

Economic Development, Institutions and Corruption: Kosovo and its Neighbours

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Institutions

- Formal rules and regulations and informal arrangements that articulate the relationship amongst citizens and between individuals and the society
- They include:
 - Legal system (law and order, contracts, law enforcement, etc.)
 - Trust
 - Rules (explicit and implicit) governing relationships
 - Organizations

Institutions and economic development

- Foundation of economic development
- How the society went from a village economy of 18th Century to digital economy of 21st century ?
- Each stage of economic development requires appropriate institutional arrangements
- As the economy develops, its institutions are refined and developed (laws and customs change, loopholes are closed, awareness is raised.....).

Institutions and corruption

- Institutional development is the broad indicator of progress
- Corruption is only one aspect of institutional development
- Many other aspects:
 - Restrictions on normal economic activity
 - Prevalence of rent seeking
 - Conducive business environment
 - Etc.

Virtuous and Vicious Circles

- Developed economies have developed institutions which support further economic development which facilitates developing better institutions (good equilibrium)
- Some of the least developed countries have poor institutions which prevents or slows down economic development which make further institutional development difficult (bad equilibrium)

Role of Government

- Good government : promotes institution building, speeds up legal reform and law enforcement, commits itself to irreversible reforms, sets up anti-corruption mechanisms
- Bad government: slows down the legal reform, maintains status quo, half-hearted reforms, allows cronyism and rent seeking

Transition from Socialism to Capitalism

- Unknown process without a blue print
- An inter-regnum:
 - Old institutions disappear before new ones are established (social norms, values, networks remain in place)
 - There is room for behaviour by agents which may, in normal conditions, be considered illegal; a fertile ground for opportunism and corruption
 - No guarantee that the situation will develop in a positive direction (Zimbabwe vs South Africa)
- A major element of Transition is Institution Building

Kosovo's transition (i)

- Kosovo's transition did not come about as a result of opposition, and organised resistance, to socialism.
- There was no indigenous opposition to socialism
- Transition began with the defeat of Serbian army and arrival of NATO troops and led by UNMIK

Kosovo's transition (ii)

- A decade of Serbian emergency direct rule and discriminatory policies (dismissal of 80% of Albanian employees, illegal sale of Kosovar enterprises, etc.) forced the population into the informal sector; created a culture of mistrust in government institutions
- Networks (family, clan, groups) developed during the decade of occupation continued to function after the war

Where is Kosovo?

- Significant development of the economy since 1999 with economic stability (unknown before)
- Privatisation of SOEs almost completed
- Multiparty elections held three times
- Institutions have developed but not in parallel with the economy and not fast enough for citizens
- But the situation is not very different in other countries in the region.

Economic Development since 2000

Kosovo

	2000	2002	2004	2006	2008	2010
GDP per cap \$	1,088	1,556	2,072	2,203	3,143	3,059
GDP growth	27*	-0.7	2.6	6	6.9	4
Inflation		1.80	-3.80	-2.10	5.60	3.00
Unemployment		55	39.70	44.90	47.50	45.40**
Poverty (% of population)		-	43.70	45.10	-	34.5**

Source: World Bank Economic Indicators

* 2001; ** 2009

Main macroeconomic indicators

Kosovo and Neighbours

Country	GDP per capita (current prices)	GDP Growth rate (%)	Inflation (%)	Unemployment rate (%)	Current account balance (% of GDP)
Albania	\$4,130	3.50	3.90	11.50	-10.91
Bosnia	\$4,714	0.80	4.00	27.60	-6.24
Kosovo	\$2830	4.00	8.30	45.00	-24.97
Macedonia	\$5,011	0.70	4.40	32.18	-5.54
Montenegro	\$6,667	1.10	3.10	14.70	-24.47
Serbia	\$6,266	1.80	11.26	20.54	-7.69

Source: International Monetary Fund, World Economic Outlook Database, (2011)

Indicators of Institutions

- Ease of doing business
- Obstacles to companies' work
- The working of tax system and tax administration
- The prevalence of corruption
- Unofficial payment
- Managers' time spent on dealing with government officials

Data and measurement

- Doing business surveys
- BEEPS

Ease of Doing Business (DB)

- Provides measures of business regulations for local firms
- Based on a survey of over 8,000 expert contributors (lawyers, accountants, etc.)
- Ranked out of 183 countries

Country	DB 2012 Rank	DB 2011 Rank	Change in Rank
Macedonia	22	34	12
Montenegro	56	56	No change
Albania	82	77	-5
Serbia	92	88	-4
Kosovo	117	117	No change
Bosnia	125	127	2

Source: Doing Business; - The World Bank (2012)

Note: Countries are presented in ascending order of 2012 ranking.

DB sub-index: 'enforcing contracts'

Country	DB 2012 Rank	DB 2011 Rank	Change in Rank
Macedonia	60	65	5
Albania	85	88	3
Serbia	104	94	-10
Bosnia	125	125	No change
Montenegro	133	134	1
Kosovo	157	157	No change

Source: Doing Business; - The World Bank (2012)

Note: Countries are presented in ascending order of 2012 ranking.

DB sub-index: 'resolving insolvency'

Country	DB 2012 Rank	DB 2011 Rank	Change in Rank
Kosovo	31	31	No change
Montenegro	52	48	-4
Macedonia	55	55	No change
Albania	64	62	-2
Bosnia	80	78	-2
Serbia	113	91	-22

Source: Doing Business; - The World Bank (2012)

Note: Countries are presented in ascending order of 2012 ranking.

DB sub-index: 'protecting investors'

Country	DB 2012 Rank	DB 2011 Rank	Change in Rank
Albania	16	15	-1
Macedonia	17	16	-1
Montenegro	29	28	-1
Serbia	79	74	-5
Bosnia	97	93	-4
Kosovo	174	172	-2

Source: Doing Business; - The World Bank (2012)

Note: Countries are presented in ascending order of 2012 ranking.

DB sub-index: 'paying taxes'

Country	DB 2012 Rank	DB 2011 Rank	Change in Rank
Macedonia	26	24	-2
Kosovo	46	45	-1
Montenegro	108	125	17
Bosnia	110	108	-2
Serbia	143	140	-3
Albania	152	150	-2

Source: Doing Business; - The World Bank (2012)

Note: Countries are presented in ascending order of 2012 ranking.

Perceptions of businesses of the working of courts and corruption

Country	Percentage of firms identifying...	
	...the courts system as a major constraint	...corruption as a major constraint
<u>World</u>	<u>19.5</u>	<u>36.1</u>
<u>Eastern Europe & Central Asia</u>	<u>20.6</u>	<u>34.5</u>
Albania	25.3	38
Bosnia	17.2	35.1
Kosovo	19.8	73.4
Macedonia	33.8	27.1
Montenegro	5.4	3
Serbia	18.1	35.6

Source: BEEPS, available on Enterprise Surveys, The World Bank (2007 for Albania; 2009 for other countries)

Perceptions of businesses of regulation and taxes

Country	Percentage of firms identifying...		
	...tax rates as a major constraint	...business licensing and permits as a major constraint	...identifying tax administration as a major constraint
<u>World</u>	<u>35.2</u>	<u>15.6</u>	<u>23.2</u>
<u>Eastern Europe & Central Asia</u>	<u>39.5</u>	<u>16.1</u>	<u>20.6</u>
Albania	28.8	10.6	20.3
Bosnia	37.8	19.4	25
Kosovo	12	7.5	10.4
Macedonia	26.6	14.7	14.4
Montenegro	7.6	2.7	4.8
Serbia	28.4	12.7	13.9

Source: BEEPS, available on Enterprise Surveys, The World Bank (2007 for Albania; 2009 for other countries)

Dealing with government regulation

Country	Senior management time spent dealing with the requirements of government regulation (%)
<u>World</u>	<u>9.2</u>
<u>Eastern Europe & Central Asia</u>	<u>10.6</u>
Albania	18.7
Bosnia and Herzegovina	11.2
Kosovo	9.8
Macedonia	14.5
Montenegro	6.8
Serbia	12.2

Source: BEEPS, available on Enterprise Surveys, The World Bank (2007 for Albania; 2009 for other countries)

Frequency of unofficial payments (to deal with taxes)

Country	Never or Seldom	Sometimes or Frequently	Usually or Always	Don't know
Albania	43%	12%	4%	40%
Bosnia	65%	9%	1%	25%
Kosovo	94%	4%	0%	2%
Macedonia	83%	8%	0%	9%
Montenegro	85%	7%	1%	8%
Serbia	53%	19%	34	23%

Source: BEEPS; The World Bank/EBRD (2009)

Thank you

DB sub-index: 'getting connected to electricity'

Country	DB 2012 Rank	DB 2011 Rank	Change in Rank
Montenegro	71	68	-3
Serbia	79	77	-2
Macedonia	121	119	-2
Kosovo	124	120	-4
Albania	154	154	No change
Bosnia	157	157	No change

Source: Doing Business; - The World Bank (2012)

Note: Countries are presented in ascending order of 2012 ranking.

DB sub-index: 'starting a business'

Country	DB 2012 Rank	DB 2011 Rank	Change in Rank
Macedonia	6	5	-1
Montenegro	47	46	-1
Albania	61	56	-5
Serbia	92	81	-11
Bosnia	162	161	-1
Kosovo	168	165	-3

Source: Doing Business; - The World Bank (2012)

Note: Countries are presented in ascending order of 2012 ranking.

DB sub-index: 'dealing with construction permit'

Country	DB 2012 Rank	DB 2011 Rank	Change in Rank
Macedonia	61	147	86
Bosnia	163	173	10
Kosovo	171	169	-2
Montenegro	173	170	-3
Serbia	175	174	-1
Albania	183	176	-7

Source: Doing Business; - The World Bank (2012)

Note: Countries are presented in ascending order of 2012 ranking.

DB sub-index: 'getting credit'

Country	DB 2012 Rank	DB 2011 Rank	Change in Rank
Montenegro	8	8	No change
Kosovo	24	21	-3
Albania	24	21	-3
Serbia	24	21	-3
Macedonia	24	45	21
Bosnia	67	64	-3

Source: Doing Business; - The World Bank (2012)

Note: Countries are presented in ascending order of 2012 ranking.

DB sub-index: 'registering a newly acquired property'

Country	DB 2012 Rank	DB 2011 Rank	Change in Rank
Serbia	39	98	59
Macedonia	49	67	18
Kosovo	73	66	-7
Bosnia	100	101	1
Montenegro	108	117	9
Albania	118	126	8

Source: Doing Business; - The World Bank (2012)

Note: Countries are presented in ascending order of 2012 ranking.

DB sub-index: 'trading across borders'

Country	DB 2012 Rank	DB 2011 Rank	Change in Rank
Montenegro	34	35	1
Macedonia	67	70	3
Albania	76	76	No change
Serbia	79	78	-1
Bosnia	108	109	1
Kosovo	131	129	-2

Source: Doing Business; - The World Bank (2012)

Note: Countries are presented in ascending order of 2012 ranking.

Perceptions of the businesses on crime and informality

Country	Percentage of firms...		
	...identifying crime, theft and disorder as a major constraint	...competing against unregistered or informal firms	...identifying practices of competitors in the informal sector as a major constraint
<u>World</u>	<u>26.7</u>	<u>56.1</u>	<u>31.3</u>
<u>Eastern Europe & Central Asia</u>	<u>28.3</u>	<u>44.7</u>	<u>28.5</u>
Albania	22	52.6	47.2
Bosnia	13	46.5	23.4
Kosovo	66.8	64.1	20.9
Macedonia	25	73.9	54.9
Montenegro	1.2	27.3	10.7
Serbia	11.8	53.6	30.4

Source: BEEPS, available on Enterprise Surveys, The World Bank (2007 for Albania; 2009 for other countries)

Perceptions of the businesses on infrastructure

Country	Percentage of firms identifying electricity as a major constraint	Percentage of firms identifying transportation as a major constraint
<u>World</u>	<u>39.2</u>	<u>21.9</u>
<u>Eastern Europe & Central Asia</u>	<u>34.8</u>	<u>18.9</u>
Albania	60	16.5
Bosnia and Herzegovina	18.7	10.8
Kosovo	83.2	9.3
Macedonia	25.6	11.5
Montenegro	25.9	5.8
Serbia	19.6	10.1

Source: BEEPS, available on Enterprise Surveys, The World Bank (2007 for Albania; 2009 for other countries)

Perceptions of the businesses on trade and workforce

Country	Percentage of firms identifying ...		
	...customs and trade regulations as a major constraint	...labour regulations as a major constraint	...an inadequately educated workforce as a major constraint
<u>World</u>	<u>17.8</u>	<u>11.8</u>	<u>27.4</u>
<u>Eastern Europe & Central Asia</u>			
<u>Albania</u>	22.2	9	36
<u>Bosnia</u>	12.5	9.3	19.4
<u>Kosovo</u>	11.2	3.6	10.3
<u>Macedonia</u>	14.6	8.9	14.7
<u>Montenegro</u>	5.4	1.2	7.3
<u>Serbia</u>	17.7	9.7	17.3

Source: BEEPS, available on Enterprise Surveys, The World Bank (2007 for Albania; 2009 for other countries)