokot	49	Suharekë/Suva Reka	100
Leposavić/Leposaviq	31	Viti/Vitina	100
Lipjan/Lipljan/Lipljan	101	Vushtrri/Vučitrn	101
Malishevë/Mališevo	125	Zubin Potok	41
Mamushë/Mamuşa	78	Zvečan/Zveçan	48

Data Collection

Field work during the collection of primary data was implemented through face to face interviews with representatives of businesses throughout Kosovo. Interviews were arranged via telephone calls with the owners, or high level managers of firms.

70 enumerators were engaged in conducting interviews across Kosovo with an average of 50 interviews conducted by a single enumerator. The larger number of staff involved helped reduce the enumerator bias in terms of the individual treatment of the interviewing process.

Following the research protocol, the enumerators' team was trained by first being introduced to the purpose of the study, the process of data collection, and finally a group review of each question.

15 percent of surveys were re-verified by the team to ensure that selected answers correspond to the ones filled by enumerator. These questions included those considered most crucial to the research effort, as well as any for which the original responses suggested possible inconsistencies. This activity was part of a field control which occurred through telephone interviews and field visits.

A logical control was also conducted once the questionnaires were returned. Each questionnaire was verified by researchers to check if there is any irrational answer or non-fitting answers with previous claims. These helped detect potential defects within each survey. Once the logical failures were found, the team in cooperation with enumerators called or re-visited the respondent. Logical control served to identify false filled questionnaires by enumerators. The number of revisited questionnaires because of logical uncertainties was 20.

7.2. Construction

Each of the 8 MCI sub-indexes have a maximum score of ten points. The construction of the MCI index is first implemented as an unweighted simple average of the sub-indexes, and also as a weighted average using policy-weighted scores estimated through additional econometric analysis.

Prior to conducting the analysis, the team tested the database for outliers using interquartile range to avoid the risk of skewing statistical analysis such as averages and standard deviations. First, the first and third quartiles were computed and then the difference between the two was found. The data that fell beyond the upper and lower bound were tested with the outlier functions, and finally outliers were removed.

Unweighted MCI

The sub-indexes were standardized using a ten point scale, which removes the differences in measurement when assessing the final MCI scores. To standardize the indexes, the following formula was used:

$$9 * \left[\frac{Municipality_i - Minimum}{Maximum - Minimum} \right] + 1$$

, where $Municipality_i$ is the individual municipal value, $Minimum$ is the smallest municipal value in any of the municipalities, and $Maximum$ is the largest municipal value in any of the municipalities.

For some sub-index components, a large number has negative interpretation. In these cases, the formula was reversed by subtracting the entire quantity from eleven. An example of a negative component would be the number of days that it takes to register a business, as experienced by each firm:

$$11 - \left[9 * \left[\frac{Municipality_i - Minimum}{Maximum - Minimum} \right] + 1 \right]$$

Finally, sub-index scores were calculated as a simple average of the standardized indicator components.

7.3. Calibration

Weighted MCI

A significant contribution of this MCI report is the estimation of policy relevant weights for the weighting of the sub-indexes, which indicates the areas with greater policy relevance for reform. In order to estimate the contribution of each of the sub-indexes on private sector performance, the team followed a technique that includes three steps of statistical analysis.

First, factor analysis was used to divide the sub-indexes into two uncorrelated factors (baskets of variables). In addition, this step generated “factor loadings,” which are the bivariate correlation between each sub-index and these uncorrelated factors. Second, the dependent variable for private sector performance (firm growth proxy) is regressed on the two factors estimated in ‘Step 1’. The regression is tested with controls for firm size and legal status, and in each specification factor coefficients remain of high significance and an insignificant change in coefficient magnitude. Third the regression coefficients are multiplied with the factor loads of each sub-index outputted in the first step in order to isolate the effect of each sub-index in the dataset to the dependent variable. The weights are then rounded to create a total of 100 points for the index.

Table below briefly summarizes the main steps generating the weights. The detailed output of the generation of indexes is added to the report appendix.

The support for the selected strategy to estimate the sub-index weights is necessary because of the high correlation between sub-indexes and the threat of biased results due to multicollinearity. To test the validity of factor analysis for our data, the team also used the Kaiser-Meyer-Olkin (KMO) Test which measures the covariance between the variables. As a rule of thumb, a KMO larger than 0.5 shows that the data is suited for factor analysis and thus our KMO of 0.58 confirms that the data are suited for factor analysis, thus validating our research strategy..

TABLE 7.3.1 Procedures Used to Derive the MCI Index Weights

STEP 1 Find the contribution of the factors to the proxy variable for private sector performance

VARIABLES	(1) Specification 1	(2) Specification 2	(3) Specification 3	(4) Specification 4
factor1	-0.0641** (0.0309)	-0.0735** (0.0312)	-0.0656** (0.0315)	-0.0706** (0.0318)
factor2	-0.143*** (0.0346)	-0.141*** (0.0346)	-0.131*** (0.0380)	-0.131*** (0.0380)
legal_status		0.108*** (0.0335)		0.0681* (0.0348)
empl			0.0295*** (0.00606)	0.0279*** (0.00614)
Constant	1.000*** (0.0263)	0.867*** (0.0484)	0.887*** (0.0343)	0.809*** (0.0523)
Observations	3,343	3,343	3,217	3,217

Standard errors in parentheses
*** p<0.01, ** p< 0.05, * p<0.1

STEP 2 Multiply Derived Factor Scores (in Step 1, specification 1) with Sub-index Loadings on the Factors and Divide by Total contribution to derive weights

	Factor 1	Factor 2	Weights	Rounded Weights
sub_1	0.08	0.21	10.2%	10
sub_2	0.20	0.18	13.3%	15
sub_3	0.19	0.29	16.9%	15
sub_4	0.05	0.38	15.2%	15
sub_5	0.15	0.28	15.2%	15
sub_6	0.17	0.15	11.4%	10
sub_7	0.08	0.21	9.9%	10
sub_8	0.22	0.01	7.9%	10
			100.0%	100

TABLE 7.3.2 Kaiser-Meyer-Olkin measure of sampling adequacy

Variable KMO	
sub_1	0.5035
sub_2	0.6064
sub_3	0.6552
sub_4	0.3743
sub_5	0.6020
sub_6	0.6294
sub_7	0.4950
sub_8	0.6683
Overall 0.5871	

7.4. Focus Group Discussions-Methodology

This year, the Municipal Competitiveness Index has added a new aspect, collecting primary data in the form of focus groups from discussions with municipal officials, various local NGOs and businesses. This addition (introduction) was intended to produce qualitative data, based on the results collected from surveys that were conducted with businesses in all 38 municipalities of Kosovo. Focus groups were conducted in seven regions of Kosovo with 6-10 participants. Over the course of two weeks, our team visited Ferizaj/Uroševac, Prizren, Gjakovë/Đakovica, Pejë/Peć, Mitrovica and organized the focus groups with municipalities falling on the administrative borders of these seven regions. Focus groups for the regions of Prishtinë/Priština and Gjiilan/Gnjilane were organized in Prishtinë/Priština at the premises of our Institute. The findings from these focus groups will be discussed in section 7.

The guideline for organizing focus groups was developed having in mind the need to collect additional data in terms of qualitative research. The research process started with qualitative analysis, where seven focus group discussions took place. Participants in all focus group discussions (FGDs) were representatives from local municipal administration mostly Heads of Economic Development Directorates. The average duration of Focus Group Discussion was approximately 120 minutes. Focus Groups were moderated and transcribed by the main researcher of our team, and subsequently analyzed for the final report through a coding procedure by another researcher to avoid any methodological gaps.

The inquiry of questions asked during focus group discussions stemmed from the topics covered in the survey's sub-indexes for 3350 businesses in the 38 municipalities of Kosovo. Questions based on the sub-indexes were intended to avoid deviations from the discussion. The introduction of the opening questions was intended to inform the participants about the nature of this project. Participants were informed with the preliminary results from the survey in order to have a more accurate picture of what is expected of this research. Questions were constructed in such a way that participants were given the opportunity to express their opinions from their professional perspective. The largest group of participants were municipal officials from the Directorates for Economic Development. Business relations and the private sector development in most of the Kosovo municipalities is within the responsibilities of the Directorate for Economic Development. The second group of participants consisted of representatives from NGOs or foundations operating on a regional level or nation-wide. Their expertise and experience has been indispensable and has served as a catalyst between the public and private sector. The last group was made up of businesses from different industries operating in those regions where focus groups were held. Since the core focus on which this report was written comes from the opinions and experiences of businesses, in focus groups participation rate of businesses was smaller compared to other groups.

TABLE 7.4.1 Representation of the Focus Group Discussions; Structure of participants in all seven focus groups



TABLE 7.4.2 Main questions for Focus Group Discussions

Type of Question	Leading Questions in FGDs
Opening Question	After the introduction of the participants an opening question for the MCI report was asked: What, to you, are the main advantages and disadvantages to doing business in your municipality?
Introductory Question	What do you believe is the role of local (municipality) governance in improving the business environment?
Transition Question	In your opinion, to what extent there is a cooperation between your municipality and businesses?
Key Questions	<p>QUESTIONS FOR MUNICIPAL OFFICIALS:</p> <p>Which are the main barriers that businesses face in your municipality?</p> <ul style="list-style-type: none"> - Has your municipality identified these barriers? - What are the means of information for new tenders, grants, public debates or changes to the regulations? - What were the measures that your municipality has undertaken to reduce taxes? - Does the municipality have any long-term strategies for revitalizing vocational schools in your municipalities? - Has the municipality ever conducted an evaluation of municipal officials? Does your municipality have a legal advisory office and a business promotion office? <p>QUESTIONS FOR BUSINESSES:</p> <p>Have you encountered problems in the municipality regarding procedures for registering or obtaining permits and licenses?</p> <ul style="list-style-type: none"> - How many days are needed and how many documents were requested for obtaining licenses? - Are you aware of the public notices and debates? Do you participate? - Is there a tax or fee that burdens your business operation? - Do you always find skilled labor force? - How are your experiences with municipal officials
Ending Questions	Finally, is there anything connected to the discussion today, that has not been discussed and seems important to you, or you feel strongly about, and would like to bring up now?

8

CONCLUSIONS

MCI is an aggregate indicator comprising of an established set of 8 core primary sub-indexes to measure competitiveness. The standardized sub-indexes measure key dimensions of the impact of local governance on the business environment: (1) Barriers to Entry, (2) Transparency, (3) Participation and Predictability, (4) Time Costs, (5) Taxes, (6) Municipal Administration, (7) Municipal Business Support, and (8) Infrastructure.

This is the fifth year of implementation of MCI in Kosovo from USAID, and the questionnaire used maintained coherence with the questions used to derive indexes in the past. The methodology used is based on the Asia Foundation's methodology for local governance economic indexes. In order to construct the indexes the research process went through three stages: collection, construction and calibration.

The **Collection** stage involved the selection of governance sub-indexes relevant to private sector at the municipal level. Then, data were primarily collected through the survey. 3350 firms were interviewed in all of the 38 Kosovo municipalities using a stratified randomized sample. The **construction** of the MCI index is first implemented as an unweighted simple average of the standardized sub-indexes. Whereas the **calibration** stage constructs the indexes as a weighted average using policy-weighted scores estimated through additional econometric analysis.

The aggregate MCI variation of the index values is not too widespread, as the index provides a simple average of sub-index values, and thus disregards the variation within the indexes (presented in detail in the sub-index sections). The **ten best performing municipalities** include Lipjan, Rahovec, Vitia, Junik, Elez Han, Gjakova, Podujevo, Obilic, Pristina, Suhareke. The same best municipalities also fall on the upper quartile of the list, confirming the limit of the top 10 performers.

The MCI is also constructed using weights. The usage of policy weights alters slightly the ranking of the top performers. Except for Lipjan, the position of the rest of the municipalities is changed. Suhareka is also no longer on the list, while Partesh is a new entrant.

Finally, the results derived from the focus group discussions have complemented the study with qualitative findings about the municipalities' competitiveness in relation to businesses. The key finding of the groups is the utmost need of businesses and municipalities to deepen cooperation. Furthermore, there are some similarities between municipalities based on their size. Small municipalities face mainly financial problems due to small budgets, although budget constraints are a problem affecting all municipalities, this is particularly pronounced for small and medium municipalities. Consequently, they do not perform well on local infrastructure improvement due to lack of investments. Officials from small municipalities also have problems in providing business advice due to inadequate human resources, while the main problems expressed by businesses in large and medium-sized municipalities are poor transparency, lack of skilled labor force and limited competencies.

7

APPENDIX

```
. * Factor analysis  
. factor $xlist, mineigen (0.9)  
(obs=38)
```

Number of obs = 38

Retained factors = 2

Number of params = 15

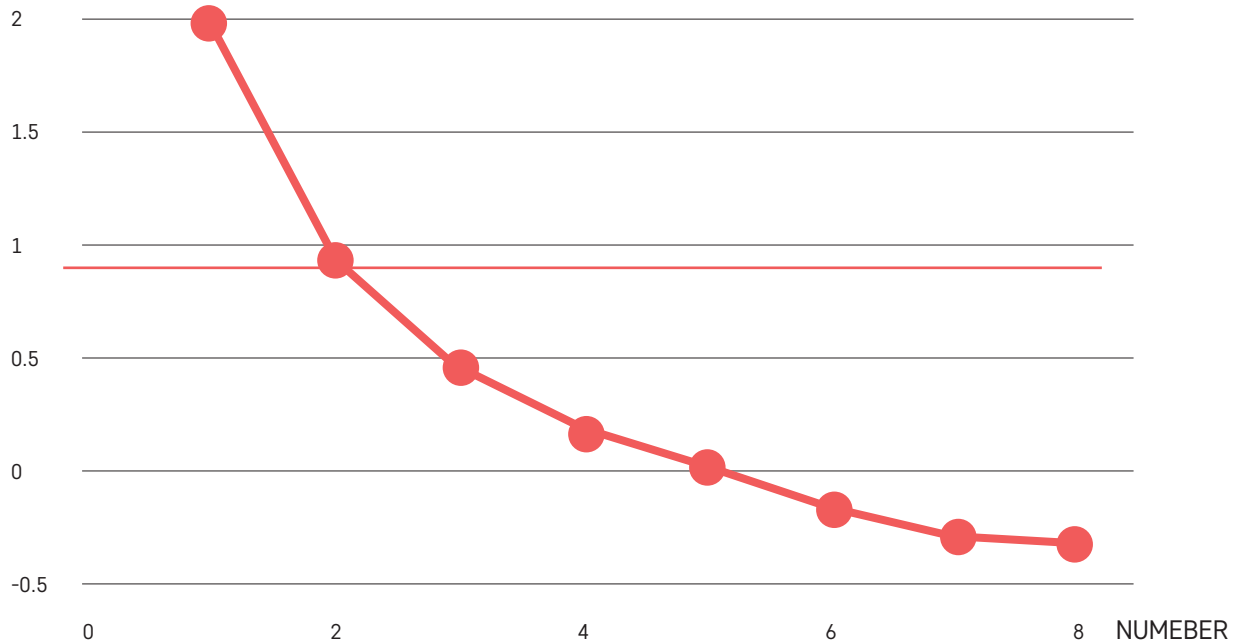
```
Factor analysis/correlation  
Method: principal factors  
Rotation: (unrotated)
```

Factor	Eigenvalue	Difference	Proportion	Comulative
Factor1	2.01986	1.06053	0.6724	0.6724
Factor2	0.95933	0.45964	0.3193	0.9917
Factor3	0.49968	0.29457	0.1663	1.1581
Factor4	0.20512	0.16390	0.0683	1.2263
Factor5	0.04122	0.18024	0.0137	1.2401
Factor6	-0.13902	0.13148	-0.0463	1.1938
Factor7	-0.27050	0.04112	-0.0900	1.1037
Factor8	-0.31162		-0.1037	1.0000

LR test: independent vs. saturated: chi2 (28) = 70.69 Prob>chi2 = 0.0000

SCREE PLOT OF EIGENVALUES AFTER FACTOR

EIGENVALUES



Factor loading (pattern matrix) and unique variances

Variable	Factor 1	Factor 2	Uniqueness
sub_1	0.2500	0.3108	0.8409
sub_2	0.6454	-0.2624	0.5146
sub_3	0.6188	-0.4238	0.4375
sub_4	0.1683	0.5546	0.6641
sub_5	0.4930	0.4101	0.5885
sub_6	0.5633	0.2222	0.6333
sub_7	0.2537	-0.2980	0.8468
sub_8	0.7106	0.0121	0.4949

VARIABLES	(1) Specification 1	(2) Specification 2	(3) Specification 3	(4) Specification 4
factor1	-0.0641** (0.0309)	-0.0735** (0.0312)	-0.0656** (0.0315)	-0.0706** (0.0318)
factor2	-0.143*** (0.0346)	-0.141*** (0.0346)	-0.131*** (0.0380)	-0.131*** (0.0380)
legal_status		0.108*** (0.0335)		0.0681* (0.0348)
empl			0.0295*** (0.00606)	0.0279*** (0.00614)
Constant	1.000*** (0.0263)	0.867*** (0.0484)	0.887*** (0.0343)	0.809*** (0.0523)
Observations	3,343	3,343	3,217	3,217

Standard errors in parentheses

*** p<0.01, ** p< 0.05, * p<0.1

. * Scores of the components

. predict f1 f2

(regression scoring assumed

Scoring coefficients (method = regression)

Variable	Factor 1	Factor 2
sub_1	0.06865	0.16112
sub_2	0.25585	-0.17898
sub_3	0.24873	-0.31166
sub_4	0.06462	0.34496
sub_5	0.19663	0.26187
sub_6	0.18742	0.15137
sub_7	0.06742	-0.14871
sub_8	0.30268	0.03365

