



The
University
Of
Sheffield.

The role of formal and informal institutions on firms' export performance: insights from Kosovo

By
Linda Stretz

A thesis submitted in partial fulfilment of the requirements for the degree of
Doctor of Philosophy

The University of Sheffield
Faculty of Social Sciences
Management School

December 2022

Dedication

I dedicate my Ph.D. thesis to my three all-time favourites in the whole entire world (and beyond): to my sons Qiell and Rron, and my husband Jo. You boys are the base of my inspiration and the reason behind my goals. I love you beyond measure.

Acknowledgements

The completion of this research has been helped and supported by many people. Firstly, I would like to express my sincerest appreciation to my thesis supervisors for their immense support: Dr. Chay Brooks, who has guided me in doing the best I can and whose constant support and encouragement were paramount to the completion of this thesis, Dr. David Littlewood, who has been of invaluable help in wrapping up my thesis in the last months, and Dr. Qiu Wang, who has provided me with continuous insightful recommendations and guidance.

I also would like to acknowledge the great contributions of my previous supervisory team: especially of Prof. Tim Vorley, who offered me invaluable guidance and has supported me continuously in the first years of my doctorate journey, as well as Prof. Nick Williams, whose insights and knowledge helped me kick start my thesis, and Dr. Athanasios Fassas, for his supportive suggestions in the first years of my Ph.D. journey. I also appreciate the generous assistance and excellent communication of other University staff, who have helped me in one way or another with different administrative or other support I needed during my research.

Special thanks go to the participants of all three phases of my research, who have made this research possible, including CEOs / owners of Kosovo firms, members of Kosovo Government and Parliament, heads and managers of different organizations whose work relates to the area of my thesis, who took time out of their busy schedules to contribute to this study. I am humbled by their readiness to be part to this research, and I cannot thank them enough for their information and invaluable discussions.

I would also like to express my heartfelt gratitude to the esteemed members of the examination panel who conducted my viva voce, Prof. Vania Sena and Prof. Peter Rodgers, for their time, insightful questions and thought provoking suggestions. Their expertise, constructive feedback, and engaging discussions made my entire experience not only rigorous but also an enjoyable experience which I cherish.

Finally, but most importantly, I want to thank my family: my husband Jo for his love and support that kept me going, including clearing time for me to write when we were facing challenging time constraints, and my sons Qiell and Rron, for making me want to be the best version of myself.

Abstract

This thesis studies the role of formal and informal institutions in Kosovo in boosting firms' export performance, contributing to a better understanding of the role of institutional building in small developing economies and in their trade performance. By using a pragmatic approach to research, combining data from three sequential stages in a mixed methods design, bringing together two stages of qualitative methods and one large-scale survey, this thesis extends the debates on formal and informal institutions and contributes to the institutional approaches to the questions of firms' export performance in developing economies.

Kosovo is a small developing country, with a deep trade deficit. It received substantial support from international donors, starting from 1999, to build its formal structures from scratch. Today, its legislation and regulations resemble those of developed economies, from Governments and organizations of which economies support was given; the benefits from those formal structures, however, have been slow and have stalled. Over two decades later, the country records the lowest GDP/capita in the European territory, the highest unemployment rate, and its exports cover imports to only about 12%.

Combining in-depth interviews with key stakeholders to have insights from within, a large-scale survey of businesses operating in Kosovo, and follow up in-depth interviews with businesses to explore and discuss findings of the survey, this multi-phase research gives stronger evidence and confidence in the findings on how the institutional environment affects the export performance. This thesis finds the perception of corruption creating a negative image of the country, the weak rule of law, unskilled labour force, and the limited access to finance are crucial factors inhibiting the growth of Kosovo firms and their exporting possibilities. Rather than adopting existing successful legislations and reforms, country specific reforms are required, considering multi-faceted interventions and the informal institutions of the country.

Table of Contents

DEDICATION	II
ACKNOWLEDGEMENTS	III
ABSTRACT	IV
TABLE OF CONTENTS	V
LIST OF TABLES	IX
LIST OF FIGURES	XI
1 INTRODUCTION	1
1.1 BACKGROUND TO THE STUDY	1
1.2 THE FRAMEWORK AND AIM OF THE THESIS.	4
1.3 OUTLINE OF THE THESIS	7
2 THE ROLE OF INSTITUTIONS IN ECONOMIC DEVELOPMENT	11
2.1 INTRODUCTION TO THE CHAPTER	11
2.2 DEFINING INSTITUTIONS: WHAT ARE INSTITUTIONS AND HOW ARE THEY CLASSIFIED?	13
2.3 HOW DO FORMAL AND INFORMAL INSTITUTIONS INTERACT WITH EACH OTHER?	16
2.4 QUALITY OF INSTITUTIONS AND INSTITUTIONAL VOID	20
2.5 CHAPTER SUMMARY	24
3 ENTREPRENEURSHIP ENVIRONMENTS IN DEVELOPING COUNTRIES	27
3.1 INTRODUCTION TO THE CHAPTER	27
3.2 ENTREPRENEURIAL ECOSYSTEMS	28
3.3 ACCESS TO FINANCE IN DEVELOPING COUNTRIES	30
3.4 HUMAN CAPITAL	32
3.5 RULE OF LAW AND CONTRACT ENFORCEMENTS IN DEVELOPING COUNTRIES	34
3.6 INFORMAL INSTITUTIONS	36
3.7 CHAPTER SUMMARY	39
4 INTERNATIONAL TRADE AND ITS ASSOCIATION WITH INSTITUTIONS	41
4.1 INTRODUCTION TO THE CHAPTER	41
4.2 IMPORTANCE OF INTERNATIONAL TRADE	42
4.3 THE LINK BETWEEN INSTITUTIONS AND EXPORTS	47

4.4	CHAPTER SUMMARY	49
5	KOSOVO'S ECONOMY AND TRADE	51
5.1	INTRODUCTION TO THE CHAPTER	51
5.2	THE BUILDING OF THE INSTITUTIONS IN KOSOVO	53
5.3	HOW DOES KOSOVO PERFORM ECONOMICALLY?	55
5.4	KOSOVO' TRADE AND ITS AGREEMENTS	59
5.5	TRADE'S INSTITUTIONAL ENVIRONMENT	64
5.6	ENTREPRENEURSHIP AND REFORMS ON DOING BUSINESS	65
5.7	RULE OF LAW AND INFORMAL INSTITUTIONS IN KOSOVO	69
5.8	CHAPTER SUMMARY	71
6	METHODOLOGY	72
6.1	INTRODUCTION TO THE CHAPTER	72
6.2	METHODOLOGICAL CONSIDERATIONS	72
6.3	RESEARCH QUESTIONS AND RESEARCH APPROACH	76
6.4	STAGES OF RESEARCH	79
6.4.1	<i>Stage 1: In-depth interviews with key stakeholders</i>	80
6.4.2	<i>Stage 2: Survey of businesses</i>	88
6.4.3	<i>Stage 3: Semi structured in-depth interviews with firms</i>	92
6.5	RESEARCH ETHICAL CONSIDERATIONS	96
6.6	CHAPTER SUMMARY	98
7	THE VIEWS OF POLICY MAKERS AND OTHER KEY STAKEHOLDERS ON INSTITUTIONS AND EXPORTS: FINDINGS OF THE FIRST STAGE OF RESEARCH (QUALITATIVE METHODS)	100
7.1	INTRODUCTION TO THE CHAPTER	100
7.2	EDUCATION AND SKILLS AS OBSTACLES TO FIRMS' ABILITY TO EXPORT	101
7.2.1	<i>How does the education system impact the firms' export performance?</i>	104
7.2.2	<i>Why is the education system not aligned with market needs?</i>	105
7.3	ACCESS TO FINANCE AS AN OBSTACLE TO FIRMS' ABILITY TO EXPORT	108
7.3.1	<i>How does access to finance impact companies' options to export?</i>	109
7.3.2	<i>Why is the access to finance limited?</i>	110
7.3.3	<i>How is currently being done about the lack of funding?</i>	113
7.4	HOW RULE OF LAW, LEGISLATION AND POLICIES AFFECT THE EXPORT PERFORMANCE OF KOSOVO FIRMS?	115
7.4.1	<i>The trade policy of Kosovo and its trade international agreements</i>	115
7.4.2	<i>The legislation that supports trade and rule of law in Kosovo</i>	118
7.5	INFORMAL INSTITUTIONS	122

7.5.1	<i>Trust, as an informal institution, and export performance of Kosovo firms</i>	122
7.5.2	<i>Corruption and export performance of Kosovo firms</i>	124
7.5.3	<i>How does high level corruption impact export performance?</i>	126
7.5.4	<i>How does petty corruption impact export performance?</i>	128
7.6	CHAPTER SUMMARY	130
8	THE MAIN BARRIERS FOR KOSOVO EXPORTING FIRMS: A LARGE SCALE SURVEY	131
8.1	INTRODUCTION TO THE CHAPTER	131
8.2	CHARACTERISTICS OF THE RESPONDENTS	133
8.3	MAIN BARRIERS TO EXPORTING	140
8.4	HOW ARE DIFFERENT SECTORS AFFECTED BY TRADE BARRIERS?	149
8.5	HOW DOES EXPORT DESTINATION RELATE TO MAIN TRADE BARRIERS?	154
8.6	CHAPTER SUMMARY	160
9	THE VIEWS OF KOSOVO CEOS AND ENTREPRENEURS ON INSTITUTIONS AND EXPORTS: FINDINGS OF THE THIRD STAGE OF RESEARCH (QUALITATIVE METHODS)	162
9.1	INTRODUCTION TO THE CHAPTER	162
9.2	EDUCATION AND SKILLS AS OBSTACLES TO FIRMS' ABILITY TO EXPORT	163
9.3	ACCESS TO FINANCE AS AN OBSTACLE TO FIRMS' ABILITY TO EXPORT	168
9.4	CORRUPTION AND EXPORT PERFORMANCE OF KOSOVO FIRMS	171
9.5	POLITICAL BARRIERS FROM OTHER COUNTRIES	173
9.6	FINDING CONSUMERS ABROAD AND COOPERATING WITH INTERNATIONAL PARTNERS	174
9.7	CHAPTER SUMMARY	177
10	DISCUSSION	180
10.1	INTRODUCTION TO THE CHAPTER	180
10.2	INTERPRETATION OF RESULTS AND HOW THEY RELATE TO EXISTING KNOWLEDGE	181
10.2.1	<i>Formal and informal institutions' impact on exports</i>	181
10.2.2	<i>How entrepreneurs deal with institutional voids</i>	191
10.2.3	<i>The implication of a high perceived corruption</i>	192
10.3	CHAPTER SUMMARY	195
11	CONCLUSION	198
11.1	CONCLUDING REMARKS	198
11.2	CONTRIBUTION TO KNOWLEDGE	201
11.3	POLICY IMPLICATIONS	202
11.4	LIMITATIONS OF THE RESEARCH	206

11.5 FUTURE RESEARCH	207
REFERENCES	209
APPENDICES	231
APPENDIX 1: SURVEY OF BUSINESSES	231
APPENDIX 2. ETHICS APPLICATION	239
APPENDIX 3. INFORMATION SHEET	249
APPENDIX 4. INFORMATION SHEET FOR SURVEY PARTICIPANTS	251
APPENDIX 5. CONSENT FORM	253
APPENDIX 6. POLICY DOCUMENTS AND LEGISLATION RELATED TO KOSOVO EXPORTS	255

List of tables

<i>Table 1. Domains of the Entrepreneurship Ecosystem by Isenberg (2011)</i>	29
<i>Table 2. Economic indicators, 2019</i>	55
<i>Table 3: Development of economic indicators 2006 to 2018</i>	55
<i>Table 4. Gross Domestic Product by economic activities in constant prices by Economic activities and year</i>	56
<i>Table 5. Turnover of goods in external trade</i>	58
<i>Table 6. Main exports of Kosovo 2010 to 2019</i>	60
<i>Table 7. Main imports of Kosovo 2010 to 2019</i>	61
<i>Table 8. EU and CEFTA export comparison 2010 to 2019</i>	63
<i>Table 9. Main Export partners of Kosovo 2010 to 2019</i>	63
<i>Table 10. Active enterprises in Kosovo 2008 to 2019</i>	65
<i>Table 11. Employees in Kosovo by sector 2008 to 2019</i>	67
<i>Table 12. Employees in Kosovo by sector 2008 to 2019</i>	67
<i>Table 13. Comparison of Government effectiveness 2012 to 2019</i>	69
<i>Table 14. Methodology</i>	78
<i>Table 15. Participant organisations</i>	81
<i>Table 16. Participant positions</i>	81
<i>Table 17. Interview Questions, Government 1</i>	84
<i>Table 18. Interview Questions, Government 2</i>	86
<i>Table 19. Interview Questions, Parliament</i>	86
<i>Table 20. Survey of businesses</i>	90
<i>Table 21. Interview Questions, Large Business</i>	95
<i>Table 22. Interview Questions, SME</i>	95
<i>Table 23. Sectors of participants</i>	133
<i>Table 24. Primary location of participants</i>	135
<i>Table 25. Primary location of participants</i>	136
<i>Table 26. Percentage of exports on sales</i>	138
<i>Table 27. Description of barriers to exporting</i>	140
<i>Table 28. Main barriers to trade</i>	142
<i>Table 29. Perceived barriers and impact of corruption</i>	143
<i>Table 30. Perceived barriers and percentage of sales exported, the negative impact of corruption</i>	144
<i>Table 31. Perceived barriers and percentage of sales exported, no negative impact of corruption</i>	144
<i>Table 32. Perceived barriers and percentage of sales exported, no negative impact of corruption</i>	145

<i>Table 33. Perceived barriers and percentage of sales exported, no negative impact of corruption</i>	146
<i>Table 34. Assessment of the judicial system</i>	148
<i>Table 35. Export on sales per sectors</i>	150
<i>Table 36. Sectors and barriers crosstabulation</i>	151
<i>Table 37. Sectors and barriers crosstabulation</i>	153
<i>Table 38. Export Destinations</i>	154
<i>Table 39. Export Destinations per percentages of sales to export</i>	155
<i>Table 40. Barriers per exporting countries, total numbers</i>	158
<i>Table 41. Barrier per country, in relative distribution per country</i>	159

List of figures

<i>Figure 1. The conceptual framework.....</i>	<i>6</i>
<i>Figure 2. Map of Kosovo (On the world map, 2021)</i>	<i>52</i>
<i>Figure 3. Development of economic indicators 2006 to 2018</i>	<i>56</i>
<i>Figure 4. Mixed Methods Approach</i>	<i>76</i>
<i>Figure 5. The impact of the education system on firms' exports in Kosovo</i>	<i>103</i>
<i>Figure 6. The limited access to finance for existing companies</i>	<i>112</i>
<i>Figure 7. Causes of corruption.....</i>	<i>126</i>
<i>Figure 8. Year of starting business of survey participants.....</i>	<i>134</i>
<i>Figure 9. Comparison of number of employees of companies founded before and after 1999</i>	<i>137</i>
<i>Figure 10. Sales exported of companies founded before and after 1999.....</i>	<i>139</i>
<i>Figure 11. Access to finance as an obstacle to firms' ability to export</i>	<i>170</i>
<i>Figure 12. Access of Kosovo firms to international markets</i>	<i>177</i>
<i>Figure 13: The updated conceptual framework</i>	<i>196</i>

1 Introduction

The “rules of the game in a society” (North, 1990, p. 3), including a country’s legislation and regulations, as well as cultural aspects that shape individual and organizational actions (DiMaggio and Powell, 1983) and their way of thinking, or assuming what actions are ‘normal’, are crucial in influencing the level of a country’s innovation, entrepreneurship, and growth. For developing countries with a deep trade deficit, on top of the need to enable more entrepreneurship, policy makers need to consider reforms of institutions responsible for export performance of firms, to allow room for firms to become competitive enough to be able to export. This thesis investigates the role of both formal and informal institutions in boosting firms' export performance and contributes to an advanced understanding of the role of institutional building on firms’ export participation.

1.1 Background to the study

Institutions shape human interactions, with both formal institutions, or formal rules and regulations enforced through official channels (Ellickson, 1991; Knight, 1992; Calvert, 1995), and informal institutions, such as social norms and codes of conduct or other rules and procedures generated and enforced outside the officially sanctioned channels (North, 1990; O'Donnell, 1996), contributing to the establishment of incentives in the process of human action by defining the choice of alternatives available to each individual or organization. Hence, they affect a country’s business environment and its trade performance (North, 1990; Keefer and Knack, 1995; Acemoglu et al., 2001). Both sets of institutions, formal and informal, make up the institutional environment of countries, and it is the interplay of institutions that determine outcomes for entrepreneurs and other organizations in those countries (Winiecki, 2003; Acs et al., 2008, Estrin and Mickiewicz, 2011).

Developing economies can reform formal institutions to resemble those of developed economies by adopting written legal frameworks from them, including laws which relate to property rights, contracts, and commercial activities, however often these laws are implemented only partially (Aidis et al., 2008; Smallbone and Welter, 2001). Also, supportive formal structures alone are not sufficient in bringing likeable outcomes due to the lagging behind of informal institutions, as institutions work together in dynamic ways (North, 1990; Winiecki, 2003; Estrin

and Mickiewicz, 2011); hence fractional reforms do not lead to great results. For countries to be able to reap benefits of formal institutional reforms, informal institutions such as norms, value systems and codes of conduct have to be taken into consideration. Different formal and informal institutions influence the business environment of a country, impacting the possibilities to export. Developing countries are characterized by weak formal institutions or with misalignments between formal and informal institutions (Helmke and Levitsky, 2004; Peng et al, 2009; Vorley and Williams, 2016). Such setups impose highly bureaucratic burdens on businesses, increasing uncertainty and transaction costs (Aidis and Adachi, 2007; Puffer et al., 2010). A weak rule of law or weakness of governance, for example, prevents the efficient functioning of markets and discourages entrepreneurs to pursue business activities and to invest.

When formal institutions do not produce the desirable outcomes or when there are gaps in the formal infrastructure of the country, organizations and entrepreneurs see it as a possibility to fill the existing voids by undertaking the function of certain weak institution or by using other substitute institutions (Khanna and Palepu, 1997; Tracey and Phillips, 2011). Khanna and Palepu (1997) specify such conditions in which institutions were either not functioning or were completely absent, undermining the business environments with the presence of institutional voids. Institutional voids are described as the failure of existing institutions to play their role in supporting efficient and effective market transactions (Webb et al., 2020, Mair et al. 2012). When formal institutions are not functioning, to be able to survive and grow as a business, firms often navigate the challenges by using informal institutions. However, on top of formal institutional voids, informal institutions can also create voids which impact the productivity of entrepreneurial activity, such as lack of trust influencing cooperation levels between potential business partners (Webb, 2020). Firms can also see the presence of voids as an opportunity to have a preferential treatment and to gain unfair competitive advantage, as their presence can be seen as an opportunity to get ahead, creating by forming political ties or resorting to different forms of corruption.

In terms of institutional reforms, the priorities of developing countries are different from the priorities of developed economies. Especially for developing countries, exports are often the first and feasible stage to benefit from international trade, and exports are an important engine for economic growth and development (Winters et al., 2004; Haddad and Shepherd, 2011). Haddad and Shepherd (2011), for example, find that no countries in the past 50 years have managed to have significant increases in per capita incomes and have a sustainable economic development without

greatly expanding their trade. Both formal and informal institutions are believed to impact export capacities. Rodrik (2000a, p. 2) explains that trade reforms should be viewed as an institutional reform, and “when the reform is well-designed and consistent with the institutional needs of the economy, it can spur unexpected levels of entrepreneurial dynamism and economic growth”. Isenberg (2011) when explaining what makes up an entrepreneurial ecosystem where business activities can spur, suggests that while effective policies are components of the ecosystem, effective policy deals with multiple variables working together and integrating in very complex ways. Creating a better environment that allows for competitive firms which can export abroad can lead, among other benefits, to more innovation, higher incomes, a higher rate of economic growth (Crespo Cuaresma and Worz, 2005).

The empirical focus of this thesis is Kosovo, a small developing economy, with a deep trade deficit. Kosovo, located in South Easter Europe, has formal institutions that are all fairly newly built, past 1999 with the liberation of the country (than territory). Although there has been significant progress with building formal institutions during the past two decades, and for most of these years the country has experienced robust economic growth and an increase in consumption and investments (OECD, 2021b), its GDP/capita remains the smallest in Europe, and the trade deficit and unemployment continue to be persistent problems (Kosovo Agency of Statistics, 2020). Kosovo exports are still facing particular challenges, and it is also notable that while exports grew during the 2000s until 2011, they faced a sharp decline between 2011 and 2013 without much recovery in the subsequent years. Economically, Kosovo must address a narrow productive base, comparatively low productivity, high unemployment, well established informal structures and institutions, a pronounced reliance on remittances, and significant emigration, which is particularly among younger and well-educated people (OECD, 2021b). While setting up of formal institutions with donor support during the 2000s lead to formal structures which resemble those of the economies that have supported the country, the rule of law remains a particular challenge for the country, and corruption is perceived to be high (European Commission, 2020). The economy, infrastructure and formal institutions require further development to catch up with neighbouring states and align with the requirements of EU accession, one of the primary strategic targets for the country.

Major investments have been undertaken in Kosovo in the past two decades, including highways to neighbouring countries, however Kosovo is not directly linked to major trade routes

to eastern and western Europe, making it very dependent on transiting neighbouring countries to be able to reach international trade opportunities. The country remains heavily dependent on imports, and throughout the years its exports amounted for only a small fraction of imports. In year 2019, exports covered imports only at 12.2%, even with a slight increase of exports from the year before (Kosovo Agency of Statistics, 2020). Kosovo faces challenges to its economic development and export capacities that are rooted in its political past and present limitations, its location within the region and its comparatively slow development after its independence.

The researcher, as a native of Kosovo and with extensive experience in working closely with both the private sector and public organizations of Kosovo, acknowledges own positionality and maintains objectivity while recognizing that personal experiences and affiliations can influence work of research. To not allow room for potential biases, the researcher strives for a thorough exploration of topic by seeking diverse perspectives and employing a multi-phase research design. Berger (2015) highlights the importance of positionality acknowledgement to enhance the quality and validity of research. For this research, the first-hand involvement with Kosovo organizations and institutions has provided the researcher with valuable insights on complexities of the relationships between institutions and export performance, as well as it had opened doors to interviewing key stakeholders and conducting a large-scale survey.

1.2 The framework and aim of the thesis.

This thesis has studied the impact of formal and informal institutions on exports, has explored the challenges entrepreneurs face from corruption, and ways Kosovo firms deal with institutional voids, through a pragmatic approach, and by using mixed methods research, in efforts to cope with the complexity of studied phenomena and help reveal aspects that would be undetectable otherwise (Mingers, 2005; Downward and Mearman, 2007). It has combined three phases of research, including a first stage of in-depth interviews with key stakeholders in Kosovo, a large-scale survey of businesses with 524 responses, and follow up in-depth interviews with entrepreneurs to discuss and explore issues in more depth. This research's findings make several important contributions with significant theoretical and policy implications with findings based on Kosovo's institutional framework for exports, giving evidence on experiences of Kosovo firms with exports, and identifying how firms operating in a small developing economy with fairly new formal institutions deal with the presence of institutional voids, as well as the institutional conditions these firms face.

The main research aim of this thesis is to see how institutions impact export participation of firms operating in Kosovo. To reach the aim of the thesis, this research has addressed the key research questions as shown below:

1. *What is the relationship between institutions and doing business across borders?*
 - 1.1. *How do formal institutions impact the export performance of Kosovo firms?*
 - 1.2. *Which informal institutions play a role on the export performance of Kosovo firms?*
2. *How do firms deal with institutional voids?*
 - 2.1. *How do firms deal with barriers and constraints they face due to weak institutions present?*
3. *How does corruption in the country of origin affect export performance of firms?*
 - 3.1. *What are the views of firms on corruption?*
 - 3.2. *How does corruption impact firms?*
 - 3.3. *Does corruption reduce export performance either directly or indirectly through other institutions?*

The findings of this research contribute to knowledge by offering a comprehensive understanding on how, and which, institutions play a role in the export performance of firms. This work adds to the understanding of institutional environments and institutional voids in developing economies, specifically those in Kosovo and in relation to firms' exporting performance. It provides empirical insights and builds on concepts on what institutional environments firms function in and what challenges exporting firms face, as well as the strategies and tactics those firms adopt to navigate institutional constraints. This thesis gives also focus on the presence of corruption as an informal institution, and an obstacle to doing business as well as increasing possibilities to export, providing new data to the literature. While qualitative methods or quantitative methods alone would have provided limited validity given the complexity of the study, research combining multiple phases was seen as an appropriate method to use, which adds to the existing knowledge on the researched topics.

By relying on existing knowledge, below I show the conceptual framework which illustrates the interplay between formal and informal institutions and their effects on exporting firms, shaping

Kosovo’s export performance. It starts at the left side with the institutional environment, comprised of both formal institutions and informal institutions. As expected by being based on existing academic literature, the formal and informal institutions influence the environment Kosovo firms operate in, and moreover, the two institutional categories, formal and informal, also affect one another (North, 1990; Acemoglu and Robinson, 2012). This in turn influence their export performance, impacting exports, and the economic performance of the country (Abe and Wilson, 2008; Nunn, 2007; Rodrik, 2011; Alvarez et al., 2018). The impact on the economic performance of the country is shown in the right-hand side, which in turn influences also the institutional environment, having an impact on both formal institutions and informal institutions in the country, back to the left-hand side of the conceptual framework (Przeworski, 2004; Sachs and Warner, 1995).

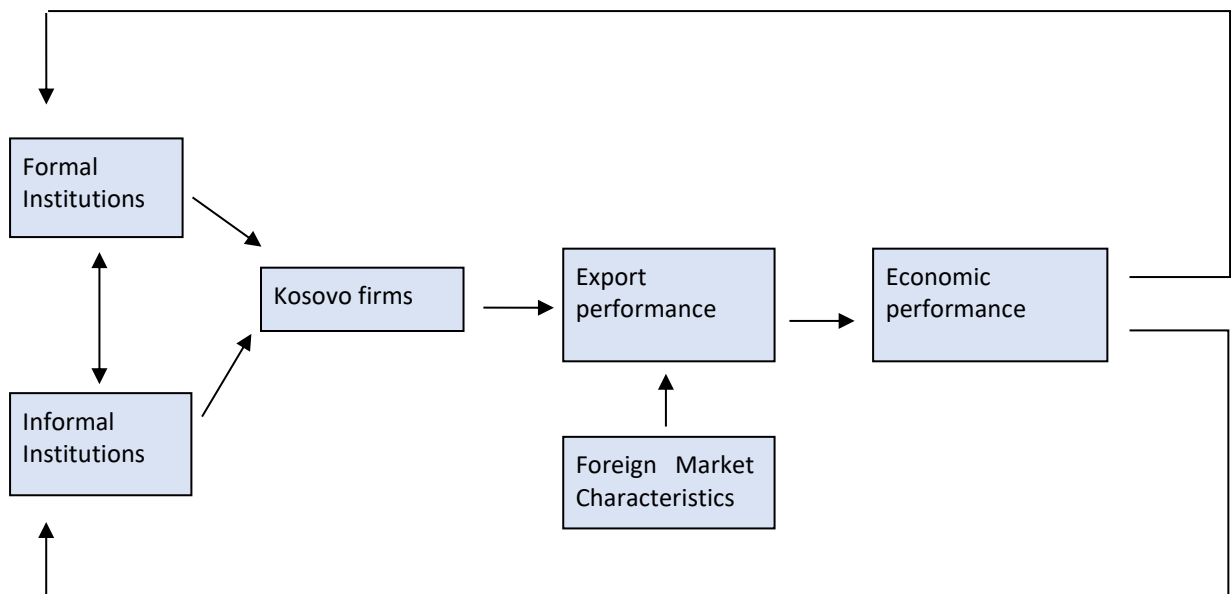


Figure 1. The conceptual framework

The conceptual framework from figure 1 is further supported and extended, as shown later in the Discussions Chapter (Chapter 10), by adding to it the findings of the multi-phase research, including the discussions of key stakeholders in Kosovo and views of entrepreneurs and CEO / managers of Kosovo firms.

1.3 Outline of the thesis

This chapter has provided an underlying context for the forthcoming chapters by introducing the subjects of institutions and exports. It has outlined why these should be studied together, as well as the aims and research questions of the thesis. The following chapters provide a thorough review of the literature related to the topic of the thesis.

Chapter two is about the role institutions play on economic development. This chapter provides an overview of previous research on institutions, their definition, and classifications, their role for economic development and entrepreneurship, as well as which institutions are considered quality institution and what is considered an institutional void. The reader is introduced to what institutions are, their classifications, and role they play for development and growth, before moving on to literature on trade and firms' export participation and literature on entrepreneurial environments in developing economies, to introduce the topics associated with the thesis and give an overview of existing literature related to the topic.

The third chapter provides an overview of existing literature on main constraints and barriers firms in developing countries face when it comes to doing business and exporting, including both constraints from formal institutions and informal institutions. It starts by discussing the main components of entrepreneurial ecosystems which sustain entrepreneurship, characterized by high quality institutions, which are build up within regions over time, and produce entrepreneurial activity by which individuals create opportunities for innovation. Focusing on the components of successful entrepreneurial environments, the chapter reviews literature of the state of main components in developing countries, including institutions related to access to finance, human capital, rule of law and contract enforcements, and informal institutions. The reader is introduced to how doing business is in the institutional environments and conditions present in developing economies and how it affects their export performance.

The fourth chapter discusses the link between institutions and international trade. The reader is presented with an overview of trade theories, before discussing the importance of ability to export by reviewing literature on trade flows between countries. Next, the impact of institutions on trade and firms' export participation and existing literature on the institutional challenges for exporting are discussed. The reader is introduced to the importance of trade, and that of exporting in

particular, to be able to pay for imports and have a better quality of life, and how different institutions in a country (or outside of it) influence this ability to export.

The subsequent chapter, chapter 5, analyses the context of the country where the research is taking place, Kosovo. The reader sees an overview of the institutional building process, starting with describing the deteriorated condition of public infrastructure due to disinvestments and neglect before the war of 1999 and surviving the oppression regime with the support of a strong diaspora and a Government in exile. Next, the reader is introduced to the building of the formal structures in the country post 1999, from scratch, by substantial support from donor money, and with legislations that resemble those of developed economies. The chapter also discusses the current institutional environment in the country and the export possibilities for Kosovo firms, through a review of Kosovo's policy documents and legislation, reports from international organizations, and the existing limited literature.

Chapter 6 of this thesis explains the methodology which, by bringing together qualitative and quantitative methods in a multi-phase research, it supported the research aim and research questions to offer a greater validity to the analysis, as each stage of the research contributed to the development of the next stage, intending to result in an overall complementary and synergetic approach.

The subsequent three chapters discuss the main findings related to the impact of institutions on exports, presenting observations in relation to the research questions. Chapter 7 of this thesis shows the findings of the first stage of research, which has included in-depth interviews of main stakeholders in Kosovo, including members of the national parliament, key Ministers in the Kosovo Government, heads of organizations involved in the institutional building, and policy makers related to trade. The interviews were held in a semi structured setting, with questions influenced by the literature review, to understand the key institutions that influence firms' export performance. The process of the research was inductive, which allowed the researcher to generate meaning from the data collected in the field to develop initial understandings of the study, by focusing on the 'what', 'why' and 'how' to be able to explore and understand the phenomenon being studied (Creswell and Plano Clark, 2011).

The results of the stakeholder interviews contributed to the findings of the research on their own, but they have also contributed to the design of the second stage of the research, a broad survey

of firms from Kosovo, which is discussed in Chapter 8. For collecting data from entrepreneurs, quantitative research offered the advantage of covering large samples (Saunders et al., 2012), with the purpose of learning from a large sample of businesses on the impact of formal and informal institutions on their export performance. The survey with 524 responses, analysed using SPSS, provided answers on what the entrepreneurs and CEO / managers of Kosovo firms consider as main barriers to export, the impact of corruption on exports, how often the participants were expected to engage in corruption or have done so, etc.. While relying solely on quantitative research would have been insufficient for studying complex entrepreneurship phenomena, in this research, as an addition to the qualitative stages, the survey made it possible to cover large samples, and collected the samples in a relatively short period of time. It was later followed up by additional in-depth interviews of entrepreneurs to have more insight on their perceptions and experiences.

Findings from the survey data contributed to the last stage of research, which has conducted in-depth interviews of entrepreneurs and CEO / managers of Kosovo firms, portrayed in Chapter 9 of this thesis. The semi structured in-depth interviews ultimately gave a better understanding of the culture specific issues to firms operating in Kosovo and what they deal with, how the firms deal with institutional voids, and how they manage to export or why they do not manage to export enough, contributing to an understanding of the influence of institutions on exports. According to McKenzie (2007), entrepreneurs are usually keen to share their experiences and tell their stories; thus, the in-depth interviews in a semi structured setting enable a better understanding of the issues related to firms' export performance and their experiences with exporting, as well as the ease of trading across borders as perceived by them. Comparing the views expressed by key stakeholders during stage one, which mostly have represented formal institutions, with the views of this stage, has helped to uncover any divergences and facilitate a more thorough analysis of the influence of institutions on exports.

Next, the discussion chapter, in Chapter 10, interprets the results and discusses the meanings of the findings. By being based on the research questions of this thesis, and the conceptual framework presented in Figure 1. which is further extended, the findings are analysed and discussed by being focused on key findings, rather than all findings, defining which are the main barriers that impact the export performance of Kosovo firms. Chapter 10 also gives recommendations to policy makers to influence the formal and informal policies they design and approve, which impact the export performance of Kosovo firms, and in turn contributes to economic growth and development.

Finally, chapter 11 concludes the thesis by narrowing the main points in one chapter to show how the findings have contributed to a better understanding of the role of institutional building in small developing economies, and the role they play in shaping the entrepreneurship environment to allow to engage in exporting activities. Moreover, it discusses the need for future research, by being based on findings of this study which have the potential to be explored in more detail, as well as it shows the limitations of the research, which might have had at least some influence on the overall results. This thesis suggests both formal and informal institutions work together, and in dynamic ways, to influence the business environment Kosovo firms operate in. The institutional environment impacts the ability of Kosovo firms to engage in exporting activities (together with foreign market characteristics), which influences the economic performance of Kosovo, and in turn plays a crucial role on the institutional environment in the country, comprised of both formal and informal institutions. This route suggests Kosovo is in a vicious cycle, compared to a virtuous cycle that could have been caused in case of the presence of quality institutions, hence substantial reforms, that are country specific, are required.

2 The role of institutions in economic development

2.1 *Introduction to the chapter*

Institutional theory attempts to explain the processes by which structures become established as guidelines for social behaviour. It has been used to explore the ways in which institutions can limit the set of available choices and shape individual and organizational actions (see Meyer and Rowan, 1977; DiMaggio and Powell, 1983; North, 1990). North (1990, p. 3) defines institutions "as rules of the game in a society or, more formally, [they] are constraints that shape human interaction". When trying to explain why some countries grow economically and become prosperous while others stagnate, an ongoing debate centres around the role institutions play on economic performance. There is widespread accord that high quality institutions have positive economic effects, including higher growth rates, increased investments and innovation, and a higher level of exported products (see North, 1990; Zysman 1994, Keefer and Knack, 1995; Hall and Jones, 1999; Barro, 1999; Rodrik, 2000b; Acemoglu, Johnson and Robinson, 2001; Nelson and Sampat, 2001). North (1990, 1991) stresses institutions are the underlying determinants of the long-run performance of economies. He explains that institutions "provide the incentive structure of an economy; as that structure evolves, it shapes the direction of economic change towards growth, stagnation, or decline" (North, 1991, p. 98).

Results of Rodrik et al. (2004) who studied the contributions of institutions, geography, and trade in income levels indicate that the quality of institutions is more important than other factors in regard to contributions to economic development. Once institutions are controlled for, geography and trade had minimal effects on income levels. While Ed (2009), Naude and Krugell (2007), Mengistu and Adams (2007) stressed the important role of geography in shaping the patterns and rates of economic development, claiming that landlocked countries have difficulties cooperating internationally or linking climate to income through work effort, there is wide spread agreement among economists that geography's influence on development levels is solely indirect through its effects on institutions (Hardin and Diamond, 1997; Hall and Jones, 1999; Acemoglu et. al., 2001; Easterly and Levine, 2003; Rodrik et. al., 2004; Nun, 2009), since colonial settlers have built better quality institutions that enhanced productivity in temperate regions in comparison to regions where they faced high mortality rates. Furthermore, countries with similar geographical features often have different levels of economic development; Austria, for example, despite being

geographically similar to Western Balkan countries is much more developed for the reason that its institutions are not as fragile. Arguments predicated on environmental determinism are insufficient and poorly capture the reasons for economic development and performance. Institutions are built over time, shaped also by norms, values and codes of conduct. Banerjee and Iyer (2005) argue that history matters because history shapes institutions and institutions shape the economy. Easterly and Levine (2016) found that former colonies that had larger colonial European settlements turned out to have much higher levels of economic development today, in comparison to former colonies that had small proportions of Europeans because of setting up then institutions that foster growth.

Quality institutions seem to be the reason behind the development level of strong economies; yet there remain questions as to the how the design and configuration of institutions affect economic growth and development. According to Acemoglu and Robinson (2012), the countries with inclusive institutions, where property rights and contracts are enforced, and where the political rights are widely distributed and the government is responsive to its citizens by making resources to engage in economic activities, offer citizens access to economic opportunities, leading to a positive playing field which shapes the direction of economy towards growth. On the contrary, in countries with extractive institutions, there are limited incentives for economic activity. Rodrik (2007, p.154) argues markets "are not self-creating, self-regulating, self-stabilizing, or self-legitimizing", therefore they require being backed up by a wide range on institutions."; since well-functioning markets cannot be developed overnight, rules and regulations, including competition laws, public procurement laws and taxes, are a necessity for markets to grow.

The importance of institutions to the development of economic growth plans and national economic performance begs the question as to how countries who do not have strong institutional alignment, and those regions which have prominent institutional voids, can navigate and overcome these challenges. This chapter provides an overview of previous research on institutions, their definitions, as well as their role for economic development, entrepreneurship, and export orientation in developing economies. This thesis takes Kosovo as its empirical focus. Kosovo is a small developing economy with a deep trade deficit, which demonstrates the complex challenges and responses that emerge within weak formal institutional structures. To position the thesis in the existing literature and to introduce the topics related to the thesis, this chapter in section 2.2 discusses what institutions are and how they are classified, it shows how formal and informal institutions interact with each other in section 2.3, it discusses the need for quality institutions as

well as the effects of the presence of institutional voids in section 2.4, and gives a conclusion in section 2.5, before moving on to literature on entrepreneurship ecosystems in developing countries, and literature on trade in the subsequent chapters.

2.2 Defining institutions: what are institutions and how are they classified?

When trying to explain why some countries grow economically and become prosperous while others stagnate, an on-going debate centres around the role institutions have on economic development or various aspects of it, such as FDI inflows, poverty rates and income inequality, entrepreneurship growth, and trade performance. Previous research shows that institutional quality has a large causal effect on economic development (Hall and Johnes, 1999; Easterly and Levine, 2003; 2016; Rodrik et al., 2000; 2004).

North (1990, p. 3) defines institutions "as rules of the game in a society or, more formally, [they] are constraints that shape human interaction". Institutional theory attempts to explain the processes by which structures become established as guidelines for social behaviour. It has been used to explore the ways in which institutions can limit the set of available choices and shape individual and organizational actions (see Meyer and Rowan, 1977; DiMaggio and Powell, 1983; North, 1990). To add to the definition, Hodgson (2006, p. 2) states institutions are "established and prevalent social rules that structure social interaction". He explains that by having rules, the markets function smoothly and this opens possibilities for citizens and organizations. Shaping actions by legal framework, such as having a justice system in place and obliging contract enforcements, reduces risk and uncertainty, which leads to an increase in entrepreneurial activity (OECD, 2022). By defining rules of the game through institutions, incentives of organizations can be regulated and shaped to produce entrepreneurial action and generate development (Aparicio et al. 2016, Terjesen et al., 2016; Welter and Baker, 2021).

The institutional environment of a country is responsible for the structuring of political, social, and economic incentives, and hence define the choices available to organizations (DiMaggio and Powell, 1983; Scott and Meyer, 1994). The sum of the factors of both formal institutions, comprised of formal rules and regulations enforced through official channels (Ellickson, 1991; Knight, 1992; Calvert, 1995), and informal institutions, defined as rules and procedures generated and enforced outside the officially sanctioned channels (North, 1990; O'Donnell, 1996), make up

the institutional environment of a country or region. Institutional environment of countries is what can create and limit opportunities for organizations and citizens in these countries. Also, the institutional environment is found to be, at least partially, endogenous to economic growth (Przeworski, 2004; Sachs and Warner, 1995). While quality institutions generate economic growth, a more developed economy leads to higher quality institutions. Institutional quality refers to the credibility of the written or unwritten rules of the game, formal or informal institutions, in reducing the uncertainty in social interactions and generating action, so that organizations and citizens are motivated to follow those rules (Greif and Kingston, 2011; Hindriks and Guala, 2015, Alonso et al. 2020). A country's institutional quality is also categorized by the level of inclusiveness. Acemoglu and Robinson (2012) explain that in countries where institutions are inclusive, where the government is responsive to its citizens, political rights are widely distributed, and citizens are able to take advantage of economic opportunities. On the contrary, in countries with extractive institutions, resources are extracted from the citizens by a small group and there are limited or no incentives for economic activity.

Institutions, formal or informal, can be driven by different pressures, such as political pressure or cultural expectations. DiMaggio and Powell (1983) highlight three types of institutional isomorphism: coercive, normative and mimetic. They identify the casual mechanisms that explain institutional change. Coercive isomorphism change is mostly driven by political pressures and the force of state, providing regulatory oversight and control. The pressure may be stemmed to the organization from other organizations, such as the central government (either by force, persuasion or invitation to join), or by cultural expectations. Normative isomorphism is driven from professionalization. DiMaggio and Powell (1983: p. 152) see it as “the collective struggle of members of an occupation to define the conditions and methods of their work [...] and to establish a cognitive base and legitimization for their occupational autonomy”. Formal education and professional networks are the two main mechanisms of this isomorphism. Mimetic isomorphism, on the other hand, is linked to uncertainty; if organizations are confronted with uncertainty, they may model themselves on others. DiMaggio and Powell (2000: p. 69) describe the mimetic isomorphism change as a “powerful force that encourages imitation”. While the isomorphisms focus on organizations and organizational practices, they can also relate to institutional building in economies. While mimetic isomorphism explains how organizations model themselves on others when confronted with uncertainty, underdeveloped countries model themselves on more developed

economies too; Kosovo, the country of focus of this research, has adopted most of its legislation from the EU countries and the United States.

Previous literature also classifies institutions by differentiating between various areas of analysis, such as economic, political, social, and legal institutions. The formal institutional environment comprises of economic, political and legal structures (Acs et al., 2008). Economic institutions are rules which define the production, allocation and distribution process of goods and services (Bowles, 1998). According to Wheeler et al. (2002), "economic institutions are constraints and incentives that influence cost-benefit calculations of economic actors". They "provide adequate incentives for growth by minimizing risk, uncertainty, and corruption" (Rodriguez-Pose and Tselios, 2010), hence they facilitate efficiency in economic performance. Example of economic institutions include property rights, regulations regarding access to finance and entry barriers. Political institutions are described as rules that define the nature of political processes (Hillman and Keim, 1995). Studies of political institutions usually employ variables that provide details about political system, political stability, elections, electoral rules, composition of the opposition and the government (Beck et al., 2001). These institutions determine the distribution of political power, which includes the ability to shape economic institutions and the distribution of resources (Frieden, 2020). Legal institutions refer to institutions that are connected to laws and are part of the legal systems of countries (Jutting, 2003). While political and economic institutions can be informal as well, legal institutions are always mapped with formal institutions.

Social institutions resemble the definition of informal institutions; they are sets of rules, such as norms, beliefs, trust and civic cooperation, that structure social interactions. According to Roland (2004), these institutions change more slowly compared to other institutions, therefore, have an important effect on the choice of political, economic, and legal institutions. Social institutions are mapped with informal institutions and are believed to define the basic foundations of society (Williamson, 2000). Developing economies often reform formal institutions to resemble those of developed economies by adopting written legal frameworks similar to those of the more developed economies, but by not taking informal institutions into consideration, these developing economies cannot reap the same benefits more developed countries do. Next, the literature on the interplay of formal and informal institutions will be reviewed.

2.3 How do formal and informal institutions interact with each other?

Informal institutions can work synergically with formal structures, or they can undermine the presence of formal structures (Levitsky and Helmke, 2006; Leftwich, 2007). Leftwich (2007, p. 10) points that 'the interaction of informal and formal institutions is especially important in the political analysis of development generally, and of pro-poor growth in particular'. Literature suggests there are four kinds of informal institutional relationships with formal institutions; informal institutions can be complementary, accommodating, competitive, and substitutive to formal institutions (Lauth, 2000; Levitsky and Helmke, 2006).

Complementary informal institutions often enhance efficiency and effectiveness of formal institutions and may create or strengthen incentives to comply with formal rules that might otherwise merely exist (Baumol, 1990). These include norms, routines, and operating procedures that allow bureaucracies and other complex organizations to function more effectively and efficiently. Trust, as an example, between two parties assists in lowering commercial costs by not being fully based only on contractual terms, without violating formal institutions. Informal institutions may also play the role of accommodating for formal institutions as they can “create incentives to behave in ways that alter the substantive effects of formal rules, but without directly violating them” (Levitsky and Helmke, 2006). Such institutions may promote stability in a context where the outcomes of applying the formal rules might generate conflict (Leftwich, 2007). Examples of accommodating institutions include agreements to proportionally distribute government jobs among parties, in cases constitution or other formal rules cannot be changed. Competing informal institutions are those that coexist with ineffective formal ones. Helmke and Levitsky (2004) explain how corruption deliberately undermines the existence of formal institutions. Estrin and Prevezer (2011) explain substitutive informal institutions are created by actors seeking to achieve outcomes that were expected to be created by formal institutions, but the formal ones are ineffective in achieving these goals. They give alternative methods of institutional functioning, such as solving postelection disputes through gentlemen’s agreements when formal institutions of electoral resolution lack credibility. These types of informal institutions tell that they can be undermining formal institutions, or they can work synergically with formal institutions, complementing them.

The institutional environment, comprising of both formal and informal institutions, is a major influencer of entrepreneurship levels and trade performance; hence they are portrayed in existing literature as the fundamental cause of long-term economic development, which in turn influences increase of quality of institutions and more entrepreneurship and economic activity (Jansen and Nordas, 2004; Nunn, 2007, Acemoglu and Robinson, 2012). While both formal and informal institutions affect economic development, the institutional functioning varies considerably depending on what stage of development countries are in (Anderson and Marcouiller, 2002; Jansen and Nordas, 2004; Nunn, 2007). According to Rodrik (2008) developing economies are different from advanced ones because they face more challenges and constraints, especially posed by non-implementation of formal structures and presence of informal institutions. Because of inefficient court systems or law enforcement matters, for example, entrepreneurs in developing countries face obstacles that are less present in developed economies. Tonoyan et al. (2010) argued if court systems are inefficient, or believed to be corrupt, entrepreneurs avoid courts to settle disputes, relying in informal means to doing so, as they have no guarantee that the losses will be covered or that the decision will be enforced. Plus, courts can be time consuming and pose additional financial burdens on companies, thus a lack of trust leads to finding alternative ways.

The interaction between formal and informal institutions lay behind the reason for differences in development paths across developing and developed countries, and according to Williamson (2000) it is informal institutions that define the basic foundations for a society's institutions and they influence formal rules. He proposes a classification scheme based on different hierarchical levels of institutions, where higher level imposes constraints on the lower level, and feed-back exists from the lower level to the higher level. Level 1 of institutions is comprised of informal institutions, while level 2 institutions define the overall formal institutional environment, such as constitutions, laws and property rights. Institutions of the next level, including rules that define the governance and contractual relationships, lead to the building of organizations. Whereas, level 4 institutions, comprised of rules related to resource allocation, help to regulate prices and production.

While efficient formal institutions have shown to foster economic prosperity and have been a key element in development of the Western world (see North and Thomas, 1973; North, 1990; Hall and Jones, 1999; Rodrik, 2008), informal institutions might be important in early stages of development. North and Thomas (1973) explain that the establishment of secure and stable formal

institutions has been a key element in the development and economic growth of the West, meaning that institutions such as secure property rights and legally binding contracts matter for development because otherwise actors lack the incentive to invest and innovate. However, Rodrik (2008) argues poor countries are different from advanced ones because they face more challenges and constraints; thus, institutions that trigger growth in poor countries are presumed to be different from those of the more developed economies. Formal and informal institutions interact to form development outcomes; but, for developing countries, the latter gain more importance as they have the power to undermine formal rules in cases of not complimenting them. Dixit and Blundell (2004) also argue that since the fixed costs of setting up formal institutions are high, informal institutions are of vital importance.

While developing economies can choose to reform formal institutions to resemble those of developed economies by adopting written legal frameworks like those of the more developed economies, the same institutions do not work the same in different environments (Linton, 2013; Stam and Spigel, 2016). The same benefits cannot be attained due to the complexities of interactions between institutions, and the overall institutional environment has to be taken into consideration when the introduction of reforms or new institutions are considered. Informal institutions not necessarily change upon reforms in formal institutions, and developing economies often have informal institutions that contradict the formal structures (Tonoyan et al., 2010; Williams and Vorley, 2016). While formal institutions matter, unlike developing economies, developed economies are also prone to having supportive informal institutions. Spigel (2017) explains the level of entrepreneurial activities are influenced also by a culture that views entrepreneurship positively based on history of entrepreneurship, as well as networks, institutions that are prevalent in the developed world. While the informal institutions of developing economies lack these and are characterized by presence of institutions that distort markets instead. It is the informal institutions that contribute to an environment which does not support growth, or does not support it enough, even if written formal rules seem supportive of growth; and the difference of informal institutions between developed and developing ones are substantial.

Institutions play a key role in promoting entrepreneurship and long-term growth (Acemoglu et al., 2005; Estrin et al., 2013). An increased entrepreneurship activity is considered crucial for economic restructuring, growth, and development (Hashi, 2001; Wells et al., 2003). While quality institutions contribute to fair business environments, supporting innovation and helping

entrepreneurship to thrive, weak institutions negatively influence business environments. The transformation role entrepreneurship could play in developing economies is negatively influenced by constraints and barriers to doing business in these countries, caused by weak institutional frameworks (Hoskisson et al. 2000, Yeung, 2002, Fornes and Cardoza, 2006).

Developing economies, including post-conflict states, impose highly bureaucratic burdens on businesses, increasing uncertainty and transaction costs (Aidis and Adachi, 2007; Fredriksson, 2014). The role of entrepreneurs in economic development is limited by weak institutional environments, including unsupportive legislation and regulations, unskilled human capital due to poor educational system, lack of access to finance, a culture unsupportive of entrepreneurship, presence of corruption, informal economy, or due to other factors resulting from an unsupportive institutional environment. Entrepreneurs in developing economies have a lack of access to finance, especially from financial institutions (Schiffer and Weder, 2001; Cressy, 2002; Beck et al., 2008). If firms would have access to finance, they would gain the ability to improve on their flexibility and can become more innovative, as well as invest in their needed equipment and technology (Naude and Chiweshe 2017), which is more the case in developed economies, and lags in developing countries. Inadequate labour force is also among the main issues firms cannot grow and cannot export, since growth and exporting require labour market skills, especially if higher-income countries are a destination. Developed economies have a higher trained labour force, which in turn creates spill over effects in the performance of economies (Grigoli et al., 2018; IMF, 2018), and it is considerably less present in developing countries. Furthermore, the much-needed access to justice and rule of law are also weaknesses of the developing countries. The efficiency of the legal system is particularly important for entrepreneurship levels in developing economies with smaller firms, as they would need to divert even a higher share of their resources to resolving disputes in comparison to large firms (OECD, 2017).

On top of the weak formal structures, informal institutions in developing countries are perceived to be not supportive to doing business and increasing entrepreneurship. Developing countries are characterized by higher level of corruption, high level of informality, a culture that does not support entrepreneurship, and low levels of trust. Corruption levels are much higher in developing economies compared to developed nations (Treisman, 2000, Alon and Hageman, 2013; Nemec et al., 2022), and this hinders economic development.

These constraints from formal and informal institutions contribute negatively to entrepreneurial ecosystems, leaving firms of developing countries not competitive in international markets. On the other hand, developed economies are characterized by the presence of supportive business environments, getting more focus in recent literature as entrepreneurial ecosystems, which sustains entrepreneurship and play a positive role on exports (Isenberg, 2011; Stan and Spiegel, 2017). Taking first a look at what comprises supportive business environments, including policies, access to finance, human capital, supportive systems, and culture, this chapter reviews literature on how institutions of developing countries differ. This chapter provides an overview of existing literature on the main institutional constraints and barriers for entrepreneurship in developing countries, including both constraints from formal institutions, as well as informal ones related to culture.

2.4 Quality of institutions and institutional void

The quality of institutions significantly determines the level of entrepreneurship and economic activity, especially in developing economies (Ahlstrom and Bruton, 2002; Smallbone and Welter, 2006). Quality institutions are written or unwritten rules of the game, meaning they can be formal or informal institutions, that reduce uncertainty in social interactions, generate action, and are credible, meaning organizations and citizens are motivated to follow those rules (Greif and Kingston, 2011; Hindriks and Guala, 2015, Alonso et al. 2020). Institutions give structure to the interactions between individuals and organizations in a society, and guide entrepreneurship to play their role in the economy (North, 1990). However, in case of “situations where institutional arrangements that support markets are absent, weak, or fail to accomplish the role expected of them”, there are institutional voids present (Mair and Marti, 2009 p. 422). Institutional voids have significant effects on the quality of institutions in addressing the entrepreneurial and economic activity of countries, and particularly in developing countries (Ahlstrom and Bruton, 2002; Smallbone and Welter, 2006).

According to Rodrik (2007), rules and regulations, including competition laws, public procurement laws and taxes, are a necessity for markets to grow. Both formal and informal institutions shape the incentives of key economic actors in society (Acemoglu et al., 2001), and they both play a crucial role on the entrepreneurship environment. Institutional quality has positively effects on the development of entrepreneurship by removing barriers to market entry and/or exit, thus creating opportunity fields for entrepreneurs (Smallbone and Welter, 2012). A

combination of formal structures and informal ones, such as norms, value systems and codes of conduct, shape the behaviours of entrepreneurs and also explain the differences in entrepreneurial activity between countries (North, 1990; Frederking, 2004; Estrin and Prevezer, 2011; Valdez and Richardson, 2013).

Weak institutions in developing countries, including those in post-conflict states, can impose highly bureaucratic burdens on businesses, increasing uncertainty and transaction costs (Berkowitz and Holland, 2001; Aidis and Adachi, 2007). These countries often have insufficient court systems and law enforcement, as well as corruption and inadequate labour force. Furthermore, regulatory burdens, dealing with licences and lack of financing are among the issues entrepreneurs in developing countries face. Leftwich (2007) points that 'the interaction of informal and formal institutions is especially important in the political analysis of development generally, and of pro-poor growth in particular'. While formal institutions can be reformed to support economic activity, the institutional asymmetry, or the misalignment between formal and informal institutions, serves to hinder entrepreneurship (Williams and Vorley, 2014) and economic development.

Institutional quality has positive effects on various components of economic development, such as poverty rates and income inequality, FDI inflows, entrepreneurship growth, and trade performance, while these components affect one another as well. Increasing trade lowers poverty rates and income equality (McCaig, 2011; Le Goff and Sign, 2013), especially in developing economies with a deep trade deficit such as Kosovo. Furthermore, countries that implement trade facilitation reforms and enhance trade efficiency are expected to have higher levels of entrepreneurship and attract more foreign direct investments (Dunning, 1993; Biglaiser and de Rouen, 2006). Also, the institutional environment is found to be, at least partially, endogenous to economic growth, leading to a virtuous cycle (Sachs and Warner, 1995). On the other hand, weak institutions lead to lack of development, and development leads to weak institutions, with the likelihood of a vicious cycle.

The international business literature considering the effects of the level of market competitiveness on entrepreneurship and FDI flows is abundant (Dunning and Lundan, 2008); however much importance is given to the institutional framework of countries. Extensive research has also been carried out on the determinants of FDI flows, including various analyses of the importance of institutions in attracting foreign capital (Acemoglu & Johnson, 2005; Aizenman and

Spiegel, 2006; Bénassy-Quéré et al., 2007; Kang and Jiang, 2012). High quality institutions, such as political stability, rule of law and low levels of corruption play a crucial role in stimulating entrepreneurship and investments. The makeup of institutions in a country, including formal and informal institutions, enable and promote business activities, such as FDI inflows (Bailey, 2018; Nielsen et al., 2017). Daude and Stein (2007) explain how poor institutions can act as a tax burden, and therefore as a cost to investors, decreasing FDI levels. Institutional environment in poor countries are a potential source of uncertainty and risk, thus investments lag behind (Kobrin, 1979; Wells and Gleason, 1995; Busse and Hefeker, 2007; Daude and Stein, 2007). Political instability, for example, can negatively impact FDI flows through its impact on profit uncertainty, thus foreign investors hesitate to enter countries which lack credible political rules. Trust, an informal institution which reduces chances for opportunism and moral hazard, plays the role of easing the inefficiencies associated with incomplete contractual relationships between foreign companies and local companies, and helps forming and deepening cooperation between parties (Bhardwaj, et al. 2007; Dowling et al. 2019).

The reasons behind poverty and low incomes have also been attractive subjects for researchers, and extractive non-developmental policies, corruption, weak rule of law, not having access to financial services explain income inequality and high poverty rates (Elliot and Morsier, 1976; Harriss et al., 1997; Honohan, 2008; Rojas-Suarez, 2010). According to Acemoglu and Robinson (2012), in countries where institutions are inclusive, where the government is responsive to its citizens, political rights are widely distributed, and citizens are able to take advantage of economic opportunities. more inclusive financial system would increase their productivity and improve their standards of living (Jalilian and Kirkpatrick, 2005; Nimal, 2007). The United Nations 2030 Agenda for Sustainable Development Goals (United Nations, 2018) also gives importance for promotion of inclusive societies for a more sustainable development, and links quality institutions to less poverty and more development.

According to Rodrik (2007), rules and regulations, including competition laws, public procurement laws and taxes, are a necessity for markets to grow. Both formal and informal institutions shape the incentives of key economic actors in society (Acemoglu et al., 2001), and they both play a crucial role on the entrepreneurship environment. Institutional quality has positively effects on the development of entrepreneurship by removing barriers to market entry and/or exit, thus creating opportunity fields for entrepreneurs (Smallbone and Welter, 2012). A

combination of formal structures and informal ones, such as norms, value systems and codes of conduct, shape the behaviours of entrepreneurs and also explain the differences in entrepreneurial activity between countries (North, 1990; Frederking, 2004; Estrin and Prevezer, 2011; Valdez and Richardson, 2013).

There is substantial management literature that has studied the institutional factors that promote productive entrepreneurship (Baumol, 1990; Baumol et al., 2007; Howden, 2015; Zahra and Wright, 2011), and quality institutions are believed to influence productive entrepreneurship that stimulates growth and development (Baumol et al., 2007; Rodrik et al., 2004). An example of this would be institutions that protect companies from being pushed out by powerful monopolists, which would lead to more entrepreneurship and innovation. A combination of formal structures and informal ones, such as norms, value systems and codes of conduct, shape the behaviours of entrepreneurs and also explain the differences in entrepreneurial activity between countries (North, 1990; Frederking, 2004; Estrin and Prevezer, 2011; Valdez and Richardson, 2013).

According to North and Thomas (1973), the establishment of secure and stable formal institutions has been a key element in the development and economic growth of the West, meaning that institutions such as secure property rights and legally binding contracts matter for development because otherwise actors, including here entrepreneurs and innovators, lack the incentive to invest and innovate. The levels of entrepreneurship are very positively impacted by quality institutions and suitable environments (Acemoglu et al., 2001, Rodrik, 2004). The institutional environment of countries is responsible for giving opportunities to entrepreneurship and innovations, but it is also responsible for hindering them.

A weak quality of institutions implies the presence of institutional voids, present where there is a failure of existing institutions to support efficient and effective market transactions, leading to institutional voids (Webb et al., 2020, Mair et al. 2012; Webb, 2020). In these cases, entrepreneurs and organizations are left to use informal institutions, which increases the likelihood of opportunism, including corruption, market power to some, and reduced economic activity (Doh et al, 2017). While literature gives focus on formal institutional voids, also informal institutions can create a void which impacts the productivity of entrepreneurial activity, such as having lack of trust influencing the cooperation levels (Webb, 2020). Rather than considering institutions as a given, the institutional void lens considers the avoidance, compensation, substitution and taking

advantage of institutional weakness by organizations (Regner and Edman, 2014). According to Langlois (2016), the makeup and the understanding of the institutional environments can help entrepreneurs to navigate uncertain business environments, and organizations and entrepreneurs see it as a possibility to fill the void by undertaking the function of the institutions in place or by using substitute institutions (Khanna and Palepu 2010; Tracey and Phillips 2011).

While the presence of quality institutions supports firms of developed countries to operate and grow, due to operating in markets characterized with the presence of weak institutions, firms in developing economies look for alternative ways to be present in the market and grow (Meyer, 2001; Puffer et al., 2009; Xheneti and Kitching, 2011). To illustrate how weak formal institutions are replaced by informal institutions, Puffer et al. (2009) analyse the replacement of property right security with informal institutions of networking and trust. The firms' "reliance upon informal institutions should not be viewed as a deviant form of entrepreneurship, but as an appropriate and intelligent adaptation in developing economies, if practiced within ethical and legal boundaries" (Puffer et al., 2010; p. 460), as firms are surviving, growing, and contributing to development. Firms can benefit from private knowledge and extensive knowledge of the environment, when the institutions are not as apparent to be able to navigate through institutional voids (Kingsley and Graham, 2017). A growing body of literature also shows use of Corporate Social Responsibility by firms operating in markets where institutional quality is weak, to increase trust and show foreign partners that they are legitimate (El-Ghoul et al., 2016; Marano et al., 2016; Rodgers et al., 2019).

While use of informal institutions can have its positives, institutional voids leave room for many undesirable outcomes where some firms gain advantage over other firms by unjust means. The uncertainty that prevails creates market distortions, including rise of informal economy, abuse by powerful actors, corruption, etc. (Doh et al., 2017), characteristics of developing economy markets, which will be explored in chapter 3 by reviewing literature on entrepreneurship in developing economies.

2.5 Chapter summary

The institutional environment is responsible for the structuring of political, social, and economic incentives in a country, and hence define the choices available to organizations (DiMaggio and Powell, 1983; Scott and Meyer, 1994). Institutions define the available ways for

organizations to operate in an environment (DiMaggio and Powell, 1983; North, 1990), which influences the entrepreneurial environments of countries, impacting growth and development. Academic debate has come to employ the institutional lens in different ways, which has led to different interpretations and classifications, but they are primarily categorized into formal, comprised of formal rules and regulations enforced through official channels, and informal, defined as rules and procedures generated and enforced outside the officially sanctioned channels. While formal institutions include constitutions, laws, policies, informal institutions are part of the culture of the citizens, including values, norms, and codes of conduct. Formal and informal institutions interact to form development outcomes; but, for developing countries, the importance of the latter is much more significant especially because they are believed to define the basic foundations of society (Williamson, 2000), and they need to compensate for failures of formal structures. Developing countries that reform formal structures, even if these structures resemble those of developed nations, cannot reap the same benefits due to the influence of informal institutions.

The institutional functioning varies considerably depending on what stage of development countries are in (Anderson and Marcouiller, 2002; Jansen and Nordas, 2004; Nunn, 2007). This variation of the impact of institutions is believed to be caused by institutional voids, defined as the failure of institutions to serve their role of supporting efficient and effective market transactions (Webb et al., 2020, Mair et al. 2012). In developing economies with weak institutional quality, firms navigate through institutional voids to be able to operate in such markets. When the makeup of institutions is not as clear as it is in countries with high quality formal institutions, firms require deeper knowledge of the environment to be able to be present in the market, some seeing institutional voids as opportunities to gain advantages over other firms in the market. Such environments bring a significant dose of uncertainty for entrepreneurs (Doh et al., 2017), and give room for increase of informal economy, corruption, and other distortions of the market.

Institutional environment is what can create and limit opportunities for organizations and citizens, and the quality of institutions influences various components of economic development, such as poverty rates and income inequality, FDI inflows, entrepreneurship growth, and trade performance, while these components affect one another as well. Since developing countries face more challenges and constraints, institutions that trigger growth in these countries are presumed to be different from those of the more developed economies. A country's quality of institutions plays a significant role in its development process, while at the same time, the process of development

impacts the quality of these institutions. This leads to a virtuous or vicious cycle, stressing the importance of interventions on institutional quality for developing economies, taking into account both formal structures and the presence of informal institutions.

3 Entrepreneurship environments in developing countries

3.1 Introduction to the chapter

This chapter discusses on the entrepreneurial environment in developing countries, as entrepreneurship is a key element for the growth and development of these countries, and they are key to increasing exports. Despite the need for growth and development, developing economies are often comprised of weak institutions which impose highly bureaucratic burdens on businesses, increasing uncertainty and transaction costs (Aidis and Adachi, 2007; Fredriksson, 2014).

Starting at what makes a business environment supportive, key factors / institutions and their state are discussed, telling how the unsupportive environment in developing economies is responsible for the limited growth. The role of entrepreneurs in economic development is limited by lack of access to finance, especially from financial institutions (Schiffer and Weder, 2001; Cressy, 2002; Beck et al., 2008). If firms would have access to finance, they would gain the ability to grow, to be more innovative, improve on their flexibility, but this lags in developing countries. Inadequate labour force is also among the main issues firms cannot grow and cannot export, since growth and exporting require labour market skills, especially if higher-income countries are a destination. A higher trained labour force would create spill over effects in the performance of economies but it is considerably less present in developing countries. Furthermore, the much-needed access to justice and rule of law are weaknesses of the developing countries, leaving efficiency of the legal system is particularly important for entrepreneurship levels in developing economies, who would need to divert even a higher share of their resources to resolving disputes in comparison to large firms (OECD, 2017). On top of the weak formal institutions, informal institutions in developing countries are also not as supportive to doing businesses, reducing chances to engage in exporting activities as businesses remain at small levels and underdeveloped, hindering businesses activities.

The institutional environment in developing countries is characterized with a presence of institutional voids, especially of formal institutions that do not produce the desirable outcomes or due to gaps in the formal infrastructure of the country (McAdam et al., 2019; Hecks et al., 2021). This leaves organizations and entrepreneurs to function in an environment where institutions are not clear and having to navigate the gaps in institutions, which can also be seen as a possibility to

fill the existing voids by taking on the function of the institutions or by using other substitute institutions (Khanna and Palepu, 1997; Tracey and Phillips, 2011).

The current chapter provides an overview of existing literature on main constraints and barriers for entrepreneurship in developing countries, including both constraints from formal institutions, such as those related to access to finance, human capital, and court systems and rule of law, as well as informal ones related to corruption and trust levels.

3.2 Entrepreneurial ecosystems

Regional development and entrepreneurship literature is increasing focus on entrepreneurial ecosystems, where both formal and informal institutions play a significant role. Recent literature on the fields has provided numerous factors which contribute to a successful entrepreneurial ecosystem, among the most popular being the World Economic Forum's eight pillars containing factors that make up successful ecosystems (World Economic Forum, 2014), and the six-domain model of Isenberg (2011) shown below. The term entrepreneurial ecosystem is defined by Stam and Spiegel (2016, p. 5) as "a set of interdependent actors and factors coordinated in such a way that they enable productive entrepreneurship within a particular territory". According to them, entrepreneurial ecosystems focus on institutions and networks that build up within regions over time, and it produces entrepreneurial activity by which individuals create opportunities for innovation.

The six-domain model from Isenberg (2011), includes policy, finance, culture, support, human capital and markets as distinct factors that create ecosystems, which according to the author it is in part beneficial since it reflects the world as it invades on the perceptions of entrepreneur's perceptions, and how it impacts the decisions and the success of entrepreneurs. The model with the six factors does not include any indication as to which factor contributes into which one, with the argument that effective policy deals with multiple variables integrating in very complex ways, similar to how institutional theory describes the interaction of formal and informal institutions in dynamic ways. The six domains from Isenberg's model, which contains elements of both formal and informal institutions, are shown in Table 1.

Table 1. Domains of the Entrepreneurship Ecosystem by Isenberg (2011)

Domains of the Entrepreneurship Ecosystem	Components of the domains
Human Capital	Skilled and unskilled; Serial Entrepreneurs; Later generation family; General Degrees (professional and academic); Specific entrepreneurial training.
Markets	Early Adopters for proof of concept; Expertise in productizing; Reference customer; First reviews; Distribution channels; Entrepreneur’s network; Diaspora networks; Multinational Corporations.
Policy	Institutions (investments, support); Financial Support (research development and jump start funds); Regulative framework incentives; Research institutes; Venture friendly legislation (contract enforcement, property rights, bankruptcy, labour); Unequivocal support; Social legitimacy; Open door for advocate; Entrepreneurship strategy; Urgency, crisis and challenge.
Finance	Micro loans; Angel investors, friends, and family; Zero stage venture capital; Venture capital funds; Private equity; Public capital markets; Debt.
Culture	Visible successes; Wealth generation for funders; International reputation; Tolerance of risk, mistakes, failures; Innovation, creativity, experimentation; Social status of entrepreneurs; Wealth creation; Ambition, drive, hunger.
Supports	Telecommunications; Transportation and logistics; Energy; Zones, incubations, centres, and clusters; Legal; Accounting; Investment bankers; Technical experts; Advisors.

Similar to the six-domain model, the World Economic Forum (2014) have introduced 8 pillars, as factors that contribute to the entrepreneurial ecosystem, as perceived by entrepreneurs through a survey of over 1000 participants with extensive experience in early-stage companies, and in-depth interviews with 43 senior executives. These pillars, all of which can integrate into Isenberg’s model are: accessible markets, human capital and workforce, funding and finance, support system, regulatory framework and infrastructure, education and training, major universities as catalysts, and cultural support. The pillars which are components of formal or informal institutions, or ‘rules of the game’ contribute to the ecosystems. Based on the findings from World Economic Forum, the three most important pillars, impacting the growth of early-stage companies, are perceived to be accessible markets, human capital and workforce, and funding and finance. While ecosystems

which sustain entrepreneurship, characterized by high quality institutions, contribute to increasing economic growth and exporting (Isenberg, 2010; 2016), weak institutions in developing countries negatively impact the entrepreneurship environment in these countries.

3.3 Access to Finance in developing countries

Funding and finance of firms is perceived to be a key driver of increased entrepreneurship. Access to finance is crucial for firms, as they need to start up, invest, develop, train, grow, innovate, and higher levels of entrepreneurship in turn contribute to development and export performance. In developing economies, the role of firms in economic development has been limited by lack of access to finance, especially from financial institutions (Schiffer and Weder, 2001; Cressy, 2002; Levine, 2018). These financial constraints are barriers to firms' improvement of their businesses, innovation, as well as participation in exporting activities.

The 'funding and finance' pillar was found to be one of the three key pillars to supporting entrepreneurship by World Economic Forum (2014). Entrepreneurs in developing countries have access to a narrower range of financial instruments, compared to entrepreneurs in developed economies (Ratnovski and Narain, 2007). In developing economies, where the institutional environment is weak, access to finance through formal financial markets is low, particularly for low-income individuals or small firms (Corrado, 2020), hindering the chances for new businesses to start, or small businesses to grow. Access to finance in developing countries is characterized by more distributional inequality of access (Claessens and Perotti, 2007), meaning that access to finance is more of an obstacle for smaller and less established firms. Smaller firms are less likely to receive bank loans due to information asymmetry (Tucker and Lean, 2003). According to the findings of Klapper et al., (2010), firms that have been in operation for less than 5 years are less likely to receive bank loans. Firms' ability to expand depends on their potential to invest in restructuring and innovation, which require access to capital.

For the smaller firms, meeting collateral requirements is a major obstacle to access bank loans (Osano and Languitane, 2016; OECD, 2021a). Financial institutions require collateral to lower interest rates for smaller firms and make up for risks posed by other barriers, such as a lack of credit information (OECD, 2021a). These requirements reduce the chances of access to finance to small and growing businesses, which hinders their chances to grow.

Firm size, possession of collateral, the administrative capacity, as well as financial literacy, affect the chances of firms to access to finance (Beck et al., 2011). Information about possibilities to access finance and credit products of the banks also influences access to the necessary credit funds for small businesses (Aleksandr, 2016; OECD, 2021a). On top of it, in developing countries, banking systems can be compromised, limiting access to finance to entrepreneurs, by also giving preference to firms with bank connections and not relying on efficiency considerations (Beck et al., 2006). In this line, in developing countries, firms with political connections can be favoured, facing lower costs and financial constraints, which leads to an unfavourable and unfair business environment, by putting other firms at a disadvantage to get the needed financing facing unfair competition further reducing firms' chances for growth. This also reduces the chances for efficient capital allocation, which also leads to savings to the most productive investment projects, and through efficiency help in enhancing economic development and growth (Levine, 2005).

Recent literature in international trade, studying the impact of access to finance on trade, has focused on the sunk costs that businesses have to undertake in order to export, including expenses of getting together useful information on foreign markets, investing in having higher quality products or services, transportation, packaging and marketing for foreign markets, which typically are more of a challenge for businesses from developing countries (Melitz, 2003; Eaton et al., 2004; Sutton, 2007). Bellone et al. (2010) conclude financial constraints are barriers to firms' exporting performance by explaining that exporting activities can only be pursued by companies which are in the position of being financially healthy with the capacity to pay for high upfront costs or sunk entry costs.

When firms have access to finance, they gain the ability to improve on their flexibility, they get to grow and be more innovative, as well as invest in their needed equipment and technology (Bankowska et al., 2020; Yang et al., 2020). Having access to finance allows for firms to be able to improve their productivity and performance, as well as to meet quality standards which are in line with competitive firms in the global market. Numerous previous studies find that smaller and non-exporting firms have limited possibilities to grow, in comparison to larger exporting ones (Beck et al., 2008, Atkin et al., 2017). According to Wagner (2014; 2019) firms with less financial constraints engage in more exports. But through exporting, firms can also be more established and gain further access to finance (European Central Bank, 2021)

Informal financing systems are means to having access to finance when formal credit markets are not an option. Financing from family, friends, and through other informal ways of financing is more widespread in developing countries (Demirguc-Klut and Klapper, 2012). Firms in developing countries, where access to finance is an issue, are also more likely to operate, at least partially, in the informal economy (Shneider et al., 2010). However, academic studies, including Cheng and Degryse (2010), Cull et al. (2009), Ayyagari et al., (2010), report either finding no evidence or minimal evidence that financing through informal means contributes to growth.

For entrepreneurs, the inability to meet their capital needs because of limited access to finance, can constrain the operations and growth of firms, making it difficult for firms in developing economies to grow, and contribute to economic growth. Funding and finance of firms is perceived to be a key driver of increased entrepreneurship, and their contribution to increased growth (Barajas et al., 2016). Improvements in financing and funding means for firms contribute to growth and development of economies.

3.4 Human Capital

Human capital is an important factor in explaining economic growth and development, and development of skills that help enhance employability and labour productivity make countries more productive (Mate, 2015). Merriam Webster (2021) dictionary defines Human Capital as “the skills, knowledge, and qualifications of a person, group, or workforce considered as economic assets”. Isenberg (2011), under components of entrepreneurial ecosystems where entrepreneurship can be sustained and thrive, includes both labour force and educational institutions under the human capital pillar, while educational institutions also feeds the labour force. Compared to developing countries, developed economies have a higher trained labour force, which in turn creates spill over effects in the performance of economies (Franz, 2016; World Bank, 2021). World Bank (2021) explains that

“investment in a high-quality workforce can create a virtuous cycle, where relevant and quality skills enable productivity growth and foreign direct investment, which result in more and better jobs for the current workforce and more public and private investment in the education and training system”.

This also means that investment in high-quality workforce increases both the employability and productivity of current as well as future workforce and explains one of the factors of inability of developing countries to catch up with the developed world. But, because the payoff periods of investing in labour force are not reaped in a short term, governments of developing countries are prone to omitting high investments in labour force. Hanushek et al. (2016) show that educational quality is a strong predictor of growth in GDP per capita, and while investing in education does not bring immediate results, results are seen when children attending school enter the labour market. The quality of labour force has a steady and strong relationship with the economic growth of countries (Hanushek and Kimko, 2000).

Institutions are a complex system and interact with one another in dynamic ways. According to Brixiova and Egert (2017, p. 391), to see benefits in quality of labour force, “policymakers should strive to improve institutions, the business environment and the education system to spur productive entrepreneurship and thus to achieve better economic outcomes”. Human capital development and business environment of countries depends on the quality of institutions of said countries, thus investments should be done in all three. Literature confirms quality institutions that lead to human capital markets that function well increase the return to education, which stimulates human capital accumulation (Dias and Debaldi, 2012). Having said that, simply checking for years spent in schooling is found to be inconsistent with development and growth through different studies (Easterly, 2001; Pritchett, 2006), but quality of education is found to have a substantial impact on the performance of economies which in return translates to more entrepreneurship and exports (Hanushek and Woessmann, 2010; Ramirez, 2015).

Youth in developing countries has had higher rates of inactivity and leave education earlier, as well as experience longer transitions from education to job (Quintini and Martin, 2014), and developing countries are characterized by unskilled labour force. While human capital and access to skilled labour is a key element of entrepreneurial success, entrepreneurs and firms struggle to find skilled staff. Participating in international trade, and especially exporting, requires labour market skills. This is especially true if higher-income countries are a destination and if value-added products are exported (Bastos et al., 2014; Brambilla et al., 2019). World Trade Organization (2017, p. 159) explains that as “technologies, market demands and trading relations change rapidly, the responsiveness of skills supply to current and prospective changes in demand is of crucial importance”.

Inadequate labour force is among the main issues firms cannot grow and cannot export. Human capital and access to skilled labour is crucial for entrepreneurial success and firm growth, however developing countries are prone to having a mismatch between skills that are required by the labour market and the skills that workers possess, through training or education (International Labour Organization, 2019). The unskilled labour supply makes it difficult for firms of developing countries to start innovating, exporting, and growing further.

3.5 Rule of law and contract enforcements in developing countries

Supportive legal and regulatory frameworks contribute positively to an entrepreneurship ecosystem where firms can grow and become innovative (Knack and Keefer, 1995; Isenberg, 2010). This is in line with institutional theory, in which formal institution, comprising of rule of law and court systems, set the rules of the game for doing business, by shaping interactions between organizations in the society (North, 1990; Estrin et al., 2013). A weak rule of law and property rights protection, typical in developing countries, discourage firms from growth and investing their retained earnings in their ventures (Johnson et al. 2002). While investments in rule of law, including access to justice and legal empowerment in developing economies contributes to a thriving business environment (OECD, 2019).

The United Nations (2012), in the declaration of the high-level meeting on the rule of law, included:

“the rule of law and development are strongly interrelated and mutually reinforcing, that the advancement of the rule of law at the national and international levels is essential for sustained and inclusive economic growth, sustainable development, the eradication of poverty and hunger and the full realization of all human rights and fundamental freedoms, including the right to development, all of which in turn reinforce the rule of law”.

Rule of law, ensuring no one is above the law and that it is applied fairly and equally, is crucial to any market economy and to empowering entrepreneurship (Knack and Keefer, 1995; Chang, 2010; Bingham, 2011; Estrin et al., 2013; Elert et al., 2019). Chang (2010) finds that legal framework that relies on the rule of law, property rights and contract enforcement is highly significant (Chang, 2010). These institutions help entrepreneurship growth by supporting

commercial transactions among agents by not relying on reputation and repeated interaction (Starr, 2011; Girardi and Bowles, 2018), however this support, in developing countries, is undermined due to weak rule of law and issues with property rights and contract enforcements (Aidis et al., 2008; Smallbone and Welter, 2001).

While the formal institutions in some economies can disincentivize investments and entrepreneurship (Acemoglu and Robinson, 2012), it is often the case that it is the implementation of legislation and policies that lag behind in developing countries, rather than their content. Laws which relate to property rights, contracts and commercial activities are implemented only partially in developing countries (Aidis et al., 2008; Smallbone and Welter, 2001). Reforms to formal institutions do not lead to the same outcomes for different economies (Glaeser et al. 2004); thus the regulatory framework should be tailored taking in mind the entire institutional environment, rather than merely transferring the existing formal institutions of the developed world to other countries (Wright et al., 2005). While effective policy is a component in bringing positive change (Isenberg, 2011), the implementation of it matters substantially. Institutions in developing countries, including post-conflict states, impose highly bureaucratic burdens on businesses, increasing uncertainty and transaction costs (Aidis and Adachi, 2007). These countries often have insufficient court systems and law enforcement, as well as ineffective public policies on top of other issues.

While numerous empirical studies find that contractual insecurity reduces the volume of international trade (Anderson and Young, 2006; Nunn 2007), contracts are often not used when doing business in developing countries; moreover, even when contracts are in place, there are enforcement constraints due to the non-functioning of the rule of law, particularly non efficient court systems. Bigsten et al. (2000), who have examined the contractual practices of manufacturing firms using survey data gathered in six developing countries, conclude that the absence of an efficient legal system hinders the interaction between firms and potential foreign importers. A risky trade environment is associated with contract non-performance; furthermore because there is an inefficient legal system, courts and lawyers are seldom used to enforce contracts. Quality formal institutions, instead, would reduce both local costs and international transaction costs for importers. Similarly, Anderson and Marcouiller (2002) find that poor institutions in developing countries induces a price top up, which acts as a hidden tax, on exports, considerably reducing them.

Uncertainty whether contracts can be enforced or if payments will be made makes foreigners reluctant to trade with a country, even if that country were to lower its formal trade barriers such as tariff rates; therefore, institutional quality matters for international trade (Anderson and Young, 2006; Nunn 2007). The decision to import or export involves many uncertainties; in this line, quality institutions, by shaping interaction between actors, can reduce the level of uncertainty and therefore increase international trade (de Groot et al. 2004; Jansen and Nordas, 2004).

According to Berkowitz et. al. (2006) quality institutions are especially important for complex exports, meaning products whose characteristics are difficult to fully specify in a contract, because competent judges are required to understand the details of a disputed trade contract and good legal infrastructure is needed to enforce these complex court rulings. When dealing with foreign markets, the commercial risk is much higher there as opposed to the risk in local markets, which contributes to shying away of investors in cases when there is no sound strategy in place and sound legal framework to protect their finances (Love and Roper, 2015).

3.6 Informal institutions

According to Isenberg (2011), social norms are an important determinant of entrepreneurial ecosystem, which are clustered under 'culture' in his six domain model, including how entrepreneurs are precepted in the society, the visibility of success of other entrepreneurs, the ambition / drive and hunger for entrepreneurship, and the tolerance of citizens for risk and mistakes. International Labour Organization and United Nations Educational, Scientific and Cultural Organization (2006) argue a strong entrepreneurial culture in the country impacts future generations to see entrepreneurship as a respectable and viable option and pursue it. Complementary informal institutions, such as a positive view of entrepreneurship and trust among parties, often enhance efficiency and effectiveness of formal institutions, and may create or strengthen incentives to comply with formal rules that might otherwise merely exist (Baumol, 1990). Norms, routines, and operating procedures influence the effectiveness and efficiency of functioning of organizations. Informal institutions gain even more importance in developing countries where formal structures are unclear (Jutting et al., 2007; Estrin et al., 2013). Jutting et al. (2007) argue that social norms, on top of being an important element of development, are also often the factors that influence and shape policy outcomes in economies where the government structures are poor and institutional quality is low.

Developing countries are characterized with weak institutional quality and with a higher presence of substitutive informal institutions (Helmke and Levitsky, 2004; Tonoyan et al., 2010, Estrin et al., 2013). Numerous studies confirm corruption levels are much higher in these countries compared to developed nations (Treisman, 2000, Oiken and Pande, 2012), thus hindering the much-needed development of the entrepreneurial ecosystem and economic growth. Corruption is defined as an illegal activity, conducted through organizations or people who misuse power or authority by acting beyond legal limits, for their own benefit, be it financial gain or other (Elliot, 1997; Pontel and Geis, 2007; Cuevo-Cazzura, 2016). It is categorized and classified in different ways, most commonly as demand versus supply corruption, petty versus high-level corruption (Elliot, 1997; Fazekas and Wachs, 2020), organized versus unorganized (Shleifer and Vishny, 1993), all of which have to do with misusing positions for own benefit, and all of which harm the health of the business environments. Helmke and Levitsky (2004) explain how corruption deliberately undermines the existence of formal institutions, substituting for weak formal structures.

Corruption favours firms with political ties and bank connections, making it more difficult for the mass of the firms to survive by making them financially constrained (Levine, 2018; Ullah, 2020). It disrupts the functioning of the banking systems, limiting access to finance to firms, by also giving preference to firms with connections, not relying on efficiency considerations (Levine, 2005; Beck et al., 2006). In the same line, legal system is also compromised by corruption. Djankov (2009) reason that since ineffective legal systems expose entrepreneurs to corrupt officials, the expected returns of their firms are diminished, and this discourages doing business. In such business environment, with different forms of corruption, firms lacking favourable advantages in dealing with legal and regulatory systems face different difficulties, including high financial constraints. In developing countries, the presence of higher corruption makes firms financially and opportunity constrained, harming firm development, innovation, growth, and leading to an unhealthy business environment which cannot support economic growth and development. Entrepreneurs who participate in corruption garner immediate benefits, including favourable treatment and an unfair competitive advantage (Tonoyan et al., 2010; Ufere et al., 2012), leaving most other firms without ties unfavoured. But, despite the immediate advantages to the firms with ties through corruption, in the long run, also these businesses are negatively affected by the spread

of corruption in communities where they function and they become dependent on it (Li et al., 2015).

Actions associated with corruption, such as nepotism, also prevent chances of building effective institutions needed to support entrepreneurship (Khera, 2001), although studies on the impact of nepotism on economic development are seldom. Tanzi (1995) who studied the effects of nepotism finds that familial and friendship networks influence decisions on policy makers in developing countries, and he described scenarios where civil servants that would not show preference to family would be considered social outcasts.

Informal institutions influence the will of citizens to engage in entrepreneurship, and trust as a complementary informal institution is a condition for the willingness to cooperate and interact with others (Brunetto and Farr-Wharton, 2007; Muethel and Bond, 2013). Trust, as an example, between two parties assists in lowering commercial costs by not being fully based only on contractual terms, without violating formal institutions. Trust is defined as the belief that the other party will be fair and reliable, and overall honest (Leonidou et al., 2007). The role of trust in entrepreneurship and trade also increases when it comes to doing business with businesses and people coming from economies where rule of law and justice systems are weak (Guiso et al., 2009). In developing countries, compared to the developed world, entrepreneurs face a distinct disadvantage which is the widespread lack of trust (Khanna, 2018). If parties involved in a business relationship trust one another, they are less likely to show opportunistic behaviour and more willing to continue with the business relationship and strengthen their cooperation (Morgan and Hunt, 1994; Leonidou et al, 2007), while forming these business relationships, as well as continuing them and strengthening them, is less likely to happen if there is lack of trust.

Apart from having an impact on business relationship formations needed for companies to export, trust also affects coming investment decisions which would in turn help recipient country companies increase ability to export. Da Rin et al (2018) confirm that a high level of trust in the country increases the number and volume of received FDIs, but also it increases the probability of cooperating and investing together with a partner from the recipient country. While the concept of institutional voids is mostly used in existing literature as a failure of formal structures, lack of trust reducing entrepreneurial activity is an example of informal institutional void (Webb, 2020).

Developing countries are often characterized by low levels of trusts, making business connections and relations more difficult to thrive.

The more informal institutions are misaligned to formal institutions, which is typical in developing countries, the more room for informal economy there is (Williams et al., 2015). Schneider and Williams (2013, p. 25) explain informal economy includes:

- *“to avoid payment of income, value added or other taxes;*
- *to avoid payment of social security contributions;*
- *to avoid having to meet certain legal labour market standards, such as minimum wages, maximum working hours, safety standards, etc.; and*
- *to avoid complying with certain administrative obligations”*

There is convincing evidence that a higher presence of informal economy leads to an increase in income inequality, a lower average GDP growth, and a reduction in the performance of exports (World Bank Group, 2022). The uncertainty that prevails from the dominance of informal institutions in developing countries creates market distortions, including rise of informal economy, abuse by powerful actors, corruption, etc. (Doh et al., 2017). While some informal institutions can work synergically with formal structures, such as trust and networking, other informal institutions undermine the presence of formal structures (Levitsky and Helmke, 2006; Leftwich, 2007), distorting markets, lowering GDP growth, and reducing exports.

3.7 Chapter Summary

Entrepreneurship is a key element for the growth and development of developing countries. By allowing and supporting firms to thrive, countries can increase the level of employment, improve the quality of life of people, as well as increase exports, among many other benefits. Developing countries, despite the need for growth and development, are often comprised of weak institutions which impose highly bureaucratic burdens on businesses, increasing uncertainty and transaction costs. These countries often have insufficient court systems and law enforcement, as well as inadequate labour force, and lack of financing, which are all listed in the existing literature as burdens and constraints to doing business.

In developing economies, the role of firms in economic development has been limited by lack of access to finance, especially from financial institutions (Schiffer and Weder, 2001; Cressy, 2002; Beck *et al.*, 2008). These financial constraints are barriers to firms' improvement of their businesses, innovation, as well as participation in exporting activities. Supportive legislation and regulations help entrepreneurship growth by supporting commercial transactions among agents by not relying on reputation and repeated interaction (Beck, 2011), however this support, in developing countries, is undermined due to weak rule of law and issues with property rights and contract enforcements (Aidis *et al.*, 2008; Smallbone and Welter, 2001). Also, inadequate labour force is among the main issues firms cannot grow and cannot export. Human capital and access to skilled labour is crucial for entrepreneurial success and firm growth, however developing countries are prone to having a mismatch between skills that are required by the labour market and the skills that workers possess, through training or education (Handel, 2017).

Countries with weak institutional settings are also characterized by high corruption and low levels of trust, amount the main informal institutions that play a role in the performance of firms. Informal institutions in developing countries undermine the presence of formal structures, reducing the chances of seeing benefits from reforms in formal institutions. The misalignment of informal institutions with formal structures gives room for a high presence of informal economy, typically a problem in developing countries (Godfrey, 2015; Littlewood *et al.*, 2018). This creates market distortion by the unfair competition, resulting in lower GDP growth levels and low levels of exporting.

While quality institutions contribute to fair business environments, supporting innovation and helping entrepreneurship to thrive, weak institutions negatively influence business environments. The transformation role entrepreneurship could play in developing economies is negatively influenced by constraints and barriers to doing business in these countries, caused by weak institutional frameworks (Hoskisson *et al.* 2000, Yeung, 2002). Strengthening of the institutional environment, including institutions related to access to finance, developing labour force, rule of law, and taking into account informal institutions, is a prerequisite for supporting entrepreneurship in developing economies.

4 International trade and its association with institutions

4.1 Introduction to the chapter

The positive effects of international trade on economic performance have been widely acknowledged by economists (Smith, 1910; Krugman, 1981; Dollar and Kraay, 2003). Krugman (1979; 1981), a pioneer of new trade theory, explained that because of economies of scale, cost reduction is permitted on a global scale therefore there are potential gains to all trading nations. Countries that engage in more international trade grow faster, innovate, improve productivity, and have higher per capita incomes (Frankel and Romer, 1999; International Monetary Fund, 2017), and engaging in international trade is particularly important for developing countries that lag in economic growth.

Existing literature also confirm that institutional quality positively impacts international trade volume (Anderson and Marcouiller; 2002; Abe and Wilson, 2008; Nunn, 2007). Frankel and Romer (1999) find that countries with higher levels of trade have more economic growth, however, the trade share may be endogenous, meaning countries are poor for reasons other than trade, such as lack of institutions or low-quality institutions. Ineffective rule of law, ineffective public policies, corruption, are among the main obstacles in doing business and trading across borders (Aidis and Adachi, 2007; Nunn, 2007). Uncertainty whether contracts can be enforced or if payments will be made makes foreigners reluctant to trade with a country, even if that country were to lower its formal trade barriers such as tariff rates; therefore, institutional quality is central to international trade (Anderson and Young, 2006; Nunn 2007). The decision to import or export involves numerous uncertainties, such as political risk, misalignments between formal and informal institutions, institutional voids, and bureaucracy; in this line, institutions, by shaping interaction between actors, can reduce the level of uncertainty and therefore increase international trade (Anderson and Marcouiller, 2002; de Groot et al. 2004; Jansen and Nordas, 2004).

Increasing trade lowers poverty rates and income equality, and increases economic growth (McCaig, 2011; Le Goff and Sign, 2013), especially in developing economies with a deep trade deficit. While the quality of the institutional environment in a country is central to increasing exports, and increase in trade also positively impacts the institutional environment, this leads countries to a virtuous cycle; or a vicious one, for developing countries with weak institutions. This

chapter focuses on trade, giving more attention to exports. It reviews existing literature on the impact of trade to present the importance of the ability to export in section 4.2.. It discuss the interrelations of institutions and firms' export participation, and the institutional challenges for exporting in section 4.3. Whereas section 4.4. concludes the chapter.

4.2 Importance of international trade

Levels of exports are strongly associated with economic performance (Krueger, 1997; Sachs and Warner, 1997; Frankel and Romer, 1999; Winters et al., 2004; Shepherd and Haddad, 2011). Shepherd and Haddad (2011), for example, show that no countries in the past 50 years have managed to have significant increases in per capita incomes, and have a sustainable economic development, without greatly expanding their trade. Krugman (1979; 1981), a pioneer of new trade theory, showed that because of economies of scale, cost reduction is permitted on a global scale therefore there are potential gains to all trading nations. Countries that engage in more international trade grow faster, innovate, improve productivity, and have higher per capita incomes (Frankel and Romer, 1999; International Monetary Fund, 2017). Lewer and Van den Berg (2007, p. 76) explained how

“a sudden shift in trade policy that opens up new trade provides an immediate gain in real per capita income, which, in turn, accelerates technological progress and increases the rate of economic growth permanently”.

Different trade theories aim to explain international trade and give reasons on why we would expect exporting to have a positive impact on growth and development. Trade theories focus on the explanations of trade flows between at least two nations, the impacts of trade across borders, and the effects of trade policies on economic development (Smith, 1910; Ricardo, 1817; Krugman, 1981; Anderson and Marcouiller, 2002; World Bank, 2018). The classical trade theory explains that nations benefit from devoting resources to the production of goods and services in which they have advantages (Smith, 1910; Ricardo, 1817). Smith stressed the capability of one economy to produce products with less labour per unit in comparison to other economies. He reasoned that all countries would be better off simultaneously if they practiced international trade and specialized and exported products in accordance with their absolute advantage. By the same reasoning, countries should import products in which they have absolute disadvantages. Similarly, Ricardo

argued that economies benefit from international trade; however according to him, this is true even if one economy is more competitive in every area in comparison to its trading counterpart. Countries should concentrate on sectors and export the commodities in which they had comparative advantages, meaning that if ratio of the labour used in two products differs between two countries, each country would have at least one product where the relative amount of labour used per unit would be less than that of the other country. Differently from the suggestion of the classical theory, many developing economies tend to produce a higher variety of products without specializing in products where they have comparative advantages, which leads to non-competitive products due to high production costs.

Heckscher and Ohlin (Leamer, 2016) focused on how economies could gain advantages by producing commodities that used factors which were abundant. Their factors proportion theory explained how some countries have more labour supply whereas others have more capital supply, thus by producing and exporting goods that require factors which are relatively abundant, either labour or capital, and importing goods which require factors that are relatively short in supply, economies benefit from international trade (Helpman, 1981). Differently from developed economies, developing economies lack capital but often have high labour supply. Nevertheless, many developing economies do not benefit from the abundant human capital; institutions might be the reason behind their low growth rates.

Following the classical theory of trade of Smith and Ricardo, and other alternative theories such as the one of Heckscher and Ohlin, Krugman (1979; 1981), a pioneer of new trade theory, explained that because of economies of scale, cost reduction is permitted on a global scale therefore there are potential gains to all trading nations. While two countries may have no noticeable differences in opportunity costs at a particular point in time, specialisation in a particular industry by a country gives it benefits, because specialization increases output thus they gain from economies of scale. The new trade theory also suggests that markets can only support a limited number of firms in different industries, thus trade skews toward those countries that have firms which were able to capture first mover advantages and have gained substantial economies of scale. However, there is a lack of academic studies, particularly in developing economies, that examine the reasons behind the abilities to become new comers while others are left behind.

In the continuing of development of international trade theories, Porter (1990) developed a theory of national competitive advantage, which he explained by identifying four determinants that are important for industry competitiveness: local market resources and capabilities, local market demand conditions, local suppliers and complementary industries, and local firm characteristic. According to his theory, industry competitiveness of countries depends on the capacity of the industry to innovate and upgrade. It is important to also mention that Porter suggested that Governmental actions and economic policies can increase the competitiveness of firms and industries; yet, there is lack of literature that examines the significance of formal institutions in improving factor conditions.

Most trade theories portrayed above conclude that free trade advances economic growth; on the other hand, models such as one by Brander and Spencer (1985) conclude that strategic trade theory has the ability to boost growth. According to them, by subsidizing local firms, governments can help them in their competition against foreign competitors, which in turns leads to domestic economic growth. Import substitution industrialization, a trade policy, used after WWII, which advocates substituting foreign imports with local production, was believed to accelerate economic development in developing countries (Edwards, 1993; Krueger, 1998). These policies intended to boost development through the creation of an internal market, through highly protectionist trade policies, subsidizing vital industries, and increasing taxes. Import substitution industrialization strategies appeared to work, but their negative aspects soon became noticeable (Baldwin 2003), thus they were gradually abandoned by developing countries. Consequently, trade liberalization was promoted during the 1980s, mostly through structural adjustments programs and loans of the IMF and the World Bank (Greenway et al, 2002), because greater openness to trade was believed to generate positive growth and development effects.

Rodrik (2000a, p. 1) states that trade reform include the “transformation of the patterns of behaviour within the public sector, and the government's relationship with the private sector and the rest of the world”. He argues trade reforms should be viewed as an institutional reform, and “when the reform is well-designed and consistent with the institutional needs of the economy, it can spur unexpected levels of entrepreneurial dynamism and economic growth” (Rodrik, 2000a, p. 2). The public-private dialogue is crucial when conducting reforms because it can lead to more effective governmental incentives towards the private sector which in turn can boost exports.

Understanding the relationship between trade policies and the development of economies has very important implications for policy makers, which explains also the numerous studies conducted to estimate the effects of trade on economic growth, (Maizel, 1963; Kavoussi, 1984; Frankel and Romer, 1999; Rodriguez and Rodrik, 2000; Dollar and Kraay, 2003), finding that trade openness leads to a higher economic performance. Sachs and Warner (1995), for example, constructed an indicator of openness classifying an economy as closed or open based on tariff rates, non-tariff trade barriers, the size of the black market, whether or not it had a socialist system, and whether or not there was a state of monopoly of major exports. They found that the average economic growth rate in open economies is significantly higher in comparison to the growth rate in closed ones. According to them, all countries that liberalized trade show economic growth.

Increasing exporting leads to productivity improvements as firms compete with or supply to firms operating with innovative practices (De Loecker, 2007; Wagner 2012). However, the positive effects on productivity depend on the destination countries and their level of development, technological frontier, and the level of innovation (De Loecker, 2007). Increasing international trade can positively impact productivity growth due to several reasons. While trade benefits recipient countries by introducing knowledge on technological frontiers, one of the positive impacts on productivity growth is also the knowledge spillover as firms learn by exporting (De Loecker, 2013; Aghion and Jaravel 2015; Aghion et al., 2019). Exporting firms have higher access to technology and information of foreign markets (Salomon and Shaver, 2005; Utar, 2009; De Loecker, 2013). Salomon and Shaver (2005) explains that firms gain technological knowledge, and can use that knowledge to improve their products or processes. While more productive firms have higher chances of becoming exporters, exporting helps them to become more productive, leading to a virtuous cycle.

Exporting also impacts productivity growth by having an influence in the institutions of the country of origin. International Monetary Fund (2017) claims that exporting is helpful in increasing the productivity indirectly by encouraging reforms on institutions of a country and improving the governance. Tong and Wei (2014) argue that exports influence better corporate governance and transparency at the firm level, while Klein et al. (2010) find benefits in wage adjustments with a decrease in wage gender gap and immigrant vs. non-immigrant wage gap. This could be due to trade agreements between countries which include labour provisions, such as improving labour

conditions, including benefits to women entrepreneurs, and increasing social dialogue (International Labour Organization, 2017).

To increase the economic cooperation with other countries and secure a higher volume of trade, an economy may enter into bilateral or multilateral trade agreements. Existing empirical literature suggests trade agreements can have both positive and negative effects on trade, depending on their design implementation, as well as country characteristics. Krugman (1991), Wei and Frankel (1998), and Freund and Omelas (2010) found that gain from trade through free trade agreements is higher if countries are geographically close to one another; neighbouring countries are often times natural trading partners and new trade agreements enhance their cooperation further by setting out legal norms that govern trade activities. Aitken (1973), for example, found that European Community agreements on trade flows had significantly impacted the level of trade between countries. According to Baier and Bergstrand (2007), except geographical proximity, the similarity in economic characteristics leads to higher gains from trade creation through free trade agreements, because of economies of scale in the presence of differentiated products.

Trade agreements between countries that are geographically distant or with different economic characteristics can have negative effects (Krugman, 1991; Baier and Bergstrand, 2007). Trade agreements may be trade diverting if it encourages trade between two countries that are unnatural partners. Moreover, countries entering in trade agreements put their private sectors to compete in equal terms; since private sectors in a less developed country are relatively weaker than those in more developed economies, they will have to compete against stronger companies.

Trade liberalization was promoted widely to developing economies, also through structural adjustments programs and loans of the IMF and the World Bank (Greenway et al., 2002), because greater openness to trade is seen as one of the crucial reasons behind positive growth and development effects in economies, but institutional quality is a prerequisite for trade to impact growth and development. While trade liberalization can be a disadvantage for less developed countries because of competition with competitive firms of more developed countries, it is the increase of exports that benefits the economy of the country of origin. Through an increase in exports, developing countries can benefit from a boost in their entrepreneurship levels, improvements in innovation, increase of sales of firms, and increase in employment levels in the country.

4.3 The link between institutions and exports

While substantive literature has stressed on the positive effects of international trade on economic performance, a parallel literature has documented the importance of high institutional quality for economic growth and development (North, 1990; Acemoglu et al., 2001; Levchenko, 2007; Easterly, 2013), indicating that quality institutions are a prerequisite for trade to impact development. Both formal institutions, or formal rules and regulations enforced through official channels, and informal institutions, such as social norms and codes of conduct, can impact a country's trade performance. Higher institutional quality is associated with a higher international trade volume, and countries with weak institutions engage in less trade (Anderson and Marcouiller, 2002; Abe and Wilson, 2008; Nunn, 2007; Alvarez et al., 2018). Weak institutions in developing countries can reduce trade and lead to low levels of exports (Anderson and Marcouiller, 2002; Meon and Sekkat, 2004) which are particularly important for development, as exports influence an increase in entrepreneurship, innovation, and employment levels.

Institutional quality of both importing and exporting countries positively impacts levels of trade between countries (Alvarez et al., 2018). These positive effects are due to an increase in economic incentives and reduction of transaction costs (Jalilian et al., 2007). The decision to import or export involves numerous uncertainties, such as political risk, misalignments between formal and informal institutions, institutional voids, and bureaucracy; in this line, quality institutions, by shaping interaction between actors, can reduce the level of uncertainty and therefore increase international trade (Anderson and Marcouiller, 2002; de Groot et al. 2004; Jansen and Nordas, 2004).

Russett and Oneal (2001) find that democratic countries trade more, and their trade partners are usually other democracies. Henisz and Mansfield (2006) reason democratic systems promote international trade because the institutions in these systems give citizens the capacity to punish government officials who mismanage. According to Levchenko (2007), institutional differences are sources of comparative advantages; hence developed countries with high quality institutions have comparative advantages in the production of goods dependent on institutional quality, and thus can export more. Costinot (2009) adds that institutions and human capital are complements in determining comparative advantage. Literature on small firm internationalization describes labour force and human resources as a vital ingredient for discovering and exploiting opportunities outside the domestic market. Edelman et al. (2002) for example associate better human resources with

higher levels of competitiveness, and firms with a greater knowledge base have a greater chance for exports. Other studies have linked human capital factors with firms' export performance through increases in productivity (Bryan, 2006; Kleynhans, 2006).

Countries producing and exporting more sophisticated products, meaning goods produced using more sophisticated technological processes and higher labour costs, tend to record more economic growth in comparison to countries that produce and export unsophisticated goods (Hausmann et al., 2007), but the production of more complex products requires a resilient contractual environment (World Trade Organization, 2013), thus countries with higher quality institutions specialize in sophisticated products. Numerous empirical studies find that contractual insecurity reduces the volume of international trade (Anderson and Young, 2000; Nunn 2007). Contracts are often not used when doing business in developing countries; moreover, even when contracts are in place, there are enforcement constraints due to the non-functioning of the rule of law, particularly non efficient court systems. Bigsten et al. (2000), who have examined the contractual practices of manufacturing firms using survey data gathered in six African countries, conclude that the absence of an efficient legal system hinders the interaction between firms and potential foreign importers. A risky trade environment is associated with contract non-performance; furthermore, because there is an inefficient legal system, courts and lawyers are seldom used to enforce contracts. According to Berkowitz et. al. (2006) quality institutions are especially important for complex exports, meaning products whose characteristics are difficult to fully specify in a contract, because competent judges are required to understand the details of a disputed trade contract and good legal infrastructure is needed to enforce these complex court rulings.

Uncertainty whether contracts can be enforced or if payments will be made makes foreigners reluctant to trade with a country, even if that country were to lower its formal trade barriers such as tariff rates; therefore, institutional quality matters for international trade (Anderson and Young, 2000; Nunn, 2007). Ineffective rule of law, corruption, ineffective public policies are mentioned in these studies as one of the main obstacles in doing business and trading across borders. Anderson and Marcouiller (2002) explain how ineffective public policies and a vain legal system reduce the volume of trade, putting major emphasis on corruption as one of the main obstacles in doing business. Anderson (2001, p. 2), "underneath formal trade policy such as tariffs, there are very substantial barriers to trade posed by corrupt officials, unreliable courts and outright predation".

Related to this, Abe and Wilson (2008) found that reducing corruption and improving transparency in APEC countries to the average level of the region would increase trade in the region by 11 percent. The lack of the quality of institutions, formal or informal, leads to lower quality standard infrastructure and hence hinder trade.

Understanding export barriers and their effects are necessary to develop key strategic guidelines and provides insights for preparing export policies (Leonidou et al., 2007; Katsikeas, 1994; Julian, 2014). Rodrik (2004) states that trade reform includes the “transformation of the patterns of behaviour within the public sector, and the government's relationship with the private sector and the rest of the world”. The public-private dialogue is also crucial when conducting reforms because it can lead to more effective governmental incentives towards the private sector which in turn can boost exports. The public-private dialogue helps guide the development and help the implementation more successful policies and regulations (Haldeweg, 2015), as well as reduce asymmetries between formal and informal institutions.

Dollar and Kraay (2003) explained how countries with stronger institutions and countries that trade more perform better economically, adding that both institutions and trade affect the economy positively in the long run; while they suggest that a higher trade volume is relatively more important over shorter periods, their study also finds that countries with better institutions tend to trade more internationally. Given the importance of trade in economic development, and the belief that quality institutions are a prerequisite for trade to impact the performance of economies, developing countries need also to have the institutional framework which promotes exports.

Institutional quality positively impacts international trade volume (Anderson and Marcouiller; 2002; Abe and Wilson, 2008; Nunn, 2007), and the positive effects of international trade on economic performance have been widely acknowledged by economists (Smith, 1910; Krugman, 1981; Lewer and Van den Berg, 2007; Dollar and Kraay, 2003). Countries that engage in more international trade grow faster, innovate, improve productivity, and have higher per capita incomes (Frankel and Romer, 1999; International Monetary Fund, 2017).

4.4 Chapter summary

Both increased trade and institutional quality are associated with higher levels of economic growth and developments. Countries that engage in more international trade grow faster, innovate,

improve productivity, and have higher per capita incomes (Frankel and Romer, 1999; World Bank, 2018). Developing countries with weak institutions face different challenges in the aim of increasing exports, preventing their chances for an increased economic growth and a more sustainable economic development.

Since the decision to import or export involves uncertainties, investing in quality institutions contributes to an increase in international trade (Anderson and Marcouiller, 2002; de Groot et al. 2004; Jansen and Nordas, 2004), and an increase in international trade also contribute to a better institutional environment, suggesting a virtuous cycle. Developing countries are more prone to political risk, misalignments between formal and informal institutions, institutional voids, and different bureaucracies, by not having in place quality institutions that shape the interactions between actors. This institutional setup hurts their chances to development and growth, reducing their chances to export.

Exporting firms of developing countries grow faster compared to non-exporting firms. Exporting firms have an increased consumer base, benefit from economies of scale and have higher access to technology and information of foreign markets and can use that knowledge to improve their products or processes. Unfortunately, firms in developing countries, especially smaller firms, face the issues of having limited access to finance, unskilled human capital, and are penalized by the negative perception of corruption, as well as issues with rule of law and contract enforcement, among other inefficient institutions.

Given the importance of trade in economic development, and the belief that quality institutions are a prerequisite for trade to impact the performance of economies, developing countries need to have the institutional framework which promotes exports. Both formal and informal institutions impact the business environments firms operate in, determining their export capabilities, while higher exporting is associated with more growth, which in turn also influences the quality of the institutional environment in a country.

5 Kosovo's economy and trade

5.1 Introduction to the chapter

The empirical focus of the thesis is the institutional environment in Kosovo, a small developing economy with a deep trade deficit, with the aim of studying the impact of the institutional framework on firms' export performance. Although Kosovo has made significant progress with building formal institutions and has experienced robust economic growth for most of the past two decades, its GDP/capita remains the smallest in Europe (World Bank, 2022b), and the trade deficit and unemployment continue to be persistent problems. As the youngest state in the region, still facing political challenges related to its recognition on the international stage, its economy, infrastructure and formal institutions require further development to catch up with neighbouring states and align with the requirements of EU accession, one of the primary strategic targets for the country. Economically, Kosovo must address a narrow productive base, comparatively low productivity, high unemployment, well established informal structures and institutions, significant emigration, particular among younger, well-educated people and a pronounced reliance on remittances (OECD, 2021b).

The country remains heavily dependent on imports, and throughout the years its exports amounted for only a small fraction of imports. In year 2019, exports covered imports only at 12.2%, even with a slight increase of exports from the year before (Kosovo Agency of Statistics, 2020). Causes identified are manifold, but the small and technologically backward industry sector, the lack of qualified human resources and unreliable energy supply are among the major weaknesses (Gabrisch et al., 2016).

Higher institutional quality is associated with a higher international trade volume, and countries with weak institutions engage in less trade, especially exports (Anderson and Marcouiller; 2002; Abe and Wilson, 2008; Nunn, 2007). While levels of exports are strongly associated with economic performance (Krueger, 1997; Sachs and Warner, 1997; Frankel and Romer, 1999; Winters et al., 2004; Shepherd and Haddad, 2011). This thesis studies the impact of institutions on Kosovo exports, while the chapter gives an overview of institutional building in Kosovo, economic and trade developments, and reviews formal and informal institutions.

The following map gives an overview over the main Kosovo regions and its location in the Western Balkans. Kosovo is a landlocked country with Albania, Montenegro, North Macedonia and Serbia as direct neighbours. Its 1,873,000 residents are mostly Albanian, making up 94.5% of the population, while minorities include the Bosnian population with 1.7%, Serbian 1.6%, Turkish 1.1%, other 0.9% (includes Romani), unspecified 0.1%, based on the official 2011 census (Kosovo Agency of Statistics, 2011). The capital Pristina has approximately 200,000 residents. The average age of Kosovo inhabitants is 26 years old, making it the country with the youngest average age in the territory of Europe (World Bank, 2017).



Figure 2. Map of Kosovo (On the world map, 2021)

Figure 2 shows the map of Kosovo and its location in the European continent. The main industrial areas in Kosovo are located around Pristina (with significant lignite deposits nearby and further mining operations in the northern region). Minerals and ores, together with food products, form the main Kosovo's exports.

While major investments have been undertaken, including highway connections to Tirana of Albania and Skopje of North Macedonia, and the plans for a Pan-European railway transport corridor connecting Kosovo to Serbia and North Macedonia are underway, Kosovo is not directly

linked to major trade routes to eastern and western Europe, hence it is very dependent on transiting neighbouring countries to access international trade opportunities. Kosovo faces challenges to its economic development and export capacities that are rooted in its political past and present limitations, its location within the region and its comparatively late and slow development after its independence.

5.2 The building of the institutions in Kosovo

Kosovo, a war-torn county, has made significant progress with building formal institutions and has experienced robust economic growth after its liberation from Serbia (former Federal Republic of Yugoslavia) in 1999. Historically, Kosovo was one of the poorest regions of the former Federal Republic of Yugoslavia and was struggling with high levels of poverty, relatively low growth, and extremely high unemployment (United Nations, 2006). Public enterprises were in severe deteriorated condition because of disinvestment and neglect, especially during the 1990s; these included energy infrastructure, postal services and telecommunication, airport and railroads. Starting from 1990, many Kosovo Albanians were driven out of jobs and had limited to no access to public services, such as education and healthcare. To survive the oppressive regime during the 1990s, supported by a strong diaspora and organised through a government in exile, clandestine services were established among the Kosovo Albanians, which included a parallel education system, funded through the so-called ‘three-percent fund’, an unofficial tax paid by Kosovo diaspora (Bislimi, 2010). Also, family ties within the country and with Kosovars living abroad sustained those remaining in the country; a period which enforced informal institutions in Kosovo related to reliance on family ties and non-contractual business agreements.

The war of the late 1990s caused Kosovo additional destruction of economic infrastructure. Also, in 2000, the IMF staff estimated the country’s GDP to 3 billion DEM with a GDP/capita of \$759 and half of the population with consumption levels below the poverty line (IMF, 2001). Coming from decades of neglect, diminished capital, and virtually non-existent formal institutions, institutional building in Kosovo was needed from scratch. In 1999, the United Nations Interim Administration Mission in Kosovo (UNMIK) used its authority under the UN resolution 1244 to set up a civilian administration in Kosovo as the interim government. UNMIK's mandate was comprised of four pillars (United Nations, 1999): a) civil administration, b) judiciary functions (including the UN police), c) building institutions and conducting elections (entrusted to the

OSCE), and d) reconstruction and economic development (entrusted to the European Union). UNMIK held the right to all decision making but soon established a Joint Administrative Council and the Kosovo Developingal Council. After the first elections in 2000 and 2001 the Provisional Institutions of Self-Government (PISG) were established and received a growing number of responsibilities over time. After the independence in 2008, UNMIK functions were reduced to the democratisation and institution building overseen by OSCE (Bislimi, 2010).

With the help of international institutions, in 1999, a Central Fiscal Authority was established and put in charge of budget formulation, implementation and tax policy. The Department of Reconstruction was put in charge for preparing the public investment program and coordinating donor assistance. The inherited trade regime was replaced by a simple one with a single 10 per cent tariff rate which was administered by the Customs Department (also newly established). To this date, Kosovo applies a simple dual-tariff rate of 10 per cent and 0 per cent (Ministry of Finance, 2021; World Bank Group, 2021). Also, Kosovo's exports are exempted from taxation (Ministry of Finance, 2021). The Tax Administration of Kosovo, with a simple tax system, was also set up in 1999. Furthermore, a Banking and Payment Authority was established to provide a system for domestic payments, license, supervise domestic banks, and ensure their effective functioning (UNMIK, 2001).

Following the first Kosovan wide election of November 2001, the three-year term assembly was established, the President was elected by the assembly with largely symbolic powers, and the Government was formed (United Nations, 2003). The Kosovan Government, however, still had basic functions of administration management only; it was not in charge of economic policy and property management, which were functions of Pillar IV of UNMIK and the Kosovo Trust Agency (UNMIK, 2002). In early 2000's, Kosovo, with plenty of room to grow, showed signs of rapid economic growth, improvement of private sector and recovery of the provision of public services.

Kosovo became a sovereign country in February 2008, following a developing of responsibilities from UN institutions to Kosovo authorities, monitored by an international civilian office (ICO) and supported by the EU Rule of Law Mission (EULEX). In the same year, Kosovo adopted its own constitution, which defines the economic orientation as a country with a free market economy (Assembly of the Republic of Kosovo, 2008).

5.3 How does Kosovo perform economically?

Although Kosovo has made progress with building formal institutions and has experienced robust economic growth for most years in the past two decades, its GDP/capita remains the smallest in Europe, and the trade deficit and unemployment rates continue to be persistent problems. Market openness of Kosovo ((exports plus imports) as a proportion of GDP) is above 0.5 for year 2019 (similar ratio in previous years as well), which makes Kosovo an open economy. However, the foreign trade is dominated by imports, while the level of exports is small, resulting in a high trade deficit. Imports contribute to over 46% of Kosovo’s GDP (year 2019; similar trends in previous years). Table 2 below shows selected economic indicators, while table 3 shows the relative development of key indicators over the years, from 2006-2018.

Table 2. Economic indicators, 2019

GDP	GDP growth	GDP/capita	Unemployment	Imports	Exports	FDI inflow
(mil. €)		(€)		(mil. €)	(mil. €)	(mil. €)
7,056.1	4.8 %	3,959	25.7 %	3,233.4	393.2	254.6

Source: Kosovo Agency of Statistics (2020a)

The numbers suggest a significant GDP growth of a still very low GDP/capita. The unemployment rate is high, as is the trade deficit. FDI is less than 5% of GDP. The following table and figure compare the relative development of the key parameters GDP, consumption, investments, exports, employment and remittances of the last 13 years, compared to the 2006 baseline, normalised at 100 (OECD, 2021b).

Table 3: Development of economic indicators 2006 to 2018

Year	GDP	Consumption	Investment	Exports	Employment	Remittances
2006	100,00	100,00	100,00	100,00	100,00	100,00
2007	107,29	106,69	104,09	126,38	92,03	119,24
2008	110,12	107,96	128,67	126,49	85,33	135,65
2009	114,08	109,14	142,68	142,06	82,81	136,90
2010	117,86	111,81	158,17	159,77	83,37	130,49
2011	123,02	115,17	170,64	165,05	84,01	128,76

2012	126,47	121,55	148,68	137,57	84,05	122,57
2013	130,82	128,50	148,18	110,47	93,93	137,19
2014	132,42	138,36	140,83	102,31	89,80	142,45
2015	137,85	144,71	156,70	91,39	82,41	125,92
2016	143,46	151,45	168,44	93,58	92,10	127,78
2017	149,52	153,71	177,85	109,25	99,12	144,15
2018	155,22	161,97	192,21	113,43	95,79	160,18

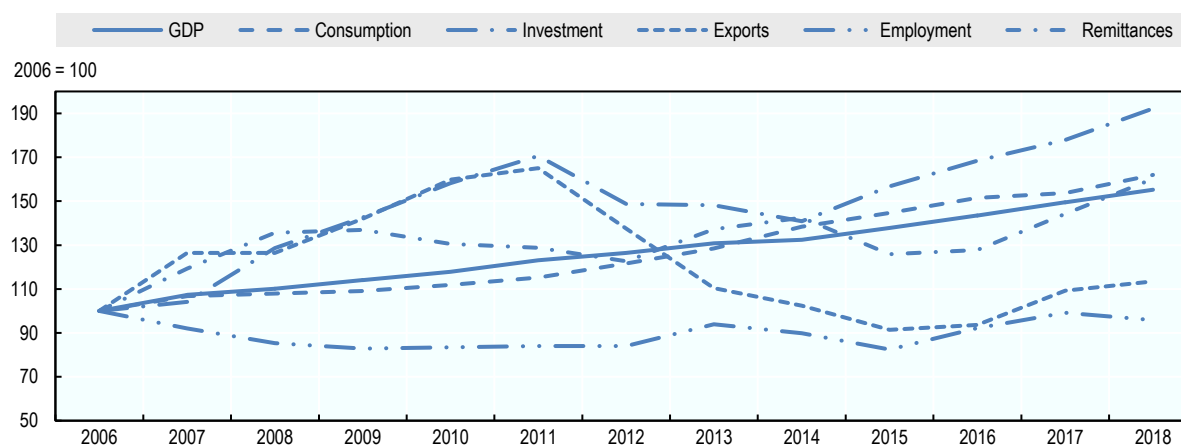


Figure 3. Development of economic indicators 2006 to 2018

The numbers indicate a moderate growth of the period observed for GDP, consumption, investments and remittances. However, exports and employment are significantly trailing other economic factors. This emphasises for the purpose of this study that exports and exporters are still facing particular challenges. It is also notable that while exports grew rapidly in the period between 2006 and 2011, they faced a sharp decline between 2011 and 2013 without much recovery in the subsequent years.

The following table compares the GDP by economic activities for the years 2009, 2012, 2016 and 2019 in constant prices.

Table 4. Gross Domestic Product by economic activities in constant prices

Gross Domestic Product by economic activities in constant prices				
in '000 EUR				
	2009	2012	2016	2019

**Gross Domestic Product by economic activities in constant prices
in '000 EUR**

A Agriculture, forestry and fishing	422.890	285.263	505.191	489.798
B Mining and quarrying	91.132	106.485	133.029	147.962
C Manufacturing	536.247	636.140	772.870	885.890
D Electricity, gas, steam and air conditioning supply	93.106	125.277	208.223	239.106
E Water supply; sewerage, waste management and remediation activities	25.794	35.475	43.377	47.094
F Construction	271.646	397.499	452.025	568.036
G Wholesale and retail trade; repair of motor vehicles and motorcycles	503.062	586.510	732.283	885.395
H Transportation and storage	150.966	189.211	255.252	309.016
I Accommodation and food service activities	37.532	60.255	95.902	144.829
J Information and communication	55.468	73.589	106.671	127.969
K Financial and insurance activities	146.204	196.291	225.113	261.697
L Real estate activities	356.476	370.608	424.935	489.827
M Professional, scientific and technical activities	53.160	74.440	93.184	100.317
N Administrative and support service activities	27.842	32.066	41.309	51.775
O Public administration and defence; compulsory social security	142.494	266.569	335.696	425.504
P Education	121.692	184.783	237.121	262.276
Q Human health and social work activities	49.683	87.271	121.937	156.365
R Arts, entertainment and recreation	15.029	18.791	26.315	17.352
S Other service activities	19.342	21.467	22.012	25.278
T Activities of households as employers; differentiated goods-and services-producing activities of households for own use				
GVA at basic prices	3.119.765	3.747.989	4.832.444	5.635.486
Taxes on product	717.150	959.853	1.189.190	1.413.981
Subsidies	-121.202	-73.933	-31.047	-60.593
GDP production in constant prices	3.715.713	4.633.909	5.990.588	6.988.873

(Source: Kosovo Agency of Statistics, 2022a)

Overall GDP has increased by 88% from 2009 to 2019. The dominant sectors of the Kosovo economy are manufacturing, wholesale and retail trade (both 13% in 2019), construction (8%) and real estate activities and agriculture (both around 7%). The sharpest increase over the last 10 years is observed for the accommodation and food services (2019 is 386% of 2009), the human health

and social work sector (315%), but each is contributing only 2% to GDP. The public administration sector (299%) increased its share of GDP from 3.8% in 2009 to 6.1% in 2019. Manufacturing (165%) and wholesale and retail trade (176%) increased less than the overall GDP, slightly reducing their GDP contribution. Agriculture (116%) and real estate activities (139%) remained largely on their 2009 levels, dropping their share of GDP from 11% and 10% to 7% respectively. Construction (209%) scored slightly above overall GDP. The mining sector reduced its GDP share slightly from 2.5% in 2009 to 2.1% in 2019.

The numbers show that the contributions of the different economic sectors to GDP remained largely the same over the last 10 years, with mainly agriculture and real estate activities dropping significantly. The public administration, together with accommodation and food services, health related services, show the most significant increase in its share in GDP. The results indicate that export relevant sectors of the economy, such as agriculture, mining, manufacturing and trade have shown no significant increases of their contribution to GDP, and in some cases they have even reduced their share in GDP.

Kosovo exports predominantly base metals that account for nearly 50% of total exports. Other products are plastics and rubber (13%), processed foods (10%), vegetables (6%) and textiles (3%), which are mainly low-value added products (Kosovo Agency of Statistics, 2022b). The following table highlights the substantial trade imbalance that poses a substantial burden on the economic situation of the country.

Table 5. Turnover of goods in external trade

Period	Exports (mil. €)	Imports (mil. €)	Trade balance	% of coverage (exports/imports)
2000	18.8	635.7	-616.9	2.9 %
2001	10.6	684.5	-673.9	1.5 %
2002	27.6	854.8	-827.2	3.2 %
2003	35.6	973.3	-937.6	3.7 %
2004	56.6	1,063.3	-1,006.8	5.3 %
2005	56.3	1,157.5	-1,101.2	4.9 %
2006	110.8	1,305.9	-1,195.1	8.5 %
2007	165.1	1,576.1	-1,411.1	10.5 %

2008	211.3	1,856.0	-1,644.7	11 %
2009	172.5	1,818.1	-1,645.6	9.5 %
2010	299.2	2,040.8	-1,741.6	14.6 %
2011	316.5	2,363.7	-2,047.2	13.4 %
2012	281.9	2,332.0	-2,050.1	12.1 %
2013	291.5	2,287.0	-1,995.5	12.7 %
2014	324.3	2,382.9	-2,058.6	12.8 %
2015	322.5	2,431.8	-2,109.3	13.6 %
2016	307.9	2,598.7	-2,290.8	11.8 %
2017	378.4	2,842.6	-2,464.2	13.3 %
2018	376.7	3,114.4	-2,737.7	12.1 %
2019	393.2	3,233.4	-3,113.4	12.2 %

Source: Kosovo Agency of Statistics (2020a)

Despite a considerable and persistent growth of exports, the trade balance continues to be very high, with exports meeting only 12% of imports in 2019. The annual progression shows an increase of exports relative to imports from 2001 onwards, reaching its peak in 2010 with 14.6%. For the following years the coverage remained roughly the same, indicating that exports did not further improve beyond 2010 but rather managed only to keep up with the increasing imports.

5.4 Kosovo' trade and its agreements

The organization mandated to design and implement trade policy in Kosovo is the Ministry of Industry Entrepreneurship and Trade, which includes other trade related mechanisms and agencies within its umbrella, such as the Kosovo Investment and Enterprise Support Agency, Kosovo Standardization Agency, Industrial Property Agency. Other public institutions are also part of the trade policy, including the Ministry of Finance Work and Transfers (which includes under its umbrella the Kosovo Customs and Kosovo Tax Administration), the Ministry of Agriculture Forestry and Rural Development, the Ministry of Economy, and Ministry of Foreign Affairs and Diaspora who is in charge for international trade agreements (Office of the Prime Minister, 2021). Furthermore, as of 2012 Kosovo has a National Council for Economic Development comprised of Prime minister's office, ministries involved in the economic development issues and main business associations; the council acts as the main advisory and decision-making platform for economic

policymaking and reforms, including trade policy, however, after the first years of formation, the council does not play an active role.

The value of imports in 2001 was 684.5, while the country’s exports were 10.6 mil EUR (Kosovo Agency of Statistics, 2007), covering imports to only 1.5%. Kosovo’s high negative trade balance persisted throughout the post-war years. In 2007 Kosovo became a part of the Central European Free Trade Agreement, also known as the CEFTA agreement (Ministry of Trade and Industry, 2009), a regional multilateral agreement which establishes free trade between non-EU countries, currently comprised of 7 members including 6 Balkan states (Serbia, Albania, Bosnia, Macedonia, Montenegro, Kosovo) and Moldova, showing willingness for regional cooperation and economic integration and a commitment for a liberal orientation of trade policy. The Agreement has reduced tariff levels to zero for trade between member states.

Apart from CEFTA, Kosovo has signed the EU–Kosovo Stabilization and Association Agreement (SAA) which aims to harmonize Kosovo’s legal and regulatory framework with EU, and to eliminate most tariffs by 2026. Kosovo also has a Free Trade Agreement with Turkey since 2019, and with United Kingdom since 2021, as well as Kosovo “is also a beneficiary of the generalized systems of preferences applied by Belarus, Japan, Kazakhstan, Norway, the Russian Federation, Switzerland, and the United States” (World Bank Group, 2021).

Historic data on exports shows a high increase throughout the years post 1999, albeit, from virtually no exports. In year 2019, the export of goods increased about 4.4% from the previous year, however, they covered imports only to 12.2% (Kosovo Agency of Statistics, 2020). The following table provides an overview of the types of goods exported for the years 2010, 2012, 2016 and 2019. All data is from official Kosovo Agency of Statistics sources (Kosovo Agency of Statistics, 2022b).

Table 6. Main exports of Kosovo 2010 to 2019

Export by type and year (in '000 EUR)		2010	2012	2016	2019
1	15 Base metal and articles of base metal	186.131	145.813	111.179	134.399
2	07 Plastics. rubber and articles thereof	8.153	14.003	28.872	50.824
3	05 Mineral products	38.944	36.485	63.885	40.024

Export by type and year (in '000 EUR)

		2010	2012	2016	2019
4	04 Prepared foodstuff, beverages and tobacco	11.505	16.051	27.649	39.825
5	02 Vegetable products	12.217	14.359	16.772	22.989
6	20 Miscellaneous manufactured articles	1.934	2.452	9.812	20.000
7	16 Machinery. appliances and electric materials	10.872	16.659	9.234	16.880
8	11 Textiles and textile articles	8.328	11.433	8.784	11.546
9	13 Articles of stone, plaster, ceramic product and glass	1.435	825	3.574	8.508
10	06 Product of chemical industries	1.363	2.476	4.703	8.162
11	08 Leather and their articles	9.683	10.418	11.192	6.544
12	09 Wood and articles of wood	1.271	1.817	3.619	5.750
13	10 Paper and their articles	959	1.612	3.977	4.357
14	17 Transport means	1.440	673	1.506	3.997
15	14 Pearls. precious stones. metals etc	26	95	6	3.411
16	12 Footwear	51	154	3.371	2.470
17	03 Edible oils	100	59	9	1.363
18	01 Live animals	928	339	775	1.331
19	18 Optical. medical. photog. musical instruments	527	298	533	1.087
20	21 Works of art	91	81	174	41
21	19 Arms and ammunition	0	0	0	0

Source: Kosovo Agency of Statistics (2022b)

The following table provides an overview of the types of goods imported for the years 2010, 2012, 2016 and 2019.

Table 7. Main imports of Kosovo 2010 to 2019

		2010	2012	2016	2019
1	05 Mineral products	413.074	550.075	327.524	517.654
2	16 Machinery. appliances and electric materials	298.714	268.893	357.668	431.415
3	04 Prepared foodstuff, beverages and tobacco	267.005	310.987	373.054	420.479
4	15 Base metal and articles of base metal	190.140	248.466	275.384	371.672
5	17 Transport means	143.066	150.624	220.006	314.797
6	06 Product of chemical industries	144.625	185.599	221.532	247.026
7	07 Plastics. rubber and articles thereof	108.147	140.251	188.420	220.900

Import by type and year (in '000 EUR)

		2010	2012	2016	2019
8	11 Textiles and textile articles	71.691	83.236	136.688	173.342
9	02 Vegetable products	108.622	136.504	147.920	160.550
10	01 Live animals	87.898	101.299	109.894	148.765
11	13 Articl. of stone. plaster. ceramic product and glass	84.765	95.257	111.202	115.674
12	20 Miscellaneous manufactured articles	61.905	61.403	90.981	99.960
13	09 Wood and articles of wood	49.077	51.496	72.642	83.416
14	10 Paper and their articles	41.787	38.666	41.742	52.531
15	12 Footwear	24.459	23.027	35.015	43.578
16	18 Optical. medical. photog. musical instruments	25.246	25.053	35.464	43.068
17	03 Edible oils	19.296	26.184	27.863	30.054
18	08 Leather and their articles	3.858	4.557	8.392	10.480
19	14 Pearls. precious stones. metals etc	1.450	1.646	2.650	5.250
20	21 Works of art	9.574	1.823	2.578	3.657
21	19 Arms and Ammunition	3.328	2.564	2.874	2.862

Source: Kosovo Agency of Statistics (2022b)

Kosovo exports are dominated by base metals, plastics and food-related products, suggesting Kosovo exports unsophisticated products, while imports are dominated by mineral products, appliances followed by prepared foods and related products, suggesting that Kosovo has a weak production base because it imports such basic goods. It is also notable that even the main export category of base metals is trading much lower volumes than the same category for imports. Overall exports increased by only 30% in the last 10 years, trailing overall GDP developments. Mining products (base metals) in 2019 even reduced to 77% of the output in 2010. Of the main export categories only plastics and their articles increased their output more than twofold in the last decade.

Kosovo mainly trades with two groups of countries, EU countries plus Switzerland and neighbouring countries. In the recent years, other countries, such as India, China and Turkey, are becoming important trade partners. Most exported goods go to Albania, 18% of exports in 2019, followed by North Macedonia (12%), India (9%), Germany (8%) and Switzerland (7%). Overall, trade with CEFTA countries has continuously increased and reached levels of EU exports already around 2016. The following table compares total and relative exports from Kosovo to EU member states and CEFTA members.

Table 8. EU and CEFTA export comparison 2010 to 2019

Total export EU	2010	2012	2016	2019
value in '000 EUR	152.324	124.927	86.698	166.817
of total exports	51 %	45 %	28 %	43 %
Total Export CEFTA	2010	2012	2016	2019
value in '000 EUR	66.869	100.268	144.269	164.817
of total exports	23 %	36 %	47 %	43 %

Source: Kosovo Agency of Statistics (2020a), own calculations

Over the last ten years, Kosovo has exported around 40 per cent, on average, of its production to the EU countries. The EU market is followed by neighbouring countries, which constitute around 37 per cent of the total exports over the period 2005 – 2019. Exports are highly concentrated in a few destination countries, which increases the vulnerability to demand and price shocks (World Bank Group, 2021; Briguglio et al., 2009).

The table below shows Kosovo export values per country for the years 2010, 2012, 2016 and 2019 (Kosovo Agency of Statistics, 2022a) for the 30 highest ranking countries in 2019. In general, export data per country is very volatile, with substantial variations between the years, indicating that the amount of export values is based on few active companies. Changes to their individual business or to their partners reflect directly in the exports per country data.

Table 9. Main Export partners of Kosovo 2010 to 2019

Export by partner country and year (in '000 EUR, ranking on 2019 figures)					
	Country	2010	2012	2016	2019
1	Albania	30.841	40.180	42.053	67.378
2	North Macedonia	26.308	26.376	38.578	44.125
3	India	44.895	22.889	9.425	32.823
4	Germany	15.587	14.995	13.830	30.907
5	Switzerland	17.786	15.133	16.762	28.459
6	Serbia	3.941	14.968	41.331	27.361
7	Italy	80.193	71.351	5.727	22.602
8	Montenegro	3.920	16.759	13.890	19.557
9	Netherlands	1.017	1.424	11.881	16.300
10	United Kingdom	681	2.194	779	11.242

Export by partner country and year (in '000 EUR, ranking on 2019 figures)

Country	2010	2012	2016	2019
11 Austria	5.670	4.425	6.667	8.498
12 Turkey	9.357	11.380	7.630	7.972
13 Slovenia	6.203	1.417	1.190	7.005
14 Bosnia and Herzegovina	1.847	1.974	8.405	6.383
15 Bulgaria	6.765	1.829	11.283	5.195
16 Poland	150	737	3.365	5.144
17 Belgium	11.455	473	2.261	4.572
18 France	1.084	1.852	3.238	4.304
19 Denmark	44	161	155	4.178
20 Croatia	2.744	2.359	3.150	3.580
21 Finland	10	54	0	3.461
22 United States	116	254	1.799	3.168
23 Sweden	1.116	264	1.031	3.003
24 Czech Republic	297	422	530	2.299
25 Kazakhstan	737	2.620	39.077	1.669
26 Romania	272	1.265	1.310	1.621
27 Greece	222	331	943	1.476
28 Hungary	29	118	278	1.346
29 Congo	14	27	644	978
30 China	14.779	3.266	11.694	697

Source: Kosovo Agency of Statistics (2020b)

While some countries show a continuous growth in export values (Albania, North Macedonia), other show significant increases in recent years after rather stable figures before (Germany, Switzerland, UK, Netherlands). Other countries drop significantly, most notably Italy from receiving most exports in 2010 to 7th rank in 2019. The numbers suggest that Kosovo's exports are driven by a small number of companies and are characterized by a high volatility.

5.5 Trade's institutional environment

Kosovo has worked to build formal institutions to resemble those of developed economies, and the reforms have changed substantially the functioning conditions of agents in the economy, but existing literature has not measured the affect they have on the country's trade volume. For Kosovo, the fundamental legal instrument in the trade policy area is the Kosovo Law on External Trade,

which was adopted in 2011, with the purpose of defining the general rules for the functioning of external trade between Kosovo and abroad in compliance with the best international practices, including World Trade Organization agreements, European Union Directives, and CEFTA agreement provisions. Kosovo has a law on external trade (since the second half of 2011), a customs and excise code, an antidumping law (in force since 2015), countervailing measures law (in force since 2015); safeguard measures law, standardization law, as well as agencies for standardization exist. Appendix 6 of this thesis gives a list, including descriptions, of main Kosovo laws and policy documents that support or are related to exports. Despite the existing legal infrastructure, the rule of law in Kosovo remains weak; and, the administrative staff also lacks the adequate trainings (European Commission, 2020). The continuing weak institutional capacity for legal enforcement and the delays in courts hinder the business environment. Furthermore, as noted in the previous sections, laws in developing economies are often times not implemented and there are misalignments between formal and informal institutions.

Beyond that, Kosovo (part of CEFTA as a United Nations administered territory, not as an independent country) still faces non-tariff barriers (NTB) in trade with CEFTA members, especially in transiting goods through Serbia. Many Kosovar trading companies face much higher barriers of administrative nature and lengthy inspection processes in borders, compared to other CEFTA members (GIZ, 2021; Ministry of Trade and Industry, 2020).

5.6 Entrepreneurship and reforms on doing business

Kosovo’s number of active registered enterprises is 35,269 for the year 2019. The following table provides an overview of the active enterprises in Kosovo in the years 2008, 2012, 2016 and 2019. They are grouped by economic sectors, as per information available from Kosovo Agency of Statistics (2022b). It is important to note that the agricultural sector and the informal active entities are not represented in the table below as the data was not available in the official database.

Table 10. Active enterprises in Kosovo 2008 to 2019

Number of active enterprises by economic sections by sections & description of economic activity and year	2008	2012	2016	2019
B Mining and quarrying	206	229	162	194

Number of active enterprises by economic sections by sections & description of economic activity and year

C Manufacturing	4.065	4.598	4.674	5.027
D Electricity, gas, steam and air conditioning supply	46	68	44	73
E Water supply, sewerage, waste management and land revitalization activities	1.414	1.685	162	123
F Construction	2.362	3.038	2.628	3.318
G Wholesale and retail trade, repair of motor vehicles, motorcycles	20.815	20.509	16.557	14.036
H Transportation and storage	1.213	1.160	1.291	1.165
I Accommodation and food service activities	3.498	3.715	3.621	3.979
J Information and communication	3.615	3.563	849	1.249
L, M, N, R, S Other service activities	3.891	3.192	4.708	6.105
Total	41.124	41.757	34.696	35.269

Source: Kosovo Agency of Statistics (2022b), note: information about the agricultural sector was not available from official statistics

Since the independence of Kosovo in 2008, the total number of companies reduced by 14%. The biggest decline was in water supply, sewerage, waste management and land revitalization activities, where less than 10% of firms remained in 2019 compared to 2008. The information and communication sector recorded a reduction of 75%, presumably due to market consolidation in an otherwise growing sector in Kosovo. The wholesale and retail trade sector also reduced the number of active enterprises by 33%. On the other hand, the manufacturing sector in Kosovo (an increase of active companies by 24%), Electricity, gas, steam and air conditioning supply (increase by 59%) and construction (increase by 40%) increased the number of active companies in their respective sectors.

While the number of companies give limited indication of the actual market development, the number of employees can be related to market growth under the assumption that no significant changes to productivity per employee must be factored in. The following two tables show the number of employees in the selected sectors, and their distribution for the years 2008, 2012, 2016 and 2019. The tables below do not include the agriculture sector data (not available in the Kosovo

Agency of Statistics database), as well as it does not include the employees of public services or the ones belonging to the informal sector.

Table 11. Employees in Kosovo by sector 2008 to 2019

Number of employees by sector of economic activity for the years by section & description of the economic section and year				
	2008	2012	2016	2019
B Mining and quarrying	2.943	3.027	2.780	3.632
C Manufacturing	16.183	25.213	24.457	30.425
D Electricity, gas, steam and air conditioning supply	7.444	9.104	7.770	7.128
E Water supply, sewerage, waste management and land revitalization activities	4.158	5.645	4.560	5.023
F Construction	7.248	17.779	16.687	19.822
G Wholesale and retail trade, repair of motor vehicles, motorcycles	27.207	47.302	54.609	67.968
H Transportation and storage	5.672	9.203	6.634	7.608
I Accommodation and food service activities	6.478	7.389	11.895	16.551
J Information and communication	4.286	6.806	8.714	11.243
L, M, N, R, S Other service activities	7.223	13.965	18.398	16.918
Total	88.843	145.433	156.504	186.316

Source: Kosovo Agency of Statistics (2022b)

Table 12. Employees in Kosovo by sector 2008 to 2019

Distribution of employees by sector of economic activity for the years by section & description of the economic section and year, in per cent				
	2008	2012	2016	2019
B Mining and quarrying	3,3 %	2,1 %	1,8 %	1,9 %
C Manufacturing	18,2 %	17,3 %	15,6 %	16,3 %
D Electricity, gas, steam and air conditioning supply	8,4 %	6,3 %	5,0 %	3,8 %
E Water supply, sewerage, waste management and land revitalization activities	4,7 %	3,9 %	2,9 %	2,7 %

Distribution of employees by sector of economic activity for the years by section & description of the economic section and year, in per cent

F Construction	8,2 %	12,2 %	10,7 %	10,6 %
G Wholesale and retail trade, repair of motor vehicles, motorcycles	30,6 %	32,5 %	34,9 %	36,5 %
H Transportation and storage	6,4 %	6,3 %	4,2 %	4,1 %
I Accommodation and food service activities	7,3 %	5,1 %	7,6 %	8,9 %
J Information and communication	4,8 %	4,7 %	5,6 %	6,0 %
L, M, N, R, S Other service activities	8,1 %	9,6 %	11,8 %	9,1 %
Total	100 %	100 %	100 %	100 %

Source: Kosovo Agency of Statistics (2022b)

Employment in the sectors has been more than doubled in the period between 2008 and 2019. Most sectors have contributed to this substantial increase, but notably mining, supply of electricity, water supply et al., and transportation remained significantly under the average increase in number of employees. Most people are employed in trade (36,5% in 2019), followed by manufacturing (16.3%) and construction (10.6%).

In year 2013 Kosovo has made the biggest economic reforms since the state building has started post 1999. With the aim of increasing entrepreneurship, attracting investors and boosting export capacities, Kosovo reduced substantially the time required for opening new businesses, and opened several one-stop-shops which provide companies with business certificates, fiscal numbers and VAT certificates. Kosovo has continued with other reforms to doing business, in the area of construction permits, getting electricity, protecting minority investors, and some in enforcement of contracts. In the World Bank's Doing Business report, since 2012, Kosovo scored 86 places higher in 2018, with improvement across all indicators, including in Starting a Business which has improved by 160 places, making it the only country in the territory of Europe that is among the top 10 reforms (Ministry of Trade and Industry, 2018; World Bank Group, 2018). Despite these simplifications regarding business registrations, numerous obstacles to doing business remain, and exports remain in similar rates, covering imports to only around 12% (Kosovo Agency of Statistics, 2020). European Unions' Kosovo progress report explains that among Kosovo's main obstacles to private sector development are the weak rule of law, slow judicial system, informal economy, and prevalence of corruption (European Commission, 2020).

5.7 Rule of Law and Informal institutions in Kosovo

Despite substantial support from international donors, the performance of public institutions, such as the judiciary, remain weak and are seen as an obstacle to sound social and economic development of Kosovo. Corruption, nepotism and clientelism are perceived as commonplace in government institutions. Research suggests that a combination of donor driven ready-made solutions that are not actually suitable for Kosovo, and a reactive Kosovo government looking for personal gains rather than optimised solutions led to underperforming institutions and persisting gaps in the rule of law (Muharremi, 2020). According to the World Bank Group (2017b, p. 83), “it has long been established that the rule of law - which at its core requires that government officials and citizens be bound by and act consistently with the law - is the very basis of the good governance needed to realise full social and economic potential”. In the case of Kosovo, the underperforming public institutions and the weak rule of law pose a substantial barrier for the economic development of the country.

The following table compares the government effectiveness of Western Balkan states and Germany as reference point. This indicator, as described by the World Bank Group (2022b), captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. The values range from -2.5 (negative) to 2.5 (positive).

Table 13. Comparison of Government effectiveness 2012 to 2019

Country Name	2012	2016	2019
Albania	-0,27	0,06	-0,03
Kosovo	-0,32	-0,4	-0,34
Bosnia and Herzegovina	-0,45	-0,41	-0,67
Croatia	0,68	0,45	0,49
North Macedonia	-0,22	0	-0,1
Montenegro	0,12	0,17	0,14
Serbia	-0,18	-0,01	0,02
Germany	1,53	1,69	1,52

The table shows that Kosovo ranks second to last in the regional comparison, with consistently negative perception level of government effectiveness. There is no significant improvement or changes notable in the period between 2012 and 2019, indicating that no major progress has been achieved in terms of performance of government institutions.

Kosovo is perceived to be a highly corrupt country. According to Transparency International's (2019) Corruption Perceptions Index (CPI), Kosovo performs poorly, placing 101th among 180 countries. The high corruption levels affect businesses in their dealings with public administration, which may have to pay bribes to receive certain certificates or licences. Both corruption and nepotism are a serious concern for the country and negatively affect productivity in Kosovo (UNDP Kosovo, 2016; European Commission, 2020). Petty corruption, such as bribery of public officials, is present, and the majority of Kosovo citizens are believed to engage in it at least once throughout the year (UNODC, 2013). Entrepreneurs through bribes or favours can develop relationships with public officials to be able to get away from compliance with specific requirements or be favoured (Krasniqi and Branch, 2020). Furthermore, due to the inadequate formal institutions in Southeast European countries, informal business activities are triggered, and tax morale is lowered (Williams and Bezeredi, 2018). Forms of informal entrepreneurship in Kosovo and firms operating outside the law make it for firms operating within the legal system to face high costs of doing business (Williams and Krasniqi, 2018). Exporting businesses are also faced with the need to pay bribes to receive required licences and certificates for exporting goods, and firms in general are not competitive because of bribing in public administration. Nepotism, as another form of corruption, is also present in the public administration, leading to unskilled human resources.

Post-conflict nations such as Kosovo are categorized by low levels of trust because of past experiences and present corruption (Efendic et al., 2015). Trust, as an informal institution, is the belief, or lack of it, that the other party will be fair and reliable, and overall honest (Leonidas et al., 2006), and it has an impact on entrepreneurs' choice on formality of doing business, meaning if they mistrust public institutions, they are more willing to engage in informal forms of business, as well as engage in less business relationships with other businesses. If there would be more trust, entrepreneurs would be less likely to show opportunistic behaviour and more willing to continue with the business relationship and strengthen their cooperation (Morgan and Hunt, 1994; Leonidou et al, 2006). Lack of enforcement of legal rules, corruption, and instability can contribute to lack of trust, reducing doing business.

5.8 *Chapter summary*

In the past 10 years, with the aim of increasing entrepreneurship, attracting investors and boosting export capacities, Kosovo introduced numerous reforms, including reduction of the time required for opening new businesses, opened one-stop-shops which provide companies with business certificates, fiscal numbers and VAT certificates, as well as made progress in the recent years, with reforms of 2018, in construction permits, getting electricity, protecting minority investors, and also in enforcement of contracts. Despite the reforms and progress in institutional building, Kosovo remains heavily dependent on imports, and throughout the years its exports amounted for only a small fraction of trade, covering imports to around 12%.

Higher institutional quality is mapped with economic growth, as well as associated with a higher international trade volume, however, despite formal institutions where Kosovo has showed progress, the institutional environment consists of also informal institutions, that are generated and enforced outside the officially sanctioned channels. Kosovo is perceived to be in international reports as a highly corrupt country, and post-conflict countries show low levels of trust. Moreover, labour market skills are required for companies to innovate, export and grow further (Castinot and Vogel, 2010; Bastos et al. 2018; Brambilla et al., 2015) while Kosovo has an inadequate labour force.

This chapter gave an overview of institutional building in Kosovo, shared Kosovo's economic developments and indicators, discussed its trade performance and the business environment in Kosovo, discussed obstacles posed by the weak rule of law, to give readers insights for the empirical focus of the thesis, the institutional environment in Kosovo, to pave the way into the research conducted with the aim of studying the impact of the institutional framework on Kosovo's firms' export performance.

6 Methodology

6.1 Introduction to the chapter

Kosovo has made a significant progress in building formal institutions to resemble those of developed economies, building these institutions from scratch starting about two decades ago. The reforms changed substantially the functioning conditions of agents in the economy, but existing literature measuring their effects on trade volume is very limited. The thesis will shed some light in the role of both formal and informal institutions in Kosovo in boosting firms' export performance and will contribute to a better understanding of the role of institutional building in small developing economies, as well as their impact on trade performance in developing countries. To examine the relationship between institutional reforms and the volume of goods exported from Kosovo, this study uses a mixed methods approach which involves integrating different forms of data in sequential stages to meet the aim (Tashakkori and Teddlie, 2003). Also, a pragmatic approach has been adopted in order to propose a framework for understanding how institutions affect export performance of Kosovo firms.

This chapter of the thesis considers the methodological approach employed in the research, set in the context of the study's main aim and key research questions. The section below discusses the methodological considerations, whereas the following one explains the research questions and research approach employed in this thesis. Next, at 6.4. the chapter moves on to describe the stages of research, and explains the data collection for all three phases of research conducted for this study. Section 6.5. discusses the research ethical considerations, whereas the final part provides the conclusion to this chapter.

6.2 Methodological considerations

Paradigms refers to the philosophical assumptions that guide and define the beliefs and understandings of researchers (Kuhn, 1970; Denzin and Lincoln, 2013). Maxwell (2011) defines research paradigms as stances about the nature of reality of the researcher and the approach of researcher to understanding that reality. Whereas Patton (2002), p. 69 describes paradigms as the “way of thinking about and making sense of the complexities of the real world”. While there are many different paradigms, some are more used in research of social sciences than others, such as

the positivism paradigm and the interpretivist paradigm. Each of them has their own unique ontological and epistemological perspective, or beliefs that are included in them. The ontology and epistemology are components of a research philosophy, and together with the research methodology they are components of paradigms. Ontology, as part of the research philosophy, is concerned with what is there to know, while epistemology is concerned with how that knowledge is created (Lincoln and Guba, 1985). If ontology is about what the truth is, epistemology is about the way of figuring out the truth.

One of the most popular paradigms used in social science research, the positivist paradigm, is based in the understanding that there is one reality, which can be measured and known, and it is concerned with testing theories (Fielding and Fielding, 1986; Punch, 2005). This paradigm assumes an objectivist epistemology, a belief based on a view of knowledge as something that is real and tangible (Walsham, 1995), and it assumes a realist ontology, which means there is a single reality that is considered true regardless of the perspective of the researcher (Hudson and Ozanne, 1998). The positivist researcher is more likely to use quantitative methods to know the reality, hence studies in this paradigm usually use surveys to get to the aim and the objectives of the research (Johnson and Onwuegbuzie, 2004). Generally, the positivist paradigm is aligned with adopting a deductive approach, which involves testing if a pre-determined hypothesis is true (Crowther and Lancaster, 2008). The deductive approach, also called the top-down approach, goes from the more general premises to specific conclusions. This is usually done by beginning with an existing theory, drawing a hypothesis based on it, collecting data and analysing it, and finding if hypothesis is true or false.

Another popular paradigm, which contrasts positivism, is the interpretivist paradigm. It is sometimes also called the constructivist paradigm. Different from positivism, interpretivism does not believe there is only one reality. Walsham (1993) says that in interpretivism there is no correct or incorrect realities, but instead there are interesting or not interesting ways to understand the world. This paradigm assumes a subjectivist epistemology, which means the reality can be interpreted in several ways, and people view the world in a way that makes sense to them. Also, the interpretivist paradigm assumes a relativist ontology, that believes that what is studied has multiple realities, which can be explored and reconstructed through the interactions between the researchers and the subjects that take part in the research. As such, interpretivism is a paradigm that influences the use of qualitative research instead of the use of quantitative surveys (Trauth,

2001). Also, the interpretivist paradigm is more often aligned with inductive, rather than deductive, reasoning. The inductive reasoning, associated with qualitative research, develops conclusions based on the exploration of how individuals see and experience the world. The inductive approach, also known as the bottom up approach, starts with a research question, followed by collection of data, based on which hypothesis or theories are generated; however, it does not stop the researchers to use existing theories to formulate the research questions to be studied (Saunders et al., 2012).

There are arguments in the existing literature that neither positivist paradigm nor interpretivist paradigm are sufficient to give conclusions about the truths or the view of the world (Tashakkori and Teddlie, 2003; Biesta, 2010; Creswell, 2014). Considering the key research questions of this research, neither positivist nor interpretivist paradigm would lead to satisfactory results. Some of the questions deal with complex entrepreneurial phenomena which would benefit from in-depth interviews and would not stick to one truth, while a quantitative survey would be very helpful in determining the causal relationships between variables. Using either of the approaches alone, either quantitative or qualitative, would not produce desirable results by explaining only a part of the phenomenon, and the use of both techniques enables the benefits of both approaches offering greater validity to the analysis (Mingers, 2005; Jogulu and Pansiri, 2011). Abductive reasoning is portrayed as central to pragmatism (Kapitan, 1992), which combines inductive reasoning for the subjective element and deduction reasoning for the objective element.

According to Creswell (2014), the paradigm of pragmatism gives researchers the means to choose the research methods that are best serving to their research questions. Pragmatism values both objective and subjective knowledge and allows for a pluralistic stance of gathering different kind of data in order to give the best answers possible to the questions. This paradigm allows for interweaving different forms of data, supporting the use of both qualitative and quantitative research, including a combination of both positivist and constructivist principles to investigate research problems, and it is associated with mixed methods approaches (Biesta, 2010; Morgan, 2014). Pragmatism supports the idea of the use of research approaches that work best for research problems that are being investigated. It encourages use of mixed methods as an option when neither quantitative nor qualitative research on their own provide adequate findings to the research questions (Maxcy, 2003; Tashakkori and Teddlie, 2003). According to Brierley (2017 p. 15), “unlike a critical realist approach to mixed methods research, a pragmatic approach gives less influence to philosophical assumptions for the conduct of research methods”, which leads to less

restrictions as to how the research is being done, and gives more room to do what it takes to answer research questions.

This study uses mixed methods techniques, in efforts to cope with the complexity of studied phenomena and help reveal aspects that would be undetectable otherwise (Mingers, 2005; Downward and Mearman, 2007). I use a sequential design, by combining three stages of research: two qualitative and one quantitative. The mixed methods were conducted to offer a greater validity to the analysis, and each stage of the research has contributed to the development of the next stage, intending to result in an overall complementary and synergetic approach.

This process combines inductive and deductive reasoning, where both objective and subjective views are acknowledged. From the three stages of research, the first stage includes in-depth interviews of main stakeholders, with questions influenced by the literature review. The process of this part of the research was inductive, generating meaning from the data collected in the field, to develop initial understandings of the study. The results of the interviews helped to frame the design of the second stage of the research, a broad survey of firms from Kosovo. The survey part of research was mainly based on the deductive reasoning. As explained by Tashakkori and Teddie (1998) and Creswell and Plano Clark (2007), the research employed in the first two stages of this thesis is an exploratory sequential mixed methods research design, which is used when the researcher wants to follow up qualitative findings with quantitative research.

In addition, in this thesis, a third and final stage of research was conducted. This was an additional qualitative research stage, in which the findings from the survey data have contributed in. The last stage of research included in-depth interviews of CEOs / owners of businesses, which gave deeper insights and helped explain the findings of the survey, essentially complementing it. This final phase of research made the quantitative results more understandable. This three-stage process, by relying in explanations of Harvard Catalyst (2022) is visualized in Figure 4 below.

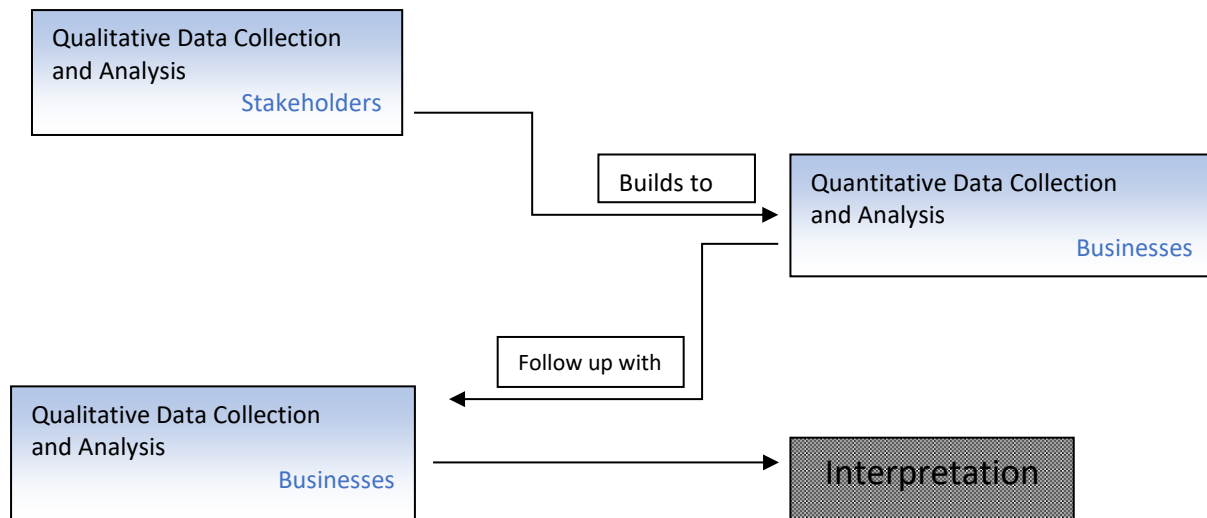


Figure 4. Mixed Methods Approach

6.3 Research questions and research approach

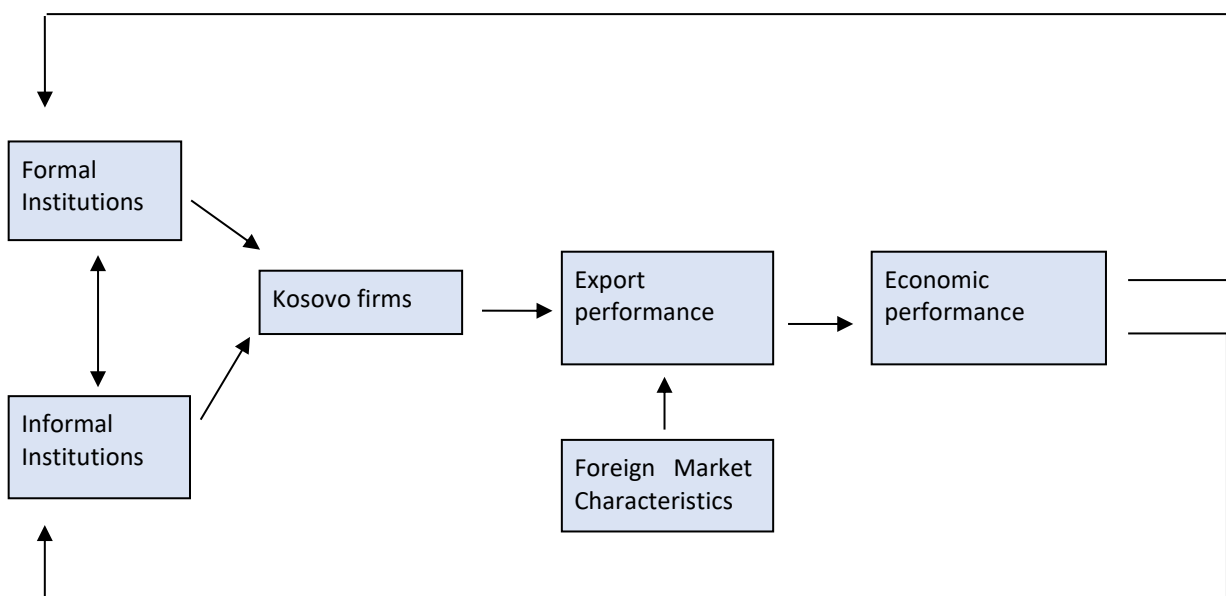
This research uses mixed methods by combining different data sources from three sequential stages to reach a better understanding of the phenomenon being investigated (Downward and Mearman, 2007; Blundel, 2007). It combines qualitative methods (semi structured in-depth interviews with key stakeholders plus in-depth interviews with firms exporting from Kosovo), and quantitative methods (a survey of exporting businesses). Each research stage in the thesis contributed to the development of the next stage, to provide stronger evidence and fully explore the research questions.

The research was conducted at the country level (Kosovo). The used methodology, to reach the aim of the thesis, addressed the key research questions of the study as shown below, which were shown in the introduction chapter:

1. *What is the relationship between institutions and doing business across borders?*
 - 1.1. *How do formal institutions impact the export performance of Kosovo firms?*
 - 1.2. *Which informal institutions play a role on the export performance of Kosovo firms?*
2. *How do firms cope with institutional voids?*
 - 2.1. *How do firms deal with barriers and constraints they face due to weak institutions present?*

3. *How does corruption in the country of origin affect export performance of firms?*
 - 3.1. *What are the views of firms on corruption?*
 - 3.2. *How does corruption impact firms?*
 - 3.3. *Does corruption reduce export performance either directly or indirectly through other institutions?*

Furthermore, through the analysis of the results from both stages of semi-structures in-depth interviews and survey results, as well as data analysis, the study contributed with recommendations. It was a further aim of this research to produce findings that are relevant and useful to both academic studies in the fields of institutions and export barriers, as well as recommendation to policy makers. This is done by being based on the conceptual framework, originally shown in figure 1 (also shown below), which showed the interplay between formal and informal institutions and their effects on Kosovo exporting firms, shaping Kosovo's export performance. The institutional environment of Kosovo is comprised of both formal institutions and informal institutions, which influences the environment Kosovo firms operate in, and moreover, the two institutional categories, formal and informal, also influence one another. This in turn influence their export performance, impacting exports, and the economic performance of the country, while the impact on the economic performance in turn influences also the institutional environment in Kosovo, affecting both formal institutions and informal institutions in the country, leading to a vicious or virtuous cycle.



The conceptual framework

To understand the impact of formal and informal institutions on exports, and to answer the research questions on this thesis, a methodology combined of three main stages of research was used. The stages of research conducted are:

- First stage: comprising of interviews with key stakeholders, conducted in a semi structured setting. This stage included 25 in-depth interviews.
- Second stage: a large-scale quantitative survey administered to Kosovo exporting businesses. From this stage, 524 responses were received.
- Third stage: in-depth interviews with 15 selected Kosovo exporting businesses conducted in a semi structured setting.

Each stage has contributed to the development of the next stage, intending to result in an overall complementary and synergetic approach. The in-depth interviews with key stakeholders had provided a preliminary understanding of Kosovo’s institutional framework for export, including a review of policies and strategies in place and incentives for exports. The insights gained from the first stage interviews were used to frame the design of the survey. The survey was conducted to identify the constraints businesses face and their experiences, and study their views on incentives, determining the causal relationships between incentives and barriers and exports (Molina-Azorin et al., 2012). Next the findings from the data of quantitative survey have contributed to the last stage. This has helped in developing the interview questions with Kosovo exporting businesses (stage 3) which gave more insights and helped explain the findings of the previous stage, essentially complementing it. The interviews were conducted in a semi-structured format, and the data were interpreted by employing a thematic analysis technique suitable for this formal (Braun and Clarke, 2006; Jones et al., 2011). The semi-structured format allowed to also explore issues that were not covered in questions prepared in advance. The table below, Table 14, shows main details of each stage of research, and their link to the research questions, whereas the sections below describe each stage in detail.

Table 14. Methodology

Methodology Stages	Details	Research questions addressed
---------------------------	----------------	-------------------------------------

Data collection - Stage 1	Semi structured in-depth interviews with key stakeholders (25) Kosovo Government officials and relevant agencies (19 interviews) Business Associations (3) Donor organizations (3)	Research Question 1
Data collection - Stage 2	Online survey of Kosovo exporting businesses (524 businesses)	Research Questions 1 and 3
Data collection - Stage 3	Semi structured in-depth interviews with Kosovo exporting firms (15 interviews) 4 interviews with entrepreneurs/owner-managers of large firms, including different sectors and countries they export to 11 interviews with entrepreneurs/owner-managers of SME-s, including different sectors and countries they export to	Research Questions 2 and 3
Results analysis and framework development	Analysis of the results from all three stages and discussion of ways to increasing exports	

6.4 Stages of research

According to Bryman and Bell (2011), the qualitative methods are suitable for investigating processes in a specific context to gain a greater understanding of social behaviour. This approach focuses on participants' experiences and perceptions; thus, it is suitable to assist in the development of concepts which provide a greater understanding of social phenomena (Neegaard and Ulhoi, 2007), and, combined with quantitative stage, it gives stronger evidence and more confidence in findings. The mixed methods approach used in this thesis is a multi-phase method, which involved integrating different forms of data in sequential stages to meet the aim. Below I discuss the stages of research, including timeline, format, challenges faced and how they were overcome, the process of data collection, as well as how the analysis was performed.

6.4.1 Stage 1: In-depth interviews with key stakeholders

The purpose of the first stage, in this mixed methods and multi-phase research, was to understand the key institutions that influence firms' export performance by conducting in-depth interviews with key stakeholders in a semi structured setting. The process of this part of the research was inductive, which allowed the researcher to generate meaning from the data collected in the field, to develop initial understandings of the study. This stage of research focuses on the 'what', 'why' and 'how' to be able to explore and understand the phenomenon being studied (Creswell and Plano Clark, 2011). Existing literature suggest there are different methods to collect qualitative data, such as performing in-depth interviews, conducting focus groups, and performing observation research (Bernard and Ryan, 2009). This thesis uses the most frequently used method of qualitative research in academia, which is conducting interviews of participants (Opdenakker, 2006; Denny and Weckesser, 2022). These were in-depth interviews of semi-structured format. This format allowed for having pre planned, or pre-set, open-ended questions for the interviewees, and gave room for further questions on issues that emerge from the discussion (Denny and Weckesser, 2022). Through this format, the researcher can explore issues that are not covered in questions prepared in advance, thus ensuring a degree of flexibility (Bryman and Bell, 2011).

The participants of this stage were selected based on their position held during the time reforms have taken place and the role they played in designing policies. The technique of selecting participants is purposeful sampling, used in qualitative research, to select participants that would provide rich information and an effective use of limited resources (Patton, 2002). The participants were identified and selected based on their experience and possessed information and knowledge related to the phenomenon of interest (Cresswell and Clark, 2011). The list of officials of the Government of Kosovo, main business associations, donor organizations, and other relevant agencies, that were interviewed during the first stage of interview, was shared with supervisors. While the list is confidential to preserve anonymity of participants, Table 15 and Table 16 show the organizations the interviewees represented are where part of, and the levels of positions of the 25 stakeholders. If a participant contributed to this research with experience from different positions, such as both from a term in one Ministry and a term in Parliament, the organization from the experience of which the participant contributed mostly to the research is included in Table 14, and the position from the experience of which the participant contributed mostly to the research is included in Table 15.

Table 15. Participant organisations

Participant Organizations	
1	Parliament of Kosovo
2	Parliament of Kosovo
3	Prime Ministry
4	Prime Ministry
5	Ministry of Trade
6	Ministry of Trade
7	Ministry of Trade
8	Ministry of Trade
9	Ministry of Finance
10	Ministry of Finance
11	Ministry of Agriculture
12	Ministry of Foreign Affairs
13	Municipality
14	Agency of Statistics of Kosovo
15	University of Pristina
16	Riinvest Institute
17	Tax Administration of Kosovo
18	Kosovo Customs
19	Food and Veterinary Agency
20	Business Association 1
21	Business Association 2
22	Business Association 3
23	Donor Organization 1
24	Donor Organization 2
25	Donor Organization 3

Table 16. Participant positions

Levels of Positions of Stakeholders	
Member of Kosovo Parliament	2
Minister in Kosovo Government	5
Mayor of Municipality	1
Head of Organization	11

Advisor to the Prime Minister	2
Head of Sector or Department	4

Through purposeful selection, the interviewees were people chosen by name or position, and for the reason of being in decision making positions or having rich knowledge on the topics of interest for the researcher, due to their positions held; this according to Hoschschild (2019) indicates the person is among the elite. “Elite informants are key decision makers who have extensive and exclusive information and the ability to influence important firm outcomes, either alone or jointly with others” (Aguinis and Solarino, 2019, p. 1293). One of the main challenges of securing interviews with elites is believed to be managing to reach the potential participants with the interview request, since they are insulated by layers of staff in their offices, known in academic literature as gatekeepers (Marland and Esselment, 2019). Also, policy makers are believed to receive so many demands for their time that they can experience information overload, which can lead to turning down requests for academic interviews (Walgrave and Dejaeghere, 2017). For this thesis, access to sample was done by researcher’s contacts and network, from previous jobs and experiences. In all cases the researcher either knew or have met the participant previously in another setting before the research took place, or knew or have met the gatekeeper before, or at least had a common acquaintance with either participant or gatekeepers, which made it possible and easier for the interview request to reach the participant and helped in getting a positive response. Key stakeholders were contacted, mostly by official emails, at first, however securing the interviews required many phone calls to their key staff or in their personal phones, to receive a response to the request. In case a potential interviewee did not wish to take part in the research, there was no insisting involved, and all the interviews were voluntary. However, on top of the informative request by the researcher when asking for the interview possibility, further questions of the potential participants or their gatekeepers were answered and more information was provided as requested, before receiving their response regarding the participants’ willingness to participate in the in-depth interviews.

The participants included high ranking officials from the relevant organizations in Kosovo that influence and shape the institutional framework for exports, including Members of Parliament, Kosovo Government officials, heads of business associations or other relevant organizations, and representatives of donor organizations. These interviews were conducted to gain an in-depth

understanding of the institutional framework for exports, including reviewing policies for exports, reviewing incentives and barriers, as well as examining reasons behind why Kosovo firms export what they export and to where they export. While the main goal of this stage was to understand how formal institutions influence exports, interviewees were also asked on informal institutions, and the semi-structured setting of the interviews allowed for discussions on other relevant topics.

For each participant, based on the position held and their background, most questions were prepared ahead. These questions were guided by the literature review and by review of Kosovo's main policy and strategic documents related to trade across borders. While the set of questions for each interviewee, including name of the interviewee and background, was shared with supervisor, for purposes of this thesis and anonymity of participants, each participant was assigned a label, as a pseudonym to not use their name, but still allow for tracking quotes of different participants. To protect their anonymity, this thesis uses labels SI1 to SI25 (SI standing for stakeholder interview, followed by the number assigned to interviewee) to represent each of the 25 interviewees in this stage of research, omitting their names and other specific information which would otherwise identify them.

All of respondents of this stage were met in person, either at their offices, or in a neutral location, such as a café or restaurant close to central area of Pristina, where most Government buildings are located. Most of the 25 in depth interviews with stakeholders (21 out of 25) were wrapped up within one hour of meeting the interviewee, to respect the time of the participants; the other 4 were asked ahead and have agreed they are willing to spend more than one hour to respond to the researcher's questions and engage in further discussions related to the topic. Interview meetings started with light conversations, such as engaging in limited small talk or mentioning a TV appearance of them, to set a friendlier tone. Basse (2000) stressed that interviews have a sense of formality, which may lead to the interviewee not being relaxed to talk openly about topic of interest or to share valuable information. Also, Hochschild (2009) indicated interviewees at times are more willing to engage in genuine conversation and provide information when interviewer engages in conversations with them, rather than probing with one-way questions. The comfort and openness of the interviewee was taken into consideration by the researcher, by starting the meeting with a light conversation, and being engaged in the interview with follow up questions or mentioning literature related to what the interviewee was mentioning.

Three sets of questions used in the actual semi-structured interviews with stakeholders are shown below in Table 17, Table 18, and Table 19. Table 17, on the left hand side, includes a sample of questions that have guided one of the first semi structured interviews of the first stage of research; while the right hand side whose the literature on which these questions were based, which can include Kosovo official documents (such as Trade Policy) or academic studies which have included topics that lead to questions being asked. While most interviews were developed with about ten main questions in mind, to respect the time of the interviewees, at times, and when interviewing very key stakeholders for trade and institutions, more than ten questions have been asked. This has been done only in cases where the interviewee agreed they are willing to spend more than one hour to respond to the researcher’s questions and engage in further discussions related to the topic. The set of questions below were developed for interviewing one of the first participants, a representative of current, at the time of research, or previous Kosovo Government.

Table 17. Interview Questions, Government 1

Questions for current or former Minister of Government in relevant Ministry	Guided by literature review, where the topics on the left were discussed
1. Which are the main trade and export policy documents, and what are their objectives?	Ministry of Trade and Industry, 2009; Leonidou et al., 2007; Katsikeas, 1994; Julian, 2014.
2. What has been the impact of these actions/measures?	Ministry of Trade and Industry, 2009; Sekkat and Varoudakis, 2002; Rodrik, 2008.
3. Is the public administration capable of supporting these policies in terms of trainings they have or education they have?	World Bank, 2016; European Commission, 2016; Ravallion, 2009.
4. How has CEFTA agreement affected Kosovo’s exports?	Ministry of Trade and Industry, 2009; Bartlett, 2009.
5. Do you believe CEFTA members’ benefits are similar? Do some countries benefit more than others?	Ministry of Trade and Industry, 2009; Bartlett, 2009.
6. How have trade preferences with US, Europe, Norway and Japan affected export performance of Kosovo? What about the stabilization Association Agreement with EU?	Ministry of Trade and Industry, 2017; Gashi et al., 2017.

7. Why are our main trade partners our main trade partners? Why is it difficult to export to other countries?	Kosovo Agency of Statistics, 2016; Ministry of Trade and Industry 2017.
8. What are the permits and licenses Kosovo businesses have to obtain to export? Lately the number of necessary documentations has declined: has there been any positive effects so far?	World Bank, 2015
9. Why do we export the products we export? Why cannot we export other products?	Kosovo Agency of Statistics, 2016; Gashi et al. 2017.
10. What are the main constraints/barriers, and why?	Anderson and Young, 2000; Aidis and Adachi, 2007; Nunn, 2007
11. How do informal institutions impact exports?	North, 1990; Estrin and Prevezer, 2011; Valdez and Richardson, 2013.
12. Does the education system provide adequate skills for exporting companies?	Brixiova and Egert, 2017; Hanushek and Woessmann, 2010; Ramirez, 2014
13. How have FDI affected exports, and in what sectors?	Acemoglu and Johnson, 2005; Daude and Stein, 2007; Okechukwoo et al., 2018

In-depth interviews such as the one with the questions above are suitable when studying policies and strategies, since these give insights to diagnostic, evaluative and strategic issues (Ritchie and Spencer, 1994), and the semi-structured setup also allows for follow up questions. As an example, the question nr. 9 above asks regarding the permits and licenses Kosovo businesses have to obtain to export. After receiving the answer, which included the reform in doing business related to a decline in the number of documentations required by businesses, as expected by the researcher, this follow up question was asked ‘Has the decline in necessary documentations had any positive effects so far in the entrepreneurship levels and their export performance?’ Next, further discussion developed. After the interviewee mentioned there has been only a little positive effect, the researcher asked if positive effects are expected to be seen in the years to come instead.

Combining the literature review and the results of previous stakeholder interviews helped to formulate the questions of the next interviews. As an example, when the previous participant particularly stressed the need for a new trade policy, the following participant was asked if a new trade policy is being discussed at the Government level, and if they thought a new trade policy would better support the exporting of Kosovo products. While the researcher has used similar

questions during all interviews of the first stage of research, they were adjusted accordingly for each interviewee. The planned questions were also influenced by the position held by the participant and their background or expertise. Table 18 below shows the planned questions that were formulated and used for the semi-structured interview of the following participant.

Table 18. Interview Questions, Government 2

Questions for a high-level Government representative

1. What initiatives have stemmed from Kosovo’s trade policy and strategic documents?
2. What are the main incentives and other promotion instruments that support the export of Kosovo products?
3. Have there been discussions about a new trade policy? Do you think a new trade policy would better support the exporting of Kosovo products?
4. What are the main constraints and barriers to exporting? Why is that so?
5. Why do we export the products we export? Why cannot we export other products?
6. How do informal institutions impact exports?
7. Does the education system provide adequate skills for exporting companies?
8. How much do you think the access to finance is supportive to growth of entrepreneurship levels and export performance of companies?
9. How have FDI affected exports, and in what sectors?
10. What changes would you recommend in terms of policies, incentives, and institutional approach?

The Table 19 below also shows questions to a third interview, which were adjusted accordingly based on the position held by the participant and their background, in this case interviewing a member of Kosovo parliament representing an opposition party. The same logic followed in preparing the other 22 sets of questions of the total 25 stakeholder interviews of the first stage of research; they were guided by the literature review and by review of Kosovo’s main policy and strategic documents related to trade across borders, while considering the issues that came up in previous interviews, and taking into account the background and expertise of each participant.

Table 19. Interview Questions, Parliament

Interview with member of parliament coming from the opposition

1. What are the main incentives and other promotion instruments supporting exports of Kosovo products?
 2. Do you believe the labour force in Kosovo is suitable for the labour market and for supporting potential exports from Kosovo?
 3. What do you think of Kosovo's trade policy and strategic documents? Is the public administration capable of supporting these policies? Do they have adequate training and education required?
 4. How much do you think the access to finance is supportive to growth of entrepreneurship levels and export performance of companies?
 5. What do you think of the reforms in doing business? Did they have any positive effects? Do you think the positive changes in World Bank's Doing Business rankings will benefit the export participation?
 6. How much are issues related to trade discussed in the Kosovo parliament?
 7. Is education, labor force, unemployment, access to finance discussed in the parliament level? Why not?
 8. How do informal institutions impact exports?
 9. How have FDI affected exports, and in what sectors?
 10. What changes would you recommend in terms of policies, incentives, and institutional approach?
-

The interviews were recorded, transcribed, and translated to English by the researcher. The data was read in order for the researcher to be familiarized with it, and re-read to mark significant themes or quotes to be used. Thematic analysis is a method that can be applied across different paradigmatic and epistemological frameworks (Braun and Clarke, 2006; Jones et al., 2011; Kiger and Varpio, 2020), and employing this technique is suitable for a pragmatic approach to research due to the flexibility that it offers. According to Kiger and Varpio (2020), thematic analysis is a flexible and robust method that can usefully help to develop insights for complex phenomena. For this research, the data was coded by using Word and Excel, by creating new themes in additional columns, which are user friendly and were sufficient. While data analysis software for qualitative research are available and deemed helpful (Salmona and Kacszyнки, 2016), the use of it is an option, and especially for thematic analysis, Microsoft Word is adequate, as it allows for text searching and it is easy and intuitive to use (Clarke et al., 2021). Coding in thematic analysis involves identifying pieces of information that are linked by a common theme (Gibbs, 2007). According to Braun and Clarke (2006), there is no strict rules about what makes a theme, rather than themes are those that are significant to the research. In this research, related pieces of

information that were prevalent and reoccurring are considered themes, such as inadequate labour, poor education system, lack of work ethics, etc. These themes and similar ones that relate to one another, are then grouped into one category; in this particular case into the category of ‘education and skills’.

While in-depth interviews with main stakeholders resulted in a preliminary understanding of Kosovo’s institutional framework for export, and contributed to the first stage of findings, which is discussed in Chapter 7 of this thesis, they helped shape questions to be included in the survey of businesses. The research employed in the first two stages of this thesis is an exploratory sequential mixed methods research design, which is used when the researcher wants to follow up qualitative findings with quantitative research.

6.4.2 Stage 2: Survey of businesses

While the first stage of qualitative research was suitable for collecting data from key stakeholders for this research, for this second stage of research, quantitative methods were used to enable the identification of issues Kosovo exporting businesses face. For this stage, a large-scale survey, prepared based on the main themes and codes derived from the first stage of research and through review of the literature, was distributed to firms operating in Kosovo.

For collecting data from entrepreneurs, quantitative research offered the advantage of covering large samples (Saunders et al., 2012). The purpose of the survey, rather than providing statistical analysis, was to learn from a large sample of businesses on the impact of formal and informal institutions on export performance, and in particular on the influence of corruption. While relying solely on quantitative research would have been insufficient for studying complex entrepreneurship phenomena, in this research, as an addition to the qualitative stages made it possible to cover large samples, and collected the samples in a relatively short period of time. It was later followed up by additional in-depth interviews of entrepreneurs to have more insight on their perceptions and experiences (which is later explained in the next section). To meet the aim, this thesis combined data from three sequential stages using a pragmatic approach to research and a multi-phase mixed methods.

The survey was designed in a way that it is easy for entrepreneurs/managers to follow it, and it included different questions related to the ease of exporting, the incentives and constraints firms face, barriers that do not allow firms to grow and export, perception of corruption and its impact, and other relevant issues revealed during the interviews with key stakeholders. At first, the researcher distributed the draft survey to 20 companies, as a pilot for the project. They were all owners, CEOs or managers of firms operating in Kosovo; selected out of convenience or through snowball selection (Tansey, 2007). From the participants, the researcher first contacted 6 participants for the pilot stage from her own contact list and asked these participants to distribute the plot survey further to entrepreneurs they now. The distributing of the pilot was stopped when 20 responses were received. From the draft survey, after receiving and analysing the responses, two questions were added to the survey. Both were follow up questions of existing questions. Specifically, after asking if the companies are exporters, and what percentage of their sales is exported, the follow up questions added were: ‘Do you have ambition to start exporting?’ for non-exporters, and ‘Do you have ambition to export more than you do?’ for participants that indicate they are exporters. These questions were added to be able to tell if companies that are pursuing to start or increase exporting, might not do so because of barriers. One question was changed; while the original draft asked companies for their turnover, to categorize them into large or SME companies, due to hesitation of participants to answer, the questions in the distributed survey instead asked for number of employees. Another change in the survey, after the pilot stage, was the updating of the list of destination countries, where companies export to.

Survey data was intended to both address the second research aim on its own and help in the identification of questions to be included during the third stage.

The survey was designed specifically to deepen and sustain with quantitative analysis the research questions 1 and 3:

- What is the relationship between institutions and doing business across borders?
- How does corruption in the country of origin affect export performance of firms?

Questions in the survey mainly addressed what the owners and entrepreneurs of Kosovo firms consider as main barriers to export, the impact of corruption on exports. The table below shows the questions included in the survey on the left-hand side, while right hand side shows the reason for

including these questions. The complete survey, translated to English, can be found in Appendix 1 of this thesis.

Table 20. Survey of businesses

Survey: Barriers to exporting from Kosovo	Explanation
1. Which sector does your company belong to?	Characteristics of companies, to tell which companies are represented, and check for changes across sectors, regions, size of company.
2. In what year was your company established?	
3. Which region is your business primarily based in?	
4. Please indicate the number of persons employed in your company.	
5. What percentage of your sales (volume of sales) is exported?	To be able to see differences in views between exporters and non-exports.
6. If you answered your company is not an exporter (related to Q5), do you have ambition to start exporting?	
7. If your company is already an exporter (related to Q5), do you have ambition to export more than you do?	
8. Do you generate more or less profit from selling products (or services) to foreign markets compared to domestic sales?	To confirm that exporters generate more profit.
9. Where does your company export to (check all that apply)?	Country list of exporters from official data (ASK, 2016). To explore the relations of barriers and destination countries.
10. What do you perceive are the main barriers to export from Kosovo (please pick three, ranking the main barrier with number 1)?	List of barriers (multiple choice) provided based on stakeholder interviews of the first stage of research.
11. Does corruption affect your export performance?	Questions included to account for the impact of corruption on exports, type of corruption, and reasons for not reporting corruption, all based on stakeholder interview findings.
12. Were you ever expected to give money, gifts or do other favours for any of the following (check all that apply)?	
13. In what form (check all that apply)?	
14. How often were you asked to give money, gifts or do favours to get things done?	
15. Have you reported cases when asked for bribes or other favours?	
16. If yes (related to Q15), where did you report the case (check all that apply)?	
17. If no (related to Q15), why did you not report the case (check all that apply)?	

Survey: Barriers to exporting from Kosovo	Explanation
18. Do you perceive the judicial system in Kosovo to be corrupt?	Judicial system perceived corrupt as per findings of stakeholder interviews
19. If Yes (related to Q18), how does that affect your export performance? Check all that apply.	
20. How does the negative perception of corruption in Kosovo affect your relations with foreign business partners (such as investors or importers of your products)? Check all that apply.	Stakeholder interviews argue even if it is only perception of corruption, it undermines exports
21. Do you feel you are treated differently than other companies in the following regards? Check all that apply.	To see how fair the environment is perceived by businesses. Stakeholder interview suggest low quality institutions lead to some businesses being in more favourable positions.
22. If you were treated differently (related to Q21), how did that affect your export performance?	
23. When exporting, were you ever asked for informal payments or other favours from any of the following (check all that apply)?	
24. Have you ever secured a public contract?	
25. If your company has applied for at least one public tender, were you expected to give money or do any other favour to secure a public contract?	
26. If you have other comments about barriers to export from Kosovo, please give them in this box.	

While the researcher had considered having the survey filled online anonymously, due to the reason that it addresses sensitive questions and the response time can be fairly quick for a part of businesses, and through online surveys data can be easily exported to SPSS (Wright, 2005), after consulting representatives of business associations, the survey was distributed and filled in hard copy. I was informed most entrepreneurs might rather choose to fill in surveys in hard copy, which also was believed to make them feel safer when answering anonymously rather than having the answers inputted in a computer. Also, often, when it comes to doing for others, entrepreneurs have staff work them through it, which was another reason why hard copy surveys were preferred. Thus, to ensure a satisfactory response rate, entrepreneurs and business owner-managers filled hard-copy surveys and submitted completed surveys in hard copy, as advised by the business associations who helped in distributing the survey. The survey was constructed during December 2016 – February 2017. It started being distributed during April 2017, and all responses were collected latest by latest September 2017. The distribution was carried out by the main business association

in Kosovo, namely the Kosovo Chamber of Commerce. It is the biggest association in the country, supported by a unique law from the Kosovo Assembly, Law 2004/7 (Assembly of Kosovo, 2004), to support and represent the private sector of Kosovo. Having them carry out the process helped with having a higher response rate, given their close cooperation with Kosovo entrepreneurs. A total of 524 samples were gathered. This number excludes 6 responses that were largely incomplete, as well as 20 responses that were used in the pilot study. The data was transferred manually from the hardcopies filled by the companies into a master data set in Microsoft Excel and then analysed using IBM SPSS Statistics, version 28.0. The large scale survey helped to learn the perceptions, experiences, and realities of a large sample of businesses. The minimum sampling size was assessed to be 380 samples, considering a confidence level of 95% and a margin of error of 5%, as calculated by using the Cochran formula for sample size determination (Cochran, 1997). The 524 returned filled surveys, out of approximately 35,000 registered firms in Kosovo in 2017, therefore represent a sufficiently large sample of businesses in Kosovo to allow for a quantitative analysis of the results. The questions of the survey are descriptive, or perception based. Hence, predominantly descriptive statistical analysis was used in the assessment of the survey results. The findings were then discussed in more depth in interviews with entrepreneurs and owner/managers of firms operating in Kosovo, during the third stage of research.

6.4.3 Stage 3: Semi structured in-depth interviews with firms

Exploring Kosovo firms' perceptions and experiences with exporting across the borders was one of the aims of the semi structured in-depth interviews with representatives of Kosovo firms, which were conducted on top of a large-scale survey. Such in-depth interviews are suitable for studying complex entrepreneurial phenomena (Blundel, 2007). According to McKenzie (2007), entrepreneurs are usually keen to share their experiences and tell their stories; thus, the in-depth interviews in a semi structured setting enable a better understanding of the issues related to firms' export performance and their experiences with exporting, as well as the ease of trading across borders as perceived by them. This stage of research ultimately gave a better understanding of the culture specific to firms operating in Kosovo and officials they deal with, and how the firms deal with institutional voids, contributing to an understanding of the influence of institutions on exports. Comparing the views expressed by key stakeholders during stage one, which mostly have

represented formal institutions, with the views of this stage, has helped to uncover any divergences and facilitate a more thorough analysis of the influence of institutions on exports.

The sampling strategy for this phase of research was a combination of volunteer sampling method and purposeful selection. The volunteer sampling method involved inviting volunteer participants (Gill, 2000), from the survey respondents who chose to leave contact details to be contacted by the research for further in-depth interviewing on the topics of interest. While purposeful sampling was included to get the most out of the interview stage by selecting participants that would provide rich information (Patton, 2002). Out of the 15 participants of the stage, 8 were volunteers and 7 were purposefully selected. All of the 15 participants were in high managerial positions; they were either CEO's, General Managers, or firm owners. Out of the 15 firms the participants represented, 13 were exporters and 2 were non-exporters. These 15 participants represented 7 different sectors. Out of the 15 firms, 4 were large firms with more than 250 employees, 7 were medium sized firms, and 4 were small firms with under 50 employees. These firms exported to 11 different countries, including regional and European Union countries.

These interviews were conducted to explore key aspects in more detail and advance the understanding of their behaviour. This stage took part after the large-scale quantitative survey, to give a better understanding of entrepreneurs and business managers' experiences, perceptions, and beliefs, as well as show how they deal with institutional voids. The interview questions, as well as participants list and contacts, were developed during the first quarter of 2018. Similar to the interviews with key stakeholders, key questions were formulated beforehand, but the interviews of this stage had a semi-structured format as well, allowing a degree of flexibility to explore the depth of participants' experiences and perceptions with exporting their products. The interviews were all recorded, translated and transcribed. To respect the anonymity of participants, each participant was assigned a label, as a pseudonym to not use their name, but still allow for tracking quotes of different participants. These labels were BI1 to BI15 (BI standing for business interview, and followed by consecutive number that interview took place) to represent each of the 15 interviewees in this stage of research. The participants' names or information that would identify them were omitted, as agreed by the consent form in Appendix 5.

All of the participants were given information sheets regarding the research, and consent forms to sign (either in person or online), and the participants of business interviews were met either in

person or online. The information sheet and the consent form are shown in appendix 4 and appendix 5, and more information on these is given in the section below, when speaking about the research ethical considerations. The researcher intended to hold all the interviews face to face for ease of discussion, talking openly about topic of interest, and to help create a friendly environment where valuable information is shared (Hochschild, 2009). Out of the 15 interviews of this stage, 9 of them were met in person during September 2019 to November 2019, either at their offices, or in a neutral location, such as a café or restaurant in central Pristina. Whereas 6 business representatives were met online, 4 of which with video conferencing and 2 others with telephone and email exchange, during March and April 2020 due to limitations of physical meetings during that period.

Face to face meetings of this stage took between 1 to 1,5 hours. Out of the 9 business representatives that were met in person for purposes of this research, the researcher knew 8 of them before the interviews took place, which helped in creating a comfortable environment where information can be shared. The online meetings of this stage took between 30 to around 50 minutes. All 6 of these interviews offered valuable information that is used in the findings of this research. The researcher had the advantage of knowing all of them from previous work-related meetings and events, which helped in setting a safer environment to share experiences and perceptions of business participants. However, different from face-to-face interviews, the discussion was shorter and not as thorough. Online and telephone meetings can put the confidentiality in question as other parties that are not visible may be present or meetings can be recorded (Saarijarvi and Bratt, 2021), which can lead to a lack of openness to share information.

The questions included in these in-depth interviews of a semi-structured setting were influenced by the large-scale survey of businesses and the in-depth interviews with key stakeholders. The questions were formulated with the aim of gaining a deeper understanding of the results from the survey, as well as comparing the answers from these interviews with the answers received from the stakeholder interviews. Below are shown two sets of questions which were used to guide the semi-structured interviews with entrepreneurs and CEO / managers of firms operating in Kosovo. One set of questions was prepared for one of the interviews conducted with a representative of a large firm, whereas the other set of questions was prepared for one of the interviews conducted with a representative of a SME.

Table 21. Interview Questions, Large Business

Questions for business owners or entrepreneurs

Interview with representative of a large corporation and exporter

1. Is access to finance an obstacle for your company, and would you have exported more than you do now if you did not have this obstacle?
 2. How do you find clients in foreign countries? How could this be facilitated?
 3. How much are political trade barriers of other countries an issue for exporting your products?
 4. How do you find formal institutions in Kosovo in regard to supporting exports?
 5. How do you find informal institutions in Kosovo in regard to supporting exports?
 6. Have you ever been asked for an informal payment or other favour from political parties, business partners or other interest groups? Would you have to make payments to stay in business?
 7. How much do you see the qualitative education of youth as an obstacle in your desire to increase exports?
 8. What kind of trainings do you provide for your staff? Why do you not train more staff yourself?
 9. Has the negative perception of corruption ever affected your relations with foreign partners? How?
 10. What changes, whether from state institutions or others, would facilitate and increase exports?
-

Table 22. Interview Questions, SME

Questions for business owners or entrepreneurs

Interview with representative of a large corporation and exporter

1. What do you think of the labour force available in Kosovo? Do you find suitable staff to work in your company?
 2. Do you provide trainings to your staff? What kind of trainings do they attend and how often are these trainings provided for your staff?
 3. How do you see doing business in Kosovo? Do you find any obstacles in your journey to growing your company?
 4. Are you treated fairly in regards to tax payments, receiving support, others?
 5. How did you manage to find financing for opening your business?
 6. Is access to finance an obstacle for your company, and would you have exported if you did not have this obstacle?
-

Questions for business owners or entrepreneurs**Interview with representative of a large corporation and exporter**

7. Is there any incentives, whether from state institutions or others, that would help you export your products abroad?
8. What do you think are the main barriers to you to grow and practice your activities as a business operating in Kosovo?
9. Have you ever been asked for an informal payment or other favour from political parties, business partners or other interest groups?
10. Has the negative perception of corruption ever affected your relations with potential foreign partners? How?

Interview Questions, SME

The interviews were recorded, transcribed, and translated to English by the researcher. The data was read in order for the researcher to be familiarized with it and re-read to mark significant themes or quotes to be used. The data was analysed through both deduction and induction, using thematic analysis (Onwuegbuzie and Leech, 2005), by forming summaries from raw textual data, and subsequently linking it to the research questions of this thesis. For this stage there were already preconceived themes expected to be found based on the previous stages of research. But the research allowed for other important themes to not be missed. As described by Thomas (2006), relevant subtopics were searched, including contradictory points of view and new insights, selecting the appropriate quotes that convey the core theme of a category. The data from this stage of research explored the key findings of the survey in more depth, and allowed for comparing the perceptions and experiences of entrepreneurs compared to those of the stakeholders from the first stage of research.

6.5 Research ethical considerations

Ethical considerations are of great importance to any research project, and the ethical integrity is a must for conducting research for a doctorate thesis, such as this one. For this purpose, appropriate measures were undertaken in order to make sure that the thesis adheres to ethical research standards. Since avoiding the harm itself is seen as the foundation of the ethical issues that confront researchers, protective measures to avoid such harm should be taken into consideration (Saunders et al., 2012). These protective measures include issues such as ensuring transparency during research (Harvey, 2011), as well as the confidentiality and the anonymity of respondents (Lewis, 2003).

Participants that were invited for the stakeholder interviews - being contacted either via personal contacts or office contacts, depending on the position they held at the time of research – were informed about the reason of the interview, being a research study, as well as they were given a briefing on the participant information sheet, which was provided at a later stage, and interview consent form. Before the interview took place, the participants received the participant information sheet, shown in appendix 3, which explains the aims of the project, why they are being interviewed, and that it is up to them if they want to be part of the interview, for transparency reasons. Furthermore, the participants were provided with a consent form to read and sign, which also included issues such as their anonymity. The consent form, as shown in appendix 5, was handed out and signed by all interviewees of this stage of research. The participants were aware that all interviews all voluntary, and even if they are participating, they are free to skip answering certain questions, if they wish to do so. The interviews included sensitive topics such as corruption and components of it; despite interviewees being asked about these topics or certain examples of them, they were not in any point asked to answer what they do not feel comfortable answering.

The second stage of research included a large-scale survey of firms operating in Kosovo. Especially in the case of surveys, particular attention is required to protect the participants. In this regard, firms filled in surveys manually in hard copy and handed them over during larger meetings in businesses associations. The survey did not include questions that can disclose them, and participation for all was voluntary. None of the business representative participating in the survey was pressured to participate in any shape or form. While the participants were asked to provide contact details in case they wish to voluntarily contribute to the research stage of in-depth interviews with businesses, these contacts cannot be traced to certain answers, and they were not shared outside the researcher’s supervisory team.

Similarly, to the first stage of research, representatives of Kosovo firms participating in interviews were given information about the reason of the interview, as well as were briefed about the content of the participant information sheet and consent form. The participation information sheet for businesses, as shown in Appendix form was handed out and signed by the participants before the interview took place. The participants from the business side also signed the same consent form shown in appendix 5, which stressed the interviews were voluntary, the participants do not have to answer questions they do not want to answer, and they can withdraw from the study if they wish to do so.

The information received from the interviews of both qualitative stages of research, as well as the quantitative survey, was kept as confidential and anonymous as possible. For the first and third stage of research, each interviewee was given a label, as a pseudonym, for purpose of using data generated by them for this research, and these were used in the analysis, rather than using names of interviewees or names of their organizations. The doctoral researcher of this thesis acts as the custodian for the data generated by the research, and only the doctoral researcher and supervisors of the thesis have access to the data collected from the interviews of this research project.

6.6 Chapter summary

This chapter has highlighted the research methods and the research approach, it has outlined how data was collected, and it has shown the ethical considerations undertaken for the purpose of this thesis. The paradigm of pragmatism used in this research encourages the use of mixed methods techniques in efforts to cope with the complexity of studied phenomena and help reveal aspects that would be undetectable otherwise (Mingers, 2005; Downward and Mearman, 2007).

To examine the relationship between institutional reforms and the volume of goods exported from Kosovo, this research integrated different forms of data in sequential stages to meet the aim and answer the research questions, including: ‘what is the relationship between institutions and doing business across borders?’, ‘how do firms cope with institutional voids?’ and ‘how does corruption in the country of origin affect export performance of firms?’. The first stage of research included 25 in-depth interviews with key stakeholders to have insights from within, which was followed by a large-scale survey of businesses operating in Kosovo with 524 valid responses. Subsequently, in-depth interviews with entrepreneurs and CEO/managers of Kosovo firms were conducted to explore and discuss findings of the survey.

The in-depth interviews with key stakeholders had provided a preliminary understanding of Kosovo’s institutional framework for export. The participants of this first stage of research were all purposefully selected to ensure representation of different ministries and organizations, different governing times, position and opposition parties, as well as international organizations and politically independent organizations. This was one of the stages of the multi-phase research and it included 25 in-depth interviews with high-knowledge participants, as seen in section 6.4. (including tables 15 and 16 in page 81). The sample size and sample composition, which was

followed by further research with participants from private sector, ensured saturation of data as an essential aspect of qualitative research to ensure validity and robustness of results (O'Reilly and Parker, 2013; Hennink et al., 2017).

This first stage of the multi-phase research was then followed by quantitative research to collect data from the private sector, which made it possible to cover large samples, and collected the samples in a relatively short period of time. For collecting data from entrepreneurs, quantitative research offered the advantage of covering large samples (Saunders et al., 2012). The quantitative survey was subsequently complemented by an additional stage of qualitative research with participants from the private sector, consisting of a combination of volunteer participants and purposefully selected participants representing firms of different industries and sizes. While relying solely on quantitative research would have been insufficient for studying complex entrepreneurship phenomena, the multiple methods contributed to increasing robustness and validity of the findings.

Each research stage in the thesis contributed to the development of the next stage, making it possible to result in an overall complementary and synergetic approach, and give insights on the relationship between institutions and doing business across borders, how firms cope with institutional voids, and how corruption in the country of origin affects the export performance of firms. Using both qualitative and quantitative methods enabled the benefits of both approaches offering greater validity to the analysis, and the use of pragmatic paradigm and mixed methods techniques, combining inductive and deductive reasoning, has helped to cope with the complexity of studied phenomena and to reveal aspects that would be undetectable otherwise.

7 The views of policy makers and other key stakeholders on institutions and exports: findings of the first stage of research (qualitative methods)

7.1 Introduction to the chapter

The current chapter presents the results obtained from the first stage of research, that of the semi structured in-depth interviews with key stakeholders in Kosovo. This stage was part of a mixed methods research, combining two stages of qualitative analysis and one stage of quantitative analysis, with the main aim of studying the effects of institutions on export performance of businesses in Kosovo. The experiences of a small developing economy such as Kosovo, with relatively new formal institutions, and a high perceived corruption, are believed to be an important addition to knowledge on the relationship between institutions and trading across borders, on how firms deal with institutional voids, and how corruption in the country of origin affects the export performance of firms. The combination of methods was done to give a more thorough explanation of the phenomena and to offer a greater validity to the analysis.

The first set of questions for this qualitative stage of research were formed based on the aim of the thesis, and literature review on institutions and export orientation of businesses, adjusting them if different matters came to light, as described in the methodology chapter. These in-depth interviews with key stakeholders, including parliamentary members, members of (at the stage of research) current government or former governments, heads of relevant organizations etc., gave insights to frame the design of the quantitative stage, which in turn contributed to the last qualitative stage of research, to get to the aim and to answer the research questions of this thesis.

The purpose of this chapter is to present the key results from the in-depth interviews with key stakeholders in Kosovo, including significant responses from the interviews, giving more weight to recurring patterns, and relevant quotations from data. The next section presents the findings related to education and skills of workforce and their effects on export performance of Kosovo firms. Education and skills are considered key components of human capital, representing the knowledge, competencies, and abilities that the labour force has, and contribute to productivity, innovation, and development of economies (Aghion and Howitt, 1998; Acemoglu et al. 2004). In this research, the author refers to education and skills as a combined theme representing institutions

that influence education and skills in an economy, including policies and regulations related to education and training, educational systems, labour market regulations, and governance structures.

The following section, section 7.3., explains findings on access to finance and its impact on export performance of firms. Section 7.4. describes the results of qualitative interviews on written regulations and the rule of law in Kosovo. Finally, the focus in section 7.5. is on how informal institutions affect exports from Kosovo firms, with focus on the impacts of corruption, which was the most recurring informal institution from the data. Section 7.6. summarizes this chapter.

7.2 Education and Skills as obstacles to firms' ability to export

Developing countries are more likely to be younger in age in comparison to the developed ones, by having a higher percentage of young residents (Our World in Data, 2020). Kosovo has the youngest population in Europe with 53% of the population being under 25 years old (UNDP, 2019; ASK, 2012). United Nations (2020) sees the high number of young people as an opportunity for growth. However, the economic and social development of the countries with youth bulges hinges on the capacity of policymakers to provide the young people opportunities and possibilities for decent employment prospects (Nilsson, 2018). The lack of quality education and training leaves youngsters of developing countries unskilled for work compared to youngsters of the developed world. Historically, youth in developing countries has had higher rates of inactivity and leave education earlier, as well as experience longer transition from education to job (Quintini and Martin, 2014).

For Kosovo, labour force is often used as an argument by state agencies in attracting foreign investors (including in pronouncements of current and former Prime Ministers, Presidents, and Heads of Parliament; Kurti, 2022; Kunjufca, 2022; Osmani, 2022; Haradinaj, 2017; Thaci, 2009). On the other hand, it is exactly the country's labour force that is one of the first challenges to export, as mentioned in the in-depth stakeholder interviews from the research (SI1, SI14, SI21, SI11, SI24). According to the in-depth interviews, Kosovo has an abundance of labour force, and it is comparatively cheap, but the respondents believe it is not qualified to respond to market needs, stressing the necessity for policymakers to focus and think of it's need to meet the market requirements. "The government has failed to create a suitable workforce and did not reform the education system to address the needs of the market" (SI3). The education system is not aligned

with the skills required to perform jobs, resulting in low employability of graduates. This is especially a challenge for manufacturers, as illustrated by the following quotation:

“Despite having high unemployment rates, many businesses cannot find staff, resulting in having a harder time growing, which is especially the case with certain sectors, such as food processing, wood processing, or in the light metal industry” (SI21)

Unemployment in Kosovo is still at alarming rates at 25.7 %, as registered in the Labour Force Survey of 2019 (ASK, 2020), yet the education system is not at a level to prepare them for work, and in line to contribute to business growth as well as export performance.

The findings of the thesis suggest the education sector in Kosovo is of poor quality, and not aligned to labour market needs (SI14, SI3, SI18, SI6, SI23, SI24). Kosovo scores amongst the lowest worldwide in math, science and reading, and even the highest performing students score just around the OECD average (OECD, 2019). Kosovo children start missing elementary skills from the early years of schooling, as explained by the following interviewee:

“Starting from elementary school, children are not taught basic skills and are not taught how to think ... [they] continue from a level of schooling to the next, and finally graduating, without skills to use for work” (SI8).

To show how education and labour market skills play a role in the firms’ ability to export, the visual map below, shown in figure 5, summarizes the key findings of interviews. On the top section the demand side is shown, whereas on the bottom section the supply side is shown, and the starting point of the map is in the bottom left corner, marked with A.

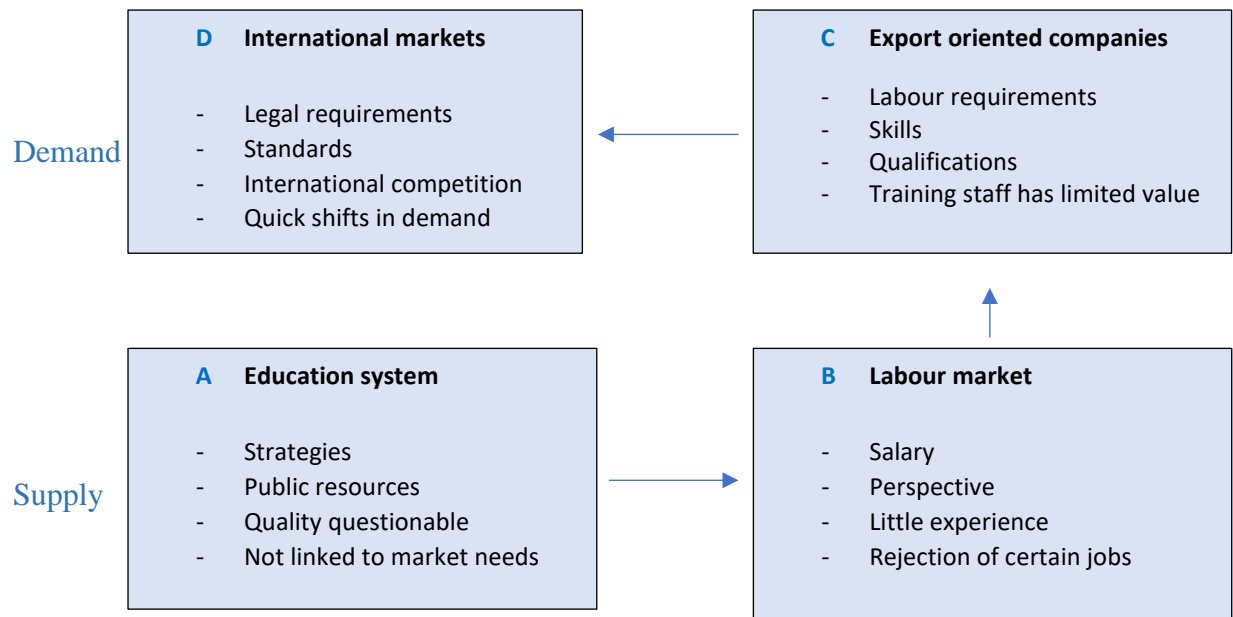


Figure 5. The impact of the education system on firms’ exports in Kosovo

To explain the impact of education system on the export performance of firms, we start at the bottom left corner, which shows the education system itself, comprised of education strategies from Kosovo’s public institutions, the public resources available for education, and the current state of the education system: the education sector is of poor quality, and not aligned to labour market needs (SI14, SI3, SI18, SI6, SI23, SI24). The graduates coming from Kosovo’s education system, box A, are then expected to join the labour market in Kosovo, which is pictured in the bottom right corner, at the box marked with B. Graduates coming from the local education sector are believed to not be trained for the future jobs, coming inexperienced and unprepared to contribute to Kosovo firms (SI3, SI23, SI11). Graduates refuse to work in certain jobs yet remain unable to secure the jobs they strive for (SI2, SI3). This is explained by the mismatch between the supply from education system and the needs of the local market, as students want to work in the fields that they studied in, leading to a situation where unemployment is high but the private sector struggles to find staff. The combination of the education sector and local labour market, boxes A and B, is the supply side for potential and current exports.

The companies with potential to export have certain labour requirements from the supply side, to be able to produce exportable products and to be able to grow enough to be competitive. Skills, motivation, and qualifications are necessities for exporting. While firms oriented towards exporting goods to foreign markets would benefit from training their staff, only limited companies engage in

doing so. Especially for the smaller firms, the inability to make such investments in their staff does not let them to grow further (SI23, SI11). Companies find staff trainings to be costly and time consuming. In many cases, these companies do not provide trainings due to fear of losing trained staff in future, or because of internal barriers. The export oriented companies visualized in the upper right corner, box C, make up the sellers of Kosovo products to international markets, shown in the upper left corner in the figure pictured above, box D. The international markets come with certain legal requirements and require certain standards as well as quality of products (SI2), and competing in international markets involves also daunting competition from competitive international firms (SI8).

The mismatch between the education sector and the needs required by the market is a major factor that drags down the potential for increasing exports. The sections below explain in more detail the impact of education in exports, why there is a mismatch between education and market needs, and what is being done about it.

7.2.1 How does the education system impact the firms' export performance?

Having the youngest population in Europe (Agency of Statistics of Kosovo, 2019), a well-trained labour force, for Kosovo, could be a comparative advantage and a key resource for the growth in general and ability to produce exportable products. While years spent in schooling is found to not be significantly consistent with development and growth through different studies (Easterly, 2001; Pritchett, 2006), quality of education is found to have a substantial impact on the performance of economies which in turn translates to more entrepreneurship and exports (Hanushek and Woessmann, 2010; Ramirez, 2014). Respondents from the in-depth interviews of this research agree that the governments have failed to create a more adequate workforce for Kosovo (SI1, SI3, SI8), and to reform the education system to create sufficient workforce for the market. Universities do not provide the needed skills for future employment (SI1, SI2, SI20, SI8, SI23). Despite the high graduate rate, youngsters do not gain usable skills, and the inadequate professional education is listed as a Kosovo's main obstacles to private sector development and exporting in the EU's Kosovo progress report (European Commission, 2019).

Exporting requires labour market skills, especially if higher-income countries are a destination (Castinot and Vogel, 2010; Bastos et al. 2014; Brambilla et al., 2015). International Labour Office (2017, p. 159) explains that as “technologies, market demands and trading relations change rapidly,

the responsiveness of skills supply to current and prospective changes in demand is of crucial importance”. Differences in training levels between developed and developing countries have been a rather popular subject, and having skilled workers is believed to create spill over effects in the performance of economies and their abilities to export products or services (OECD, 2017; European Commission, 2020). The education system in Kosovo has never been a priority for Kosovo (SI20, SI21). The employment of teachers is believed to be politicized and not merit based (SI14, SI21), and the teachers are the result of this dysfunctional education system (SI3). Results from PISA (OECD, 2017) rank Kosovo at the bottom in regards to youngster’s performance in math, science, and reading, trailing behind also all regional counterparts. “Small reforms are not sufficient for education in Kosovo; we need a whole new system” stresses out one of the respondents from the in-depth stakeholder interviews (SI3). “Starting from elementary school, children are not taught basic skills and are not taught how to think” adds another respondent, by concluding that “children continue from a level of schooling to the next, and finally graduating, without skills to use for work” (SI8).

In the past the capacity to engage the workforce was smaller as many businesses were in a household level, but now that they are starting to open up and increase capacity and the number of employers, it is evident there are gaps in the market. Many people have University degrees, but there are not many who have sufficient knowledge and skills for example in technological processes, food safety, manufacturing of metals, engineering processes (SI1, SI14, SI15, SI3, SI6, SI8, SI11).

7.2.2 Why is the education system not aligned with market needs?

As a result of the boom Kosovo had post liberation from Yugoslavia in 1999, in the field of trade, finance, insurance sector, and the openings in public administration positions and opportunities to work on international projects, economic and law degrees were well regarded (SI1, SI3, SI7, SI8, SI24). This has contributed to a significant increase in the demand to study in these fields in the early 2000s, and they continue to be considerably more popular than others. In Kosovo, universities keep producing graduates from these fields in which market cannot absorb them and does not need them, while universities do not produce graduates in required professions for the market. Stakeholders agree this increase of demand of students to study certain subjects by mentioning the increased need for economic or law backgrounds in the boom post 1999 (SI1, SI3,

SI8, SI10), however, despite changing times and employing staff of such backgrounds reaching peak, universities keep offering these studies in an increasing rate and students keep going after them (SI8).

“There is no adequate planning within the University and within the Ministry; it is a problem for our labour force, but the issue was never discussed extensively” a stakeholder mentioned (SI21). High officials in public institutions, despite being themselves members of Government or the Kosovo Assembly, suggest the workforce needs should be explored, and the education system should match them (SI1, SI14). Among the professions mentioned for which there is a substantial lack of employees are light metal industry, food processing, wood processing, and other engineering positions; however, educational institutions in Kosovo focus in economic or law studies, and many youngsters are attracted to those. The majority of Kosovo youth from and above mid-20s have degrees, but there are very few people who have sufficient knowledge and skills for example in technological processes, in specific fields such as food security, or in other fields like metals, from those related to welding to engineering constructions, engineering processes, which are necessary if one product wants to meet standards, especially for export to the EU market, which remains the market with the highest potential for export from Kosovo (SI1, SI3, SI21, SI11).

While Kosovo has a Strategic Plan document for education, which aims to fill the gap between education and labour market, with certain measures in development of curricula and programs for skills development (Ministry of Education Science and Technology, 2017), stakeholders interviewed insist education has never been a priority in Kosovo, thus the gap between what the markets requires, and education institutions produce continues to be alarming (SI20, SI21). “There have been updates in the study curriculums, however there is need for substantial reforms in our education system, but policy makers do not bother much” (SI11). The Government did not “reform the education system to create a workforce which meets the needs of the market, since education reforms would not show results within 3 or 4 years, but rather take a decade or more; that does not bring votes in the next election rounds” (SI21). As a result, the education system maintains the same and universities keep producing unskilled graduates, or graduates from fields in which market cannot absorb them and does not need them (SI14). Non-adequate planning within the University and within the Ministry of Education or Government is a concerning problem, and the needs to reduce the dexterity gap were never discussed extensively (SI3).

Furthermore, interviewees added that many Kosovo graduates can easily manage to earn their degrees merely by attending school or being registered as students, without the need to study and without being taught how to think, resulting in being graduates without having gained skills which can be used for the labour market (SI1, SI2). On the other hand, it is also a part of the culture, fed by informal institutions, that people aim to achieve a certain status in life through getting a university degree, to the point they do not think if it will be required for the market or not but believe the possession of a bachelor's degree or master's degree will put them in a higher level in society (SI1, SI21). “Very few of them engage with the thought that a degree has less importance than what you choose or what fits you more to work in the future” concludes one of the respondents in this research (SI21).

Sectors such as agriculture, wood and textile industry can absorb far more workers than there is to offer, but despite the high unemployment, and despite these sectors not requiring specific skills, people do not prefer them (SI1, SI2, SI20, SI3, SI6, SI21). Especially for agriculture sector work, many find it humiliating, aiming for other jobs that are unavailable (SI21); agriculture firms end up employing unskilled workers of Macedonia or Albania instead (SI6, SI7). Also, in general, among the unemployed job-seekers public sector is preferred, because in the public administration not much is expected from the staff to do, and people believe they do not risk being fired (SI24).

Lack of work ethics fuels the high unemployment rate, which in turn contributes to lower production and exporting (SI1) as graduates expect jobs but are not driven to work, and lack the skills to perform future jobs. On top of it, respondents believe the lack of skills and drive lead Kosovo youngsters not interested or capable to create jobs for themselves and hire others (SI3, SI18, SI24). However, despite this, institutions at the same time allow the creation of unskilled graduates, “which could be mostly used as a buffer zone to postpone unemployment” (SI3).

Some interviewees from the stakeholder’s part have also stated that businesses themselves often do not identify internal skill barriers as a major problem among their main obstacles since their being engaged in merely local product services does not require very skilled employees (SI23, SI11). Unsophisticated products might be produced by low skilled workers, but this way these businesses cannot better themselves and industries stagnate or grow very slowly. According to studies by OECD and European Commission (OECD, 2012; European Commission, 2017), the smaller the firms are, the less likely they are to be investing in employee training, and a sizeable

proportion of small firms offer no training at all, mostly due to the very high costs of doing so. Thus, while larger firms are in a better position and financially able to train staff themselves, leading to their being able to shape their staff with required skills for the job, for the smaller firms, the inability to make such investments in their staff does not let them to grow further (SI23, SI11). While unemployment in Kosovo remains at alarming rates, also companies have a hard time finding staff they need (SI23, SI24).

Kosovo firms are believed to have internal barriers which are hardly identified by managers themselves, as they themselves manage in archaic methods, without having concrete plans to expand and evolve (SI23, SI11). These respondents explain labour market shortcomings are posed both by demand and supply problems, as businesses have a hard time identifying what they need since managers lack adequate knowledge and experience, while education system fails to influence them with workforce that could potentially better the economic performance and ability to export. This situation is nicely illustrated by the following quotation of an interviewee:

“Those signals that should be exchanged between employers and educational institutions regarding the necessities for particular skill profiles do not work, and they should be fed by both demand and supply side” (SI11).

While other respondents added that it also universities and other higher educational institutions that should have been the competent centres in producing and selling skill profiles in order to help improve industries (SI14, SI6, SI8, SI21, SI12), with the conclusion that this situation cannot be changed if Kosovo does not start creating better skilled people to feed the labour force (SI6).

7.3 Access to finance as an obstacle to firms' ability to export

Access to finance is cited in existing literature as one of the greatest constraints to firms' investment in general, and in particular to their desire to enter foreign markets (Chaney, 2005; Bellone et al., 2010; Riding et al., 2012; Griffith and Czinkota, 2012; Sanderson, 2014; Wagner, 2014). Access to finance, as part of the institutional environment of a country, involves the set of rules and regulations that govern the availability and allocation of financial resources within that country, including central bank policies, banking regulations, legal framework for lending and borrowing, as well as informal lending and borrowing practices (Demirguc-Kunt et al., 2020; World Bank, 2018). The role of firms, especially SMEs in economic development of developing

countries has been limited by lack of access to finance, primarily from financial institutions (Schiffer and Weder, 2001; Cressy, 2002; Beck *et al.*, 2008). These financial constraints pose significant challenges for firms' participation in exporting activities.

Before the start of the production activities, firms, for start up reasons, need financing, as well as for investing in capital and development activities. At a later stage, firms also require financing for daily activities which can include the purchasing of raw materials and payments of current liabilities at later stages. Firms look for both formal forms of financing, such as bank loans, and informal sources, such as loans from friends and immediate family members, to finance for their business activities. Recent literature in international trade has also studied the sunk costs that businesses have to undertake to be able to undertake exporting activities, including expenses of getting together information on foreign markets, investing in having higher quality products or services, transportation, packaging and marketing for foreign markets, which typically are more of a challenge for businesses from developing countries (Melitz, 2003; Eaton *et al.*, 2004; Sutton, 2007).

Limited access to finance prevents the poor from borrowing against future earnings to invest, thus it often is the critical mechanism for generating persistent poverty and income inequality. Various studies have concluded the impact of lack of access to finance on growth of SMEs in developing economies (Schiffer and Weder, 2001; Beck *et al.* 2008; Drexler *et al.*, 2014). A more inclusive financial system would increase their productivity and improve their standards of living (Jalilian and Kirkpatrick, 2005; Nimal, 2007).

7.3.1 How does access to finance impact companies' options to export?

Respondents of the in-depth stakeholder interviews from this research show that financial constraints by lack to access to finance play a significant role in diminishing firms' ability to enhance productivity, negatively impacting private sector job creation, and decreasing their ability to export (SI1, SI14).

Firms engaging in international trade, or those interested to start exporting, require financing to satisfy their increased investment needs for further growth and entering or growing in foreign markets. Other empirical studies conducted in Kosovo (Williams and Vorley, 2017) point out the need for further access to finance for businesses with the potential to grow. Firms' ability to expand depends on their potential to invest in restructuring and innovation, which require access to capital

(Mazanai and Fatoki, 2012). The lack of capital and financial assistance has contributed in leaving private sector underdeveloped, and interviewees believed the lack of capacities and technology is keeping Kosovo businesses from exporting more or exporting more products with added value because their products remain at the lower end of the value chain. Kosovo mostly exports non-complex products, or low value-added products, such as metals, plastics, and some agriculture produce (SI14). Agriculture in Kosovo is believed to have the potential to grow because of the countries productive land which remains free to use, but agriculture remains small and is dominated by small farmers with lack of access to finance, preventing economies of scale (SI1, SI16, SI7). World Bank (2021) stress the decline of the contribution of agriculture in growth, stating that the low labour productivity in Kosovo is evident despite the high share of younger farmers who are only as efficient as older farmers (unlike in neighbouring countries) mentioning issues with access to finance, technology, and trainings.

Bellone et al. (2010) conclude that financial constraints are barriers to SMEs' participation in exporting activities, by arguing that exporting activities can only be pursued by firms that are in a healthy financial position, having the capacity to cover the high upfront costs or sunk entry costs. Access to finance allows firms to grow, improve and be more innovative and more technologically advanced (Naude and Chiweshe 2017). When the above is achieved, firms not only are able to improve their productivity and performance, but they will also meet quality standards in line with competitive firms in the global market, increasing their chances of raising export opportunities (Chipangura and Kaseke 2012). Respondents of this research from the first stage of research – that of in-depth interviews with key stakeholders – highlight that Kosovo's firms are predominantly SMEs, often operating as a family business, and many firms tend to operate around a minimal financial margin (SI5, SI18, SI9). This leaves no room for medium-term investments into export capacities without additional financial support mechanisms (SI18).

7.3.2 Why is the access to finance limited?

Based on the in-depth interview conducted from this research, there are five main causes that determine the limited access to finance that Kosovo's entrepreneurs must tackle when venturing into international markets. These are:

1. The inadequate business plans or a limited capacity of firms to produce a quality proposal for the expansion of their businesses into export activities (SI14, SI2, SI16, SI6).
2. Banks assess associated risks on loans rather conservatively, limiting the number of loans given (SI5).
3. Products of Kosovo range on the lower end of value chains - such as metals, plastics, agricultural products - reflecting its development status, for which export options and associated revenues are limited (SI14, SI8, SI21).
4. Kosovo does not have the reputation of a reliable rule of law and secure contracting arrangements, limiting the influx of international investments in Kosovo's firms (SI1, SI7).
5. SME are often run as family businesses, who reject the idea to allow external funders to gain influence on the business. External financial sources are not seen as a viable option to grow (SI23, SI11).

Figure 6 below shows the five main causes that determines the limited access to finance.



Figure 6. The limited access to finance for existing companies

Interviewees agree that local firms struggle to access finance targeted for innovation and export development purposes (SI3, SI18, SI6). Firms, unable to present adequate business plans, lead to having scared away their potential funders, which can also contribute to increasing loan applications refusal rates (Riding et al. 2010).

Similarly, interviews of stakeholders (SI14, I24) stress access to finance is one of the obstacles to private sector development in Kosovo and ultimately their exporting possibilities, which is increasingly more challenging the smaller the firms are. Lack of access to finance in one hand, as well as challenges faced by financial institutions during risk assessment of the financing of these enterprises on the other hand, are not allowing for small firms to grow (SI14).

An interviewee who worked in designing trade policy mentioned that firms that export, in comparison to firms who do not, have more access to bank credit than non-exporters, and also are able to export products with value added, as well as export to European or further away countries,

rather than neighbourhood countries (SI17). Countries producing and exporting more sophisticated products, meaning goods produced using more sophisticated technological processes and higher labour costs, tend to record more economic growth in comparison to countries that produce and export unsophisticated goods, but the production of more complex products with value added requires more investment as well as a resilient contractual environment (Hausmann et al., 2007; Felipe et al. 2014), thus countries with higher quality institutions specialize in sophisticated products.

Numerous empirical studies find that contractual insecurity limits funding and reduces the volume of international trade (Anderson and Young, 2000; Nunn 2007; Gani, 2017). Contracts, including those related to financial aspects, are often not used when doing business in developing countries; moreover, even when contracts are in place, there are enforcement constraints due to the non-functioning of the rule of law, particularly non efficient court systems. According to some interviewees, the non-functioning rule of law scares foreign investors away as they do not want to invest where they cannot protect their finances (SI14, SI21).

Exporting to foreign markets exposes firms to a higher commercial risk as opposed to the risk that is present in local markets. Hence, low quality institutions with unsupportive legal frameworks pushes away potential investors as they want to protect their own finances (Love and Roper, 2015). Furthermore, according to representatives of business associations, Kosovo businesses are still largely family businesses (SI23, SI11), which is an additional issue when it comes to increasing investments as entrepreneurs are also themselves hesitant to receive investments from abroad from fear of not being able to make all decisions, which means they cannot grow any further (SI11, SI24).

7.3.3 How is currently being done about the lack of funding?

According to business associations in Kosovo (SI23, SI11), because of limited access to finance, both larger firms and SMEs in Kosovo are now at a point where their focus is in remaining in their actual position in the Kosovo market but do not have their focus on growing the company further. As one of the interviewees stated: “The capital they had, or they could find, has already been invested in their companies and this is as much as they can offer” (SI23).

Apart from financing from bank loans, borrowing from family and friends was the chief source of funds for new businesses in Kosovo. Few interviewees mentioned (SI15, SI21) how start-ups

rely on informal borrowings from family or friends since banks require collateral, which is scarce for many smaller firms, while they resort to borrowing funds from personal networks, such as family and friends, or informal institutions.

Many wanting to open a start-up, or even to grow their businesses, turn to loans from friends or family because they see it as the easiest way to raise money (SI15, SI8, SI21). Another interviewee adds that borrowing from personal network was much more common post 1999 until several years ago and is being less of an option now that we are moving towards a more western society when extended families are not as close (SI2); also from the lender's perspective, people tend to make decisions at home jointly rather than a decisions being made by head of house only.

Interviewees in research mentioned law on the establishment of the Kosovo credit guarantee fund, and Credit Guarantee fund organization, to meet the need for increased access to finance for firms in Kosovo (SI4, SI18, SI24). Establishment of the Kosovo Credit Guarantee Fund was expected to improve the trade balance of Kosovo, and it has helped to increase access to finance for some firms, in turn creating jobs, increasing the local production and value-added services, and it has enhanced the financing opportunities for SMEs. One of the main aims of the fund is the improvement of the trade balance, through easing the access of the exporting companies to the formal bank financing, however its capacities are limited, and as of 2018, only around 320 firms have benefited from it (SI18).

Also, studies on export consortia and increasing competitiveness of SMEs for exporting such as research Welch and Joynt (1987) and Rosson and Blunden (1985) conclude that export grouping represents a feasible way of overcoming the resource deficiencies to exporting, and by forming consortiums or joining other firms, SMEs have it possible to create a more powerful export entry vehicle which is more capable in mounting a stronger foreign market entry effort. However, while the idea of increasing capacity to be able to export might require firms to form consortiums or cooperate with other forms is supported by this empirical research, especially through interviews with Kosovo Business associations, local businesses are more likely to split in smaller businesses even if co-owners are brothers, rather than join one another (SI23, SI11). The issue is further discussed in the findings of interviews with entrepreneurs and CEO / managers of businesses in Chapter 9.

7.4 How rule of law, legislation and policies affect the export performance of Kosovo firms?

This section shows the findings from the in-depth interviews with main stakeholders in Kosovo regarding written policy documents related to trade, legislation, rule of law and contract enforcement. I start by discussing the findings relating to trade policy of Kosovo and its trade international trade agreements, followed by findings on legislation that supports trade and rule of law in Kosovo.

7.4.1 The trade policy of Kosovo and its trade international agreements

The last Trade Policy of Kosovo was approved in 2009 by the Government of Kosovo. The document mentions the need to further open the market with the idea to create more room for businesses abroad, the need for capacity building and improving the infrastructure. However, the interviewees agreed the document was not carefully designed (SI3, SI16, SI17, SI11), but was rather “written to be able to say there is a trade policy document in place” (SI3). Furthermore, several stakeholders stated Kosovo’s trade policy was very much influenced by the need to collect revenues, rather than using trade policy as an economic development tool (SI3, SI17, SI5, SI18, SI6). “In early 2000’s, the need to collect revenues have affected our trade policy, which later also influenced future policies” (SI18). Business associations said they continually ask from state agencies to orient policies towards empowering the private sector, and gradually forming a good base of Kosovo products which could be exported (SI23, SI11). However, according to them, they were not successful in convincing the Government, and Ministry of Finance specifically, because “the Ministry plays a very conservative role and does not agree to decrease sources from where revenues are collected” (SI23). Heads of Ministry of Trade also agreed they had a hard time convincing other stakeholders when they attempted to propose changes (SI3, SI16), although they also believe a decrease in revenue collection in the short run can lead to further revenues in the long run as a result of more economic activities. One Government official mentioned “about 80% of Kosovo’s trade is already covered by trade agreements”, CEFTA and SAA, thus trade policy is covered to a great extent but there is need to think about alternative options such as capacity building in Kosovo to be able to increase exports (SI3).

Kosovo trade policy document includes the possibility to join WTO. MTI officials reported Government is planning to apply as an observant, not a full member (SI4, SI17). According to

them, if Kosovo is to apply as a member, Kosovo has to negotiate bilaterally with other member states, risking being at a worse negotiating position because of countries that have not recognized Kosovo's sovereignty. While being an observer would be helpful for Kosovo at this stage with low productivity and low competitiveness, due to the possibility to gain from experience and also to strengthen human capacities (SI16).

Kosovo became part of CEFTA agreement in 2006. Interviewees generally agreed Kosovo was not prepared to be part of the agreement, and local firms were damaged by not being able to compete with firms of other CEFTA member countries (SI2, SI15, SI16, SI4, SI17). The agreement was signed by UNMIK when Kosovo institutions had no power to intervene. A former Government official (SI2) stated "that was a time when we had a reconstructing boom, but that demand had spilled over in the region rather than domestic production or development" and "products might have been more expensive and of a lower quality if Kosovo did not join CEFTA, but in the long run you would have more jobs and stronger local companies". While the private sector was weak to compete with those of CEFTA members, several stakeholders talked about the benefits of Kosovo organizations. CEFTA was a good chance to break the economic isolation, and an opportunity for a new state to be part in the framework of regional cooperation, which was also a prerequisite for other integrations (SI1, SI3). Furthermore, Kosovo officials were able to take part in joint meetings with CEFTA members in different levels, which helped in educating the human capacities and preparing them to be able to better negotiate in other agreements, such as SAA.

CEFTA aims to increase trade in the regions by removing tariffs, quotas and other obstacles, but interviewees stated smaller countries have not benefited in strengthening their production because their firms were not competitive enough (SI3, SI16, SI2). Also, despite the aim of the agreement to eliminate trade barriers, Kosovo firms still face political barriers and bureaucracy from other members of CEFTA. Apart from Kosovo there are 6 members in CEFTA, three out of which do not recognize Kosovo as a sovereign state. Government officials brought up different issues of a political background such as Kosovo licenses often not being recognized and hence products not being able to be exported, Kosovo firms not allowed to pass with their products through Serbia even with EU certifications because these documents mentioned Kosovo's official country name which is not recognized by Serbia, having different physical inspections including weeks of waiting at the borders in order to postpone exports and discourage Kosovo firms (SI1, SI14, SI15, SI4, SI22, SI10). The business associations think Kosovo Government should be louder

about these problems in CEFTA meetings; according to them there are cases when issues do not even reach the formal mechanisms of CEFTA secretariats to help Kosovo exporters deal with their problems in formal ways (SI23, SI11).

SAA started being implemented from 1 April 2016. With SAA, Kosovo products can enter EU without customs tariffs, but products to Kosovo will be liberalized after 5 years (8% customs tariff at first and will continuously be reduced (8, 6, 4, 2) until 0 after 5 years), 7 years (starting at 9% until 0), or 10 years (10% to 0) depending on products, and about 14 products in which Kosovo has bigger capacities (apples, pears, wine, potatoes, milk etc.) were not negotiated (will continue at 10%). In total, around 5000 product lines have been negotiated. Also, Kosovo has trade preferences with USA, EU, Norway, Japan, Switzerland, which allow a big range (over 1000) of Kosovo products to be exported at 0% customs tariff. Kosovo also has a trade agreement in place with Turkey, since 2019, which was ratified years after negotiations. Some officials interviewed mentioned the agreement would be harmful to the private sector in Kosovo hence it was not being ratified for years on Kosovo's side (SI18, SI17), however others mentioned signing of the agreement was merely being neglected (SI3).

Asked if there were stakeholder dialogues in place when negotiating agreements of drafting trade policy, most respondents agreed there is much room for improvement regarding the Public Private dialogue. Business associations are often invited to discuss various strategic documents and agreements with representatives of Kosovo Government; however, such dialogue is only one sided in most cases (SI23, SI11, SI24, BI2). Public discussions are believed to be organized to fulfil an obligation rather than hear the views of the private sector or civil society. Government officials also agreed the lack of Public-Private dialogue reduces the trust businesses have on public institutions (SI19, SI12). As mentioned from one of the respondents:

“There are ministries without offices for PR and with no accounts on social media; you cannot expect citizens or businesses to be aware of what you are doing if you are not being transparent with them” (SI12).

Despite having most trade policy covered through multi-national agreements, there is room for having a more supportive trade policy and increase in cooperation with business representatives. The current trade policy in Kosovo is developed with the idea of revenue collection, rather than supporting the businesses to engage in trade and exports.

7.4.2 The legislation that supports trade and rule of law in Kosovo

According to high officials in Kosovo Government (SI16, SI4, SI17), the legal infrastructure required for exporting is satisfactory. The fundamental legal instrument in the trade policy area is the Kosovo Law on External Trade, which was adopted in 2011, with the purpose of defining the general rules for the functioning of external trade between Kosovo and abroad in compliance with the best international practices, including World Trade Organization agreements, EU Directives, and CEFTA provisions. Kosovo currently has a law on external trade (since the second half of 2011), a customs and excise code, an antidumping law (in force since 2015), countervailing measures law (in force since 2015); safeguard measures law, standardization law, as well as agencies for standardization exist (European Commission, 2014; Ministry of Trade and Industry, 2015). However, respondents of in-depth interviews during the thesis very much stress that rule of law in Kosovo remains weak (SI1, SI14, SI15, SI3, SI19, SI25, SI13). This is in line with European Commission's progress report on Kosovo (European Commission, 2019, p. 5) which states "persistent challenges remain [to the business environment], including the widespread informal economy, a slow and inefficient judiciary, high prevalence of corruption and overall weak rule of law institutions". In this regard, a respondent of this research states "The rule of law is such a major obstacle for all sectors of the economy in Kosovo, including the production sector, which penalizes our ability to increase exporting products" (SI11).

Developing economies often reform formal institutions to resemble those of developed economies by adopting written legal frameworks similar to those of the more developed economies, including laws which relate to property, contracts and commercial activities, but often these laws are implemented only partially (Aidis et al., 2008; Smallbone & Welter, 2001). "The efficiency and effectiveness in how laws and contracts are implemented plays a very important role for producers and investors" explains a respondent during the in-depth interviews in this thesis (SI11). Another stresses "the very low rate of foreign investments in Kosovo is not surprising considering the many challenges that Kosovo has had over the years in the field of rule of law" (SI23). Countries do not gain similarly from reforms in formal institutions, such as the rule of law to development outcomes (Glaeser et al., 2004). This is also supported by this research. The quality of Kosovo legislations supporting trade was discussed with 21 interviewees, the majority of which (19 of 21 respondents) believed the formal institutional, including written legislation, is of good quality, all of whom (100%) believed its implementation is of concern. Since informal institutions remain

unchanged upon reforms in formal institutions and given that informal institutions are believed to define the basic foundation for a society's institution (Williamson, 2000), developing economies cannot reap the same benefits more developed countries do. Leftwich (2007) points that 'the interaction of informal and formal institutions is especially important in the political analysis of development generally, and of pro-poor growth in particular'. While formal institutions can be reformed to support economic activity, the institutional asymmetry, or the misalignment between formal and informal institutions, serves to hinder entrepreneurship (Williams and Vorley, 2014) and economic development.

The European Commission progress report for Kosovo (2019) emphasizes the need for Kosovo to work on rule of law, similarly to their reports of the years before (European Commission, 2017; European Commission, 2019), and describes the judicial system in Kosovo as a system in its early stages. According to the report "judiciary is still vulnerable to undue political influence" and "administration of justice remains slow and inefficient, and rule of law institutions need sustained efforts to build up their capacities" (European Commission, 2019, p. 4). This is backed up by in-depth interviews of this research. A member of Kosovo parliament says it is "the weak rule of law and weak property rights that create a very high level of risk for investors" (SI14).

While numerous empirical studies find that contractual insecurity reduces the volume of international trade (Anderson and Young, 2000; Nunn 2007), contracts are often not used when doing business in developing countries; moreover, even when contracts are in place, there are enforcement constraints due to the non-functioning of the rule of law, particularly non efficient court systems. The 'handshake' agreements Kosovo businesses tend to get themselves into, where an actual agreement is never put on paper, lead to misunderstandings and complications (SI14). This can be caused from a lack of understanding of the importance of contracts on one hand, but on the other hand, an even bigger cause could be the lack of trust businesses have on the court system and the rule of law (SI14, SI21). Similarly, Bigsten et al. (2000), who have examined the contractual practices of manufacturing firms using survey data gathered in six developing countries, conclude that the absence of an efficient legal system hinders the interaction between firms and potential foreign importers. A risky trade environment is associated with contract non-performance; furthermore, because there is an inefficient legal system in place, courts and lawyers are seldom used to enforce contracts.

Yet, Kosovo has made significant progress in regard to the environment of doing business in the country with several legislative reforms. While Kosovo in the early 2000's had a very unfriendly environment of doing business, including a great number of bureaucracies and waiting times to obtain documentation to simply be able to start a formal business, overstretched waiting times and inability to obtain construction permits or to be able to register property (SI1, SI2), the country has shown significant improvement in this regard. Starting from 2013, Kosovo has reduced the time required for opening new businesses, and made the creation of several one-stop-shops possible, which are able to provide companies with business certificates that are required, fiscal numbers and VAT certificates. "The simplifications regarding business registrations were very welcomed but were also somehow wrongly perceived to be able to make an outstanding change in the business environment to increase production and reduce trade deficit, followed by disappointments the reforms did not bring miracles" a stakeholder during the interviews highlighted (SI5). Numerous obstacles to doing business continued to hinder possibilities to increase entrepreneurship, local production, and possibilities to increase exports. Reports of international organizations continue to stress the obstacles to private sector development, such as the weak rule of law, weak administrative capacity and inadequate professional education, limited access to finance, problems with electricity supply and other underdeveloped infrastructure, corruption and informal economy (European Union, 2016; World Bank, 2018, European Commission, 2019).

Asked how the legislation regarding doing business and trade and the reforms of the past year supports Kosovo businesses, government officials mentioned that it is generally much easier to do business in Kosovo lately referring to World Bank's doing business report (SI16, SI7, SI20). "At least we do not have such barriers with many licenses, receiving documents at many offices, and excessive bureaucracy anymore" (SI1). Some believe positive effects of these reforms are yet to be seen, while others believe it is not a credible instrument where investors are based. An interviewee stated "the legal infrastructure has improved but now the most difficult part is to change the behaviour; the law may say you don't have to do something but people keep doing it" (SI18). Another stakeholder was more positive concluding the reforms reduce the chances for petty corruption, quoting:

“Even if the reforms to score better do not increase the likelihood to export, they reduced the chances for corruption because excessive bureaucracy is reduced, and businesses have to visit fewer offices to get things done” (SI3).

While others stressed that, despite reforms, the weak rule of law and the international perception of law enforcement issues and contract enforcement issues do not allow for more investments (SI2, SI23, SI24).

The non-functioning rule of law scares foreign investors away as they do not want to invest where they cannot protect their finances (SI6, SI12). Contracts, including those related to financial aspects, are often not used when doing business in developing countries; moreover, even when contracts are in place, there are enforcement constraints due to the non-functioning of the rule of law, particularly non efficient court systems. “The quality of the rule of law and court system impacts the business climate and reduces the chances of Kosovo businesses to grow enough to be able to export” concludes one stakeholder (SI24). According to Berkowitz et. al. (2006) quality institutions are especially important for complex exports, meaning products whose characteristics are difficult to fully specify in a contract, because competent judges are required to understand the details of a disputed trade contract and good legal infrastructure is needed to enforce these complex court rulings. There is also a perception of presence of incompetence of judges and incompetence of administrative staff due to lack of training or non-merit based selections and promotions. Administrative staff in Kosovo lacks the adequate trainings and the will to do their job right (SI14, SI20, SI8, SI13), and the local judiciary was not given the adequate training to deal with complex business lawsuits (SI8, SI21).

Kosovo mostly exports non-complex products, or low value-added products, such as metals, plastics, and some agriculture produce (SI14). Agriculture in Kosovo is believed to have the potential to grow because of the countries productive land which remains free to use, but agriculture remains small and is dominated by small farmers, preventing economies of scale (SI1, SI5, SI18, SI6). The U.S. Country Commercial Guide for Kosovo (2018, p. 48) describes “Kosovo currently imports much of its domestic consumption. The country has abundant, productive land that is not optimally used, with economies of scale hampered by small parcels and poor, inconsistently applied property rights regimes”. However, it concludes that great potential exists for increased agricultural production and expanded food processing in Kosovo. Currently, there is lack of

planning preventing agriculture to grow, further impeded by regulative supply side constraints, such as lack of sanitary and phytosanitary standards, incapacity to test products, and inability to get products certified as quality products that can be exported to Europe (SI6).

Kosovo has made significant progress over the past years in easing the doing business in Kosovo, however increased focus and work on the rule of law which compels organizations to be fair and accountable, is believed to lead to more empowerment of citizens and businesses to increase engagement. The quality of rule of law in Kosovo is found to be weak, resulting in less business engagement, reducing the chances for Kosovo companies to cooperate with international partners, and in turn reducing their chances to engage in exports or export more than they currently do.

7.5 Informal Institutions

The section describes the key informal institution issues emerging from the research that impact the ability to do business in Kosovo, and for businesses to export and engage in international trade, namely lack of trust due to historical developments and due to perception of injustice from others, and the presence of both grand and petty corruption in the country.

7.5.1 Trust, as an informal institution, and export performance of Kosovo firms

Informal institutions influence the will of citizens to engage in entrepreneurship, and trust as a complementary informal institution is a condition for the willingness to cooperate and interact with others (Brunetto and Farr-Wharton, 2007; Muethel and Bond, 2013). When complementary informal institutions are present in an environment, they often enhance efficiency and effectiveness of formal institutions, and may create or strengthen incentives to comply with formal rules that might otherwise merely exist (Baumol, 1990). These allow bureaucracies and other complex organizations to function more effectively and efficiently. Trust between two parties assists in lowering commercial costs by not being fully based only on contractual terms, without violating formal institutions. On top of that, trust as an informal institution may accommodate the formal institutions by combining effective formal institutions and conflicting actor goals. Such institutions may promote stability in a context where the outcomes of applying the formal rules might generate conflict (Leftwich, 2007).

This research finds, that due to historical developments and due to perception of injustice from others, Kosovo's business environment is characterized by lack of trust, contributing negatively to the ability to increase exports of Kosovo products (SI2, SI5, SI15). Trust is defined as the belief that the other party will be fair and reliable, and overall honest (Leonidou et al., 2006). Historically, Kosovo citizens were exposed to a great deal of injustice from regimes in former Yugoslavia, which is believed to have caused people to have a doubting attitude on the reliability of others (SI5). One of the respondents of the interviews, who is now a representative of Kosovo Government, but was mostly unemployed during the 1990s gives his explanations on the low trust on public institutions and the acceptance of informal economy, as shown in this quote below from the interview:

“The majority of Kosovo citizens were considered second class citizens during the decade of 1990s, when most workers lost their jobs on nationality basis, leaving most to make ends meet by joining the informal economy” (SI2).

The same respondent highlights that the lack of trust in public institutions in the past, the fear that formal entrepreneurs will be unjust to you due to their 'being favoured on nationality basis', the fear of police, and need to hide any money possessed or entrepreneurship activity undertaken, still may be present in many citizens, causing lack of trust in others. The lack of trust in existing literature is negatively correlated to firm performance, increase in entrepreneurship, economic development, and overall institutional quality (La Porta et al., 1997; Guiso et al., 2010; Batsaikhan, 2017). If parties involved in a business relationship trust one another, they are less likely to show opportunistic behaviour and more willing to continue with the business relationship and strengthen their cooperation (Morgan and Hunt, 1994; Leonidou et al, 2006), while forming these business relationships, as well as continuing them and strengthening them, is less likely to happen if there is lack of trust.

The presence of trust encourages economic activity and trade. Most of the respondents with who the issue of trust was discussed, 9 out of 11, from the first stage of the research – that of in-depth interviews with stakeholders – believed trust is a contributor to the export orientation of local companies, directly or indirectly. “If there was no trust, there would also be no transactions that bring value” stated one of the respondents (SI15). In environments with quality formal institutions, leaving no room for institutional voids, trust between parties is not as crucial, but the role of trust in entrepreneurship and trade also increases when it comes to doing business with businesses and

people coming from economies where rule of law and justice systems are weak (Guiso et al., 2009). Since Kosovo is categorized with weak rule of law and issues in contract enforcement, business partners need to believe that the other side is going to follow through (SI5).

Foreign partners hesitate to start cooperation with businesses coming from less developed countries, such as Kosovo, due to lack of trust on people as well as products, on top of the hesitation to cooperate with businesses coming from countries where there is a lack of legal certainty or non-functioning of the courts and the inability for investors to protect their contracts (SI19, SI11).

7.5.2 Corruption and export performance of Kosovo firms

Corruption is defined as an illegal activity, conducted through organizations or people who misuse power or authority by acting beyond legal limits, for their own benefit, be it financial gain or other (Elliot, 1997; Pontel and Geis, 2007; Coleman, 2010; Cuevo Cazzura, 2016). Corruption is categorized and classified in different ways, most commonly as demand versus supply corruption, or as petty versus high-level corruption (Elliot, 1997; Fazekas, 2017), or as organized versus unorganized corruption (Shleifer and Vishny, 1993), all of which have to do with misusing positions for own benefit. For purposes of explaining corruption in Kosovo for this research, the distinction will be made between petty corruption, also known as low-level corruption, and high-level corruption.

Based on the in-depth interview conducted from this research, there are two main levels of corruption, acting as informal institutions, present in Kosovo. These categories are:

1. High level corruption, involving large sums of money, and typically including politicians or the highest levels in private sector engaged in corrupt activities (SI5, SI25, SI13).
2. Petty corruption, including here:
 - 2.1. Bribery, which involves persuading officials to act on the favour of the one offering or giving a payment or other good / favour (SI1, SI3, SI11).
 - 2.2. Facilitation payments, which are described as payments made to secure documentation from public officials that otherwise would be entitled to the party making the payment. This is usually done to speed up the process of receiving required documentations (SI23, SI11).

2.3. Nepotism, which is described as favouritism based on kinship (SI2).

Corruption of all categories mentioned above undermines the enforcements of formal institutions that allow the economy to function smoothly and for opening possibilities for citizens and organizations. Corruption patterns can be influenced by many factors, including here historical factors, political, or economic factors (Della Porta and Vanucci, 2012; Huberts, 2014). Fein and Weibler (2014) explain that corruption is grounded in the reasoning and behaviour of people and in the culture. In this line, this research finds that corruption is considered ‘normal’ because of Kosovo’s history and past injustices when citizens could not rely on formal institutions, corruption friendly environment which persisted past 1999, low awareness about corruption, and familial ties (SI1, SI2, SI5, SI19, SI12,).

Joining the informal economy was the way to go to be able to make ends meet for most Kosovo citizens before 1999 (SI2). The corruption friendly environment persisted past 1999, when the formal institutions in Kosovo were being set up by the UN mission in Kosovo. A study conducted by Riinvest Institute (2002) shortly after 1999, including 600 firms from Kosovo, showed that, at that time, more than half of the respondents dealt with corruption daily. From the very early 2000s, there was unfair competition in procurement practices, nepotism in public institutions, and bribery or facility payments to get things done in state agencies, which pushed people further to consider corruption as a way of life (SI6). Similarly to other developing countries where corruption is the expected behaviour, people “opt to behave in corrupt ways because the costs of acting in a more principled manner far outweigh the benefits” (UK Department for International Development, 2015, p. 16).

The openness to corruption coupled with low awareness of what is considered corruption leads to more illegal activities. Respondents from the stakeholder interviews, that have served in the Government of Kosovo, said that public officials or firms might not be aware that they are even taking part in corruption activities (SI5, SI12). This is especially the case if money is not being exchanged. An example of this is illustrated by the following quote from an interviewee:

“if you come to me as a public official and you ask me for a favour, you want me to employ your relatives for example, and if I say ‘yes, I will do it but in condition that you will do similar things for me’, that’s corruption, but many do not see it as corruption ... They see favours as

people are heeling each other, but this is killing the private sector and killing the economy” (S18).

Based on the interviews of the stakeholders, culture allows for high level and petty corruption to be present, and they both undermine the functioning of formal institutions and hurt entrepreneurship and exports. The figure below pictures the impact of causes of corruption of the economy of Kosovo, while the impact of both high level and petty corruption on exports is discussed right after.

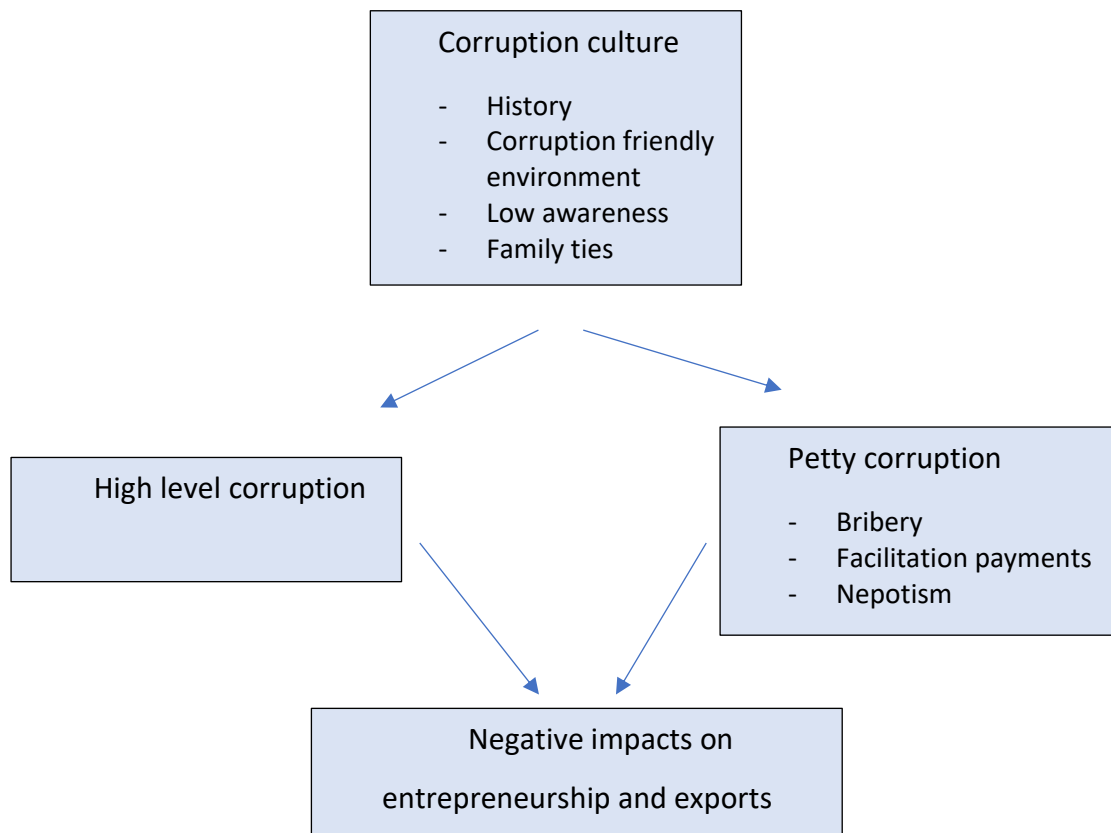


Figure 7. Causes of corruption

7.5.3 How does high level corruption impact export performance?

High level corruption often involves large sums of money and typically includes actors that make rules, policies and executive decisions, such as politicians or within the highest levels in private sector. Transparency International (2020) defines high level corruption, or grand corruption, as “the abuse of high-level power that benefits the few at the expense of the many”. During the in-depth interviews for this research, respondents agreed that the main corruption cases

are with contracts in public procurement, despite stating they are not aware of any particular case of corruption in tenders (SI2, SI23, SI11, SI25). Representatives of business associations stated that businesses do not report such cases and would rather stay out of it, claiming they cannot do much to help as businesses do not cooperate with them (SI11, SI23).

While particular cases of corruption are not mentioned, reports from institutions such as the European Commission (2019), levels of corruption and impunity among politicians are high. The misbehaviour of some Kosovo politicians often came up during the interviews; however, the respondents claimed they are not aware of specific cases, adding that “the forms of corruption might be quite sophisticated” thus they are not easily noticed by others (SI18, SI8).

High level corruption persistently penetrates the institutional structures of the state, which leads to lower public trust in the political system (Zaum and Cheng, 2015). Regarding the negative perception of high level corruption in Kosovo, a few Government officials highlighted it is not the right perception, and the situation is much better in place (SI19, SI23, SI12). Even if it is merely a perception, stakeholders stated it has negative effects, too (SI1, SI3), thus the Government should work on it. “That’s a natural answer you will hear from those in power, the issue with the corruption is that you cannot measure it differently” (SI18). Expecting corruption from others, especially those in power, pushes people further to consider corruption as a way of life (SI2). Moreover, the negative perception of corruption leads to lower international investments in Kosovo, which impacts the production capacities and export possibilities (SI23, SI11).

While many stakeholders mostly did not include corruption when asked about main barriers to export, they too agreed it is an issue after being asked particularly about it. “I do not know if corruption has a direct impact on trade, but reduction of corruption reduces uncertainties and brings more confidence on institutions and this country” (SI8). If the perception of corruption in higher levels is much more negative in Kosovo than it should be, remains a mystery. Respondents give different arguments on why corruption is perceived as high, despite not being seen. One of the main reasons is that Kosovars are used to being let down by the people in power from before 1999, and are used to complaining they are at a bad state, hence respondents believe citizens in Kosovo talk much more about corruption as compared to even neighbouring countries (SI19, SI12). Kosovar media follows the same logic, and many international news are based on news from local correspondents (SI19). Another main reason is the high presence of international organizations,

such as EULEX and UNMIK, in Kosovo. If such organization would have monitored even Western Governments, corruption cases would have been found and news would spread (SI12). A respondent who stated corruption in Kosovo is perceived as worse than it actually is, gave the argument of the small budget for capital investments: “Since Kosovo budget for capital investments is so small compared to that of even neighbouring countries, I am certain there is much less corruption here than around” (SI5).

Djankov et al. (2002) explain that since ineffective legal systems expose entrepreneurs to corrupt officials, the expected returns of their firms are diminished by corruption, and this discourages doing business. The negative perception of high levels of corruption in Kosovo also reduces international investments in the country, entrepreneurship levels, and the potential to export. At least some of the Kosovo firms are believed to pay a certain amount to politicians of people close to the politics in order to remain in business (SI18, SI11). “I am not personally aware which firms pay ‘haraq’ – [money to people in power to remain in business] - but I see it in the news or hear about it the same way you do” (SI18). Perception of corruption also impacts FDI. “Foreign investments in Kosovo have remained in low trends over the years because of fear of potential investors to enter Kosovo with its presence of corruption and weak rule of law” (SI19). Despite reforms in doing business, FDI levels in Kosovo have followed the same trend, under 300 million euros per year (ASK, 2019).

7.5.4 How does petty corruption impact export performance?

High level corruption might be too sophisticated to be seen and is believed to involve large sums of money, petty corruption involves more modest sums of money or smaller favours, but when happening often can result in great sums and disturbing implications. It typically includes bribes linked to the implementation of existing rules, policies and decisions, such as when civil servants only issue documents if they are given extra money, or only if they receive other favours. The facilitation payments done to be able to receive certificates or other required documents has burdened entrepreneurship in Kosovo for years (SI1, SI14, SI3, SI16). This is believed to have been reduced substantially lately, due to reforms to help businesses which have reduced bureaucracies, thus reducing the chances to allow this. “At least we do not have such barriers with many licenses, receiving documents at many offices, and excessive bureaucracy anymore”, reducing the likelihood of such facilitation payments (SI1), explains one respondent.

Petty corruption is believed to be lower compared to earlier years, but it is still believed to be frequent (SI6, SI20, SI23, SI11). A few respondents said that public officials or firms might not be aware that they are even taking part in corruption activities if money is not being exchanged. “if you come to me as a public official and you ask me for a favour, you want me to employ your relatives for example, and if I say yes I will do it but in condition that you will do similar things for me, that’s corruption” but many do not see it as corruption. “They see favors as people are heeling each other, but this is killing the private sector and killing the economy” (SI18).

Corruption levels are much higher in developing economies compared to developed nations (Treisman, 2000; Uslaner and Badescu, 2004), and a high level of corruption hinders economic development. Actions associated with corruption, such as nepotism, also prevent chances of building effective institutions needed to support trade (Boadi, 2000; Goeltom, 2007; Coleman, 2010), although studies on the impact of nepotism on economic development are seldom. In Kosovo, nepotism is prevalent especially in the public sector and public enterprises (SI2, SI6, SI13). “Uncles, brothers, in-laws, people of the same village, are employed at the same organization by the same people” (SI13). One respondent explained the ones who engage in nepotism are usually considered ‘good people who help’ by their kin (SI2). Thus, nepotism is done without the feel of doing anything wrong, leading to reduced opportunities for others and inadequate staff in public institutions, which causes further problems for the private sector. Nepotism also leads to inadequate staff in the private sector, due to hiring staff as a favour to others, be it public official or business partner (SI6).

Moreover, officials interviewed highlighted that informal economy can make those who don’t pay taxes to be more favourable in the market as well (SI5, SI20, SI9). By not paying taxes firms increase their competitiveness in the market, which makes producers with a lower financial potential to feel unequal in circumstances when faced with a competitor that is in a better place by not paying taxes. Firms are discouraged from paying taxes if there is not much transparency on how revenues are being used, “If there is so much perception of corruption, businesses do not feel like they have to pay the money, and if there is so much nepotism and bureaucracy, what good do they do” (SI5). In this line, corruption hinders entrepreneurship, production, and possibilities to export, as companies that refuse to engage in corruption can be excluded from the market.

7.6 Chapter summary

This chapter presented the main findings from the in-depth interviews with key stakeholders in Kosovo, giving more weight to recurring patterns, and relevant quotations from data. Education and skills of workforce is found to negatively impact the export performance of Kosovo firms, and the mismatch between the education sector and the needs required by the market is a major factor that drags down the potential for increasing exports. The education sector is of poor quality, and Kosovo students rank amongst the worst in the world in math, science, and reading (OECD, 2019), and children go from one education level to the next, finally graduating with not many skills for work. The lack of skills, motivation, and qualifications penalizes the abilities to export, and these are especially requirements for exporting to developing countries as competing in international markets involves also daunting competition from competitive international firms.

Respondents of the in-depth stakeholder interviews from this research show that financial constraints by lack to access to finance play a significant role in diminishing firms' ability to enhance productivity, negatively impacting private sector job creation, and decreasing their ability to export. The lack of capital and financial assistance has contributed to leaving private sector underdeveloped, and interviewees believed the lack of capacities and technology is keeping Kosovo businesses from exporting more or exporting more products with added value because their products remain at the lower end of the value chain. Another negative is the trade policy of Kosovo itself, as, according to the stakeholders, it was very much influenced by the need to collect revenues, rather than using trade policy as an economic development tool, since Government plays a very conservative role and does not agree to decrease sources from where revenues are collected. Furthermore, the weak rule of law is seen as a cause for low investments and low exports of Kosovo products abroad.

Regarding informal institutions, the focus of discussions of the interviews was on the negative impacts of corruption. Both high corruption and petty corruption, as well as the perception of corruption, contribute to an unfair playing field which hinders exporting of products from Kosovo.

The findings of this stage have contributed to the development of the survey of businesses, discussed in Chapter 8, and these results will also be compared and complimented with the results of the interviews with owners and CEOs of firms operating in Kosovo, which are discussed in Chapter 9.

8 The main barriers for Kosovo exporting firms: a large scale survey

8.1 Introduction to the chapter

The large-scale survey was instructed by the findings of the interviews with key stakeholders, which outlined the main barriers and challenges for exporting companies in Kosovo. It was designed specifically to deepen and sustain with quantitative analysis the research questions 1 and 3:

1. *What is the relationship between institutions and doing business across borders?*
 - 1.a. *How do formal institutions impact the export performance of Kosovo firms?*
 - 1.b. *Which informal institutions play a role on the export performance of Kosovo firms?*
3. *How does corruption in the country of origin affect export performance of firms?*
 - 3.a. *Examine the views of firms on corruption.*
 - 3.b. *How does corruption impact firms?*
 - 3.c. *Does corruption reduce export performance either directly or indirectly through other institutions?*

In detail, the questions addressed what the owners and entrepreneurs of Kosovo firms consider as main barriers to export, the impact of corruption on exports, how often the participants were expected to engage in corruption or have done so, etc.. The purpose of the survey, rather than providing statistical analysis, was to gain information on views of entrepreneurs from a large sample of businesses. The questions of the survey are largely descriptive, or perception based, hence, predominantly descriptive statistical analysis was used in the assessment of the survey results. Sample characteristics are described mostly through frequencies, while cross tabulations allow for more specific assessments related to the research questions. This method provides adequate results for the purpose of this research, which focusses on identifying the impact of formal and informal institutions on export performance, and in particular on the influence of corruption. The findings of the quantitative survey then were explored in more depth in the third and final stage

of research comprising of in-depth semi structured interviews with selected businesses, which is shown in Chapter 7.

The selection process and sampling strategy are described in chapter 6, the Methodology chapter. According to the Statistical Business Register of Kosovo, there were 34,922 enterprises registered in Kosovo, as of 2017 (Kosovo Agency of Statistics, 2021). From the survey of businesses, a total of 524 responses were received. This number excludes 6 responses that were largely incomplete, as well as 20 responses that were used in the preliminary study. It is assumed that the sampling is sufficiently randomized to allow for a statistical evaluation on export oriented businesses in Kosovo. The minimum sampling size was assessed to be 380 samples, considering a confidence level of 95% and a margin of error of 5%, as calculated by using the Cochran formula for sample size determination (Cochran, 1997). The 524 returned filled surveys, out of approximately 35,000 registered firms in Kosovo in 2017, therefore represent a sufficiently large sample of businesses in Kosovo to allow for a quantitative analysis of the results.

Given that the distribution of the Survey was done through Business Associations in Kosovo, the sampling is not completely randomized and might under-represent less organised or less connected, and smaller scale companies. However, they are less likely to export and therefore would not influence the findings of the survey significantly. Also, sectors that have no relevant export activities, such as the hospitality sector (accommodation and food services) have not been included in the sampling.

In these findings, sample characteristics are described mostly through frequencies, while cross tabulations allow for more specific assessments related to the research questions. The data was transferred manually from the hardcopies filled by the companies into a master data set in Microsoft Excel and then analysed using IBM SPSS Statistics, version 28.0. It was not the objective of the survey to quantify by how much export performance was reduced by existing barriers such as corruption. A numerical quantification of the influence of barriers on export performance was considered unrealistic, at this point and for this research, given the complex relationships between barriers and their impact on export figures.

The section below describes the characteristics and the demographics of the respondents, such as the sector the companies belong to, the years of opening the business, the region in Kosovo they are primarily based in, and in which level of exporting they currently belong to – such as non-

exporter, exporting less than 10% of their sales, exporting up to half of their sales, or exporting more than half of their sales. The following section analyses the main barriers to export, and the impact of institutional challenges on export performance. While sections 8.4. and 8.5.. show how different sectors are affected by trade barriers, and which trade barriers are more present in different export destination countries. Section 8.6. concludes the chapter.

8.2 Characteristics of the respondents

The companies that participated in the survey belong to 11 different sectors, 10 of which were the expected sectors for participants based on an initial screening with the business associations. One respondent indicated one sector not listed in the available choices (listed as others). The selected sectors are those most relevant to export activities, which was confirmed by the stage 1 interviews.

From the participating businesses, the most prevalent sector was wholesaling merchandise, with a total of 120 firms from this sector out of the total 524 firms. This was followed by firms working in retailing merchandise, followed by firms working in construction materials, wood processing, food processing, construction services, metal processing, and firms working with raw material for production. Apart from these sectors, and at a smaller scale, other firms belonged to the education and ICT sectors. Also, one of the companies selected the option ‘other sector’ identifying it as design and sale of kitchens.

The table below shows the number of participating companies belonging to each sector.

Table 23. Sectors of participants

Sector	Frequency	Percent	Cumulative Percent
ICT	15	2.9 %	2.9 %
Merchandise - wholesale	120	22.9 %	25.8 %
Education	20	3.8 %	29.6 %
Construction services	49	9.4 %	39.0 %
Construction materials	59	11.3 %	50.3 %

Food processing	55	10.5 %	60.8 %
Wood processing	55	10.5 %	71.3 %
Metal processing	44	8.4 %	79.7 %
Raw materials for production	42	8.0 %	87.7 %
Merchandise - retail	64	12.2 %	99.8 %
Others	1	0.2 %	100.0 %
Total	524	100.0 %	

To generate information on whether the participating firms were opened before or after the reconstruction boom of 1999 has started in Kosovo, the participants of the survey were asked when the firm they represent started its business activities. From the participants of the survey, 29 did not indicate a year of opening of firm. Out of the 495 of firms that have responded, 39 participants indicated a year before 1999, or a total of 7.9% of the ones that have responded, while 466, or 92.1% of the firms were opened after the liberation and the reconstructing boom. This percentage includes firms that were opened between 1999 until 2017, the year when the survey was conducted.

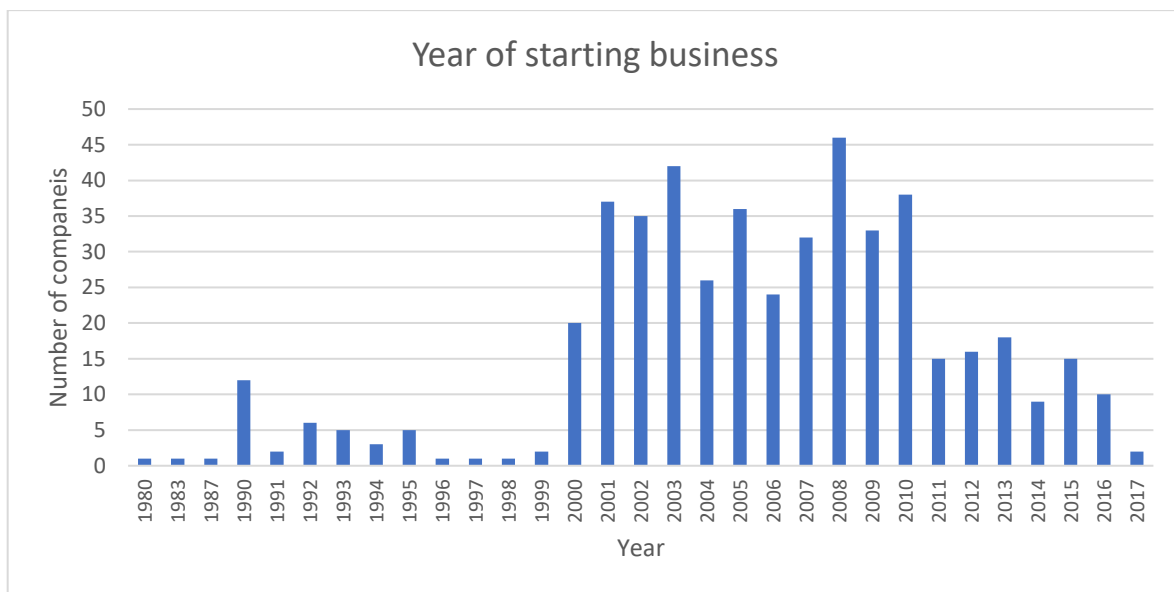


Figure 8. Year of starting business of survey participants

Figure 8 indicates that most businesses started indeed after 1999, with a significant boost in business activities between 2000 and 2010, averaging 33.5 companies starting business per year.

From 2011 and onwards a certain market saturation seemed to have been reached, based on the drop of businesses starting after that year, averaging only 13.8 new businesses between 2011 and 2016. Besides the market saturation another factor to consider when interpreting the numbers above is that younger companies would be less established and organized, hence potentially less likely to fill in surveys received through the business associations. The very low figure in 2017 is caused by the fact that the survey was conducted in that year, hence few recently founded companies were receiving the surveys.

The participants of the survey also indicated in which region of Kosovo they are primarily based. With regard to the distribution of participants based on their primary location, the proportion of participants of Prishtina was the highest, with 28.6% of the total of participants, followed by participants from firms on Ferizaj, with 19.3% of the total. The table below shows the whole distribution of the firms based on their location. The second column from the right indicated the percentage their frequency takes in the whole sample of 524 firms that took part in this survey.

Table 24. Primary location of participants

Primary location	Frequency	Percent	Cumulative Percent
not specified	1	0.2 %	0.2 %
Prishtina	150	28.6 %	28.8 %
Peja	55	10.5 %	39.3 %
Prizren	83	15.8 %	55.2 %
Ferizaj	101	19.3 %	74.4 %
Gjakova	44	8.4 %	82.8 %
Gjilan	60	11.5 %	94.3 %
Mitrovica	30	5.7 %	100.0 %
Total	524	100.0 %	

Companies were also asked about the number of employees as an indicator for the size of their businesses. This serves as a proxy for actual turnover figures, a question not likely to be responded to in the scope of this survey. Kosovo businesses would traditionally be very conservative with the disclosure of actual economic data. Number of employees is not necessarily directly proportional to turnover figures, particular when comparing between different sectors. However, it gives

sufficient information on the size and complexity of the participating companies for the purposes of this analysis.

Companies were asked to indicate the bracket of staff headcount following the classification according to the EU recommendation 2003 / 361 on the definition of SME. According to this, Micro-enterprises have less than 10 employees, small enterprises less than 50 employees and medium-sized enterprises less than 250 employees. Two additional brackets have been introduced to describe the smaller end of both categories of small and medium-sized enterprises. The assumption was that most companies would range between 10 and 100 employees, and a finer granularity would benefit the assessment of results. However, due to above mentioned reasons considering turnover or balance sheet total as the second defining criterium was not possible.

The majority of the participating firms had under 50 employees, being considered small firms. This was indicated by 59.3% of the respondents. The proportion of companies by number of employees is shown in the table below. The distribution also confirms the assumption that most companies range between 10 and 100 employees (73.6%), validating the refined categorization of the question.

Table 25. Primary location of participants

Number of employees	Frequency	Percent	Cumulative Percent
not specified	3	0.6 %	0.6 %
1 - 9	49	9.4 %	9.9 %
10 - 19	90	17.2 %	27.1 %
20 - 49	172	32.8 %	59.9 %
50 - 99	116	22.1 %	82.1 %
100 - 249	56	10.7 %	92.7 %
250 or more	38	7.3 %	100.0 %
Total	524	100.0 %	

The following figure compares number of employees between companies founded before and after 1999. This is to identify if there is a considerable structural difference among enterprises in both time brackets.

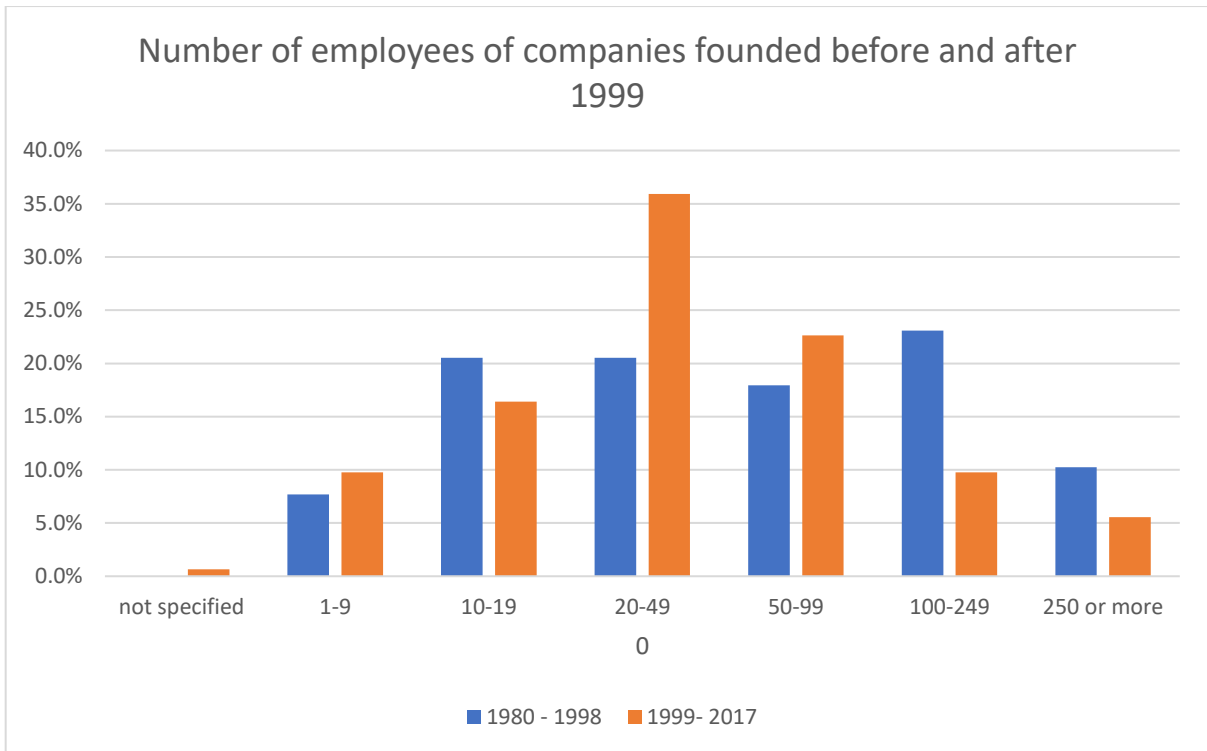


Figure 9. Comparison of number of employees of companies founded before and after 1999

When comparing the number of employees of companies that were founded before 1999 and after, there are some notable disparities. There is a rather Gaussian distribution between smaller and larger companies in the younger group of enterprises, with the peak of 35.9% (162 participants) of companies with 20 to 49% and 5.5% (25 participants) of large companies. Companies participating in the survey founded before 1999 show an almost equal distribution between small, 10 employees, and medium-sized enterprises, less than 250 employees, ranging around 20% for each category. Large companies represent 10,3% (4 participants). This discrepancy can be caused due to the fact that sustained businesses tend to grow and increase over time, hence older companies are comparatively larger in the same markets (OECD, 2012), and companies that survived the war period might operate in more stable or secure business sectors that sustain larger businesses. This suggests that the assessment of barriers should consider the age bracket of companies and validate whether disparities in company sizes have a relevance for the perception of and dealing with export barriers.

Firms were then asked whether they are exporting goods or services and to what extent in relation to their total business. Most of the firms were current exporters – at the time of research. From the participants, 444 were exporters, 77 were non-exporters, while 3 participants did not indicate whether they currently export. The table below shows how much of the sales of those firms are exported, with divisions of under 10% of sales exported, from 10% to 50% of sales exported, or above 50% of sales exported.

Table 26. Percentage of exports on sales

Sales exported	Frequency	Percent	Cumulative Percent
not specified	3	0.6 %	0.6 %
Our company is not an exporter	77	14.7 %	15.3 %
Under 10 %	142	27.1 %	42.4 %
10 % - 49 %	204	38.9 %	81.3 %
50 % or more	98	18.7 %	100.0 %
Total	524	100.0 %	

The results of the survey show that exporting is common practice among participating companies, with 57.6% of enterprises generating more than 10% of their sales with exports and 18.7% export half or more of their sales. When looking at the age of companies the distribution of sales exported is as follows.

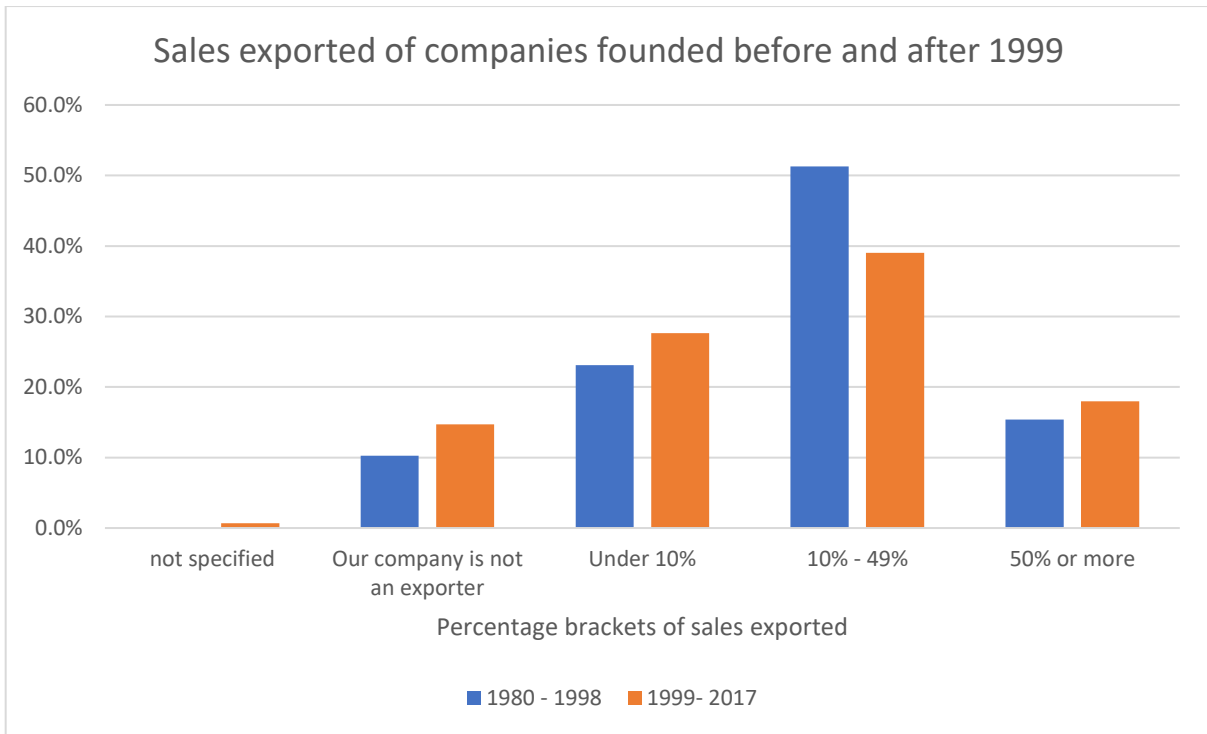


Figure 10. Sales exported of companies founded before and after 1999

The distribution of sales exported does not show any considerable difference between companies founded before and after 1999. It can be assumed that despite the disparities in company sizes as indicated above exports are not directly dependent. They might be defined by actual market realities with little differentiation related to when a company started operation. The distribution of the share of export in sales indicates that the survey managed to harvest the input of export-oriented or interested companies that show sufficient interest in the topic to respond to the questionnaire. This introduces a bias towards the perspective of those companies, which is considered beneficial for the purposes of the study. However, it cannot be assumed to be representative for the totality of enterprises in Kosovo.

The sub-section below shows the findings of the survey regarding the impact of the institutional environment on firms' export participation, and their consistency or difference per demographics or characteristics of firms.

8.3 Main barriers to exporting

The findings of the first stage of this research indicate that there is a myriad of institutional barriers to entrepreneurship and exporting. Access to finance, the unskilled labor force, infrastructure, bureaucracy, enforcement of contracts, court proceedings, trade barriers of political backgrounds, standardizations and certifications, licensing necessary for exports, finding costumers in foreign markets, and tax payments were all suggested to be constraints for trade, either directly or indirectly, such as through not attracting FDI or not allowing for businesses to grow. As a stage following the qualitative research of the in-depth with interviews of stakeholders, this quantitative survey included questions related to the aforementioned barriers.

The participants of the survey were asked what they perceive to be the main barriers to export from Kosovo, listing all the 12 abovementioned barriers to exporting as per findings of the stakeholder interview, and a 13th option they could pick as an ‘other’ barrier with the option of writing what that other barrier is. The meanings of all 12 barriers, based on findings of the first stage of research, and description in literature review, are described in Table 27 below.

Table 27. Description of barriers to exporting

Barrier to exporting	Description
Access to finance	Challenge to gain access to funding sources, either from own assets or through economically feasible financing mechanisms to sustain added expenses to prepare products or services for export
Finding customers in foreign markets	Difficulties in understanding the demands and market opportunities in foreign markets and how to adjust own products or services accordingly, access to distribution networks
Inability to find appropriate skilled staff	Export orientation might require technical expertise or quality control that is not available on the local labour market, particular with the necessary experience
Corruption	Misuse of power or authority by acting beyond legal limits for own benefit, be it financial gain or other
Enforcement of contracts	Contractual arrangements are not considered binding and enforcement through the legal system is not reliably working
Standardisation/ Certification	Challenging access to foreign markets due to complex procedures for quality and product standards or difficult to access certification procedures

Licensing necessary to export	Difficult to obtain licenses that allow the export of products or services due to complex bureaucratic procedures or inefficient institutions
Tax system	Disincentivising taxation regulations (e.g. VAT) on either the home or foreign markets
Infrastructure	Lack of necessary infrastructure in Kosovo to comply with requirements for export quality, certification among others (e.g. certified testing laboratories)
Bureaucracy	Overarching inefficiency or complex procedures of public institutions to provide necessary services for exporting businesses
Trade barriers of political background from other countries	Particular restrictive policies addressing goods and services entering or passing through other countries that reflect the political environment related to Kosovo
Court proceedings	Limitations to the rule of law, either through complex or non-transparent proceedings in court or through unreliable application of the law
Other	As mentioned by the participants

The participants of the survey selected up to three barriers which they perceive as to be most negatively affecting exports. The barriers were listed as presented here, without any further description. Participants were given the option to indicate their ranking of the barriers. However, this was not observed by most of the respondents, hence the assessment of the data set did not take any ranking into consideration.

The results of the survey, as analysed using SPSS, indicate that corruption is perceived as the main barrier to exporting. From 509 valid answers, the majority of the survey participants, a total of 333 participants, have picked corruption among the three main barriers. This amounts to 65.4% of participants selecting corruption as one of the three main barriers. And this amounts to 28.2% (normalised) of all the responses, as shown in the second column from the right, since participants could select up to three barriers. the inability to find consumers in foreign markets was most often picked as a barrier to exporting, with a total of 210 participants perceiving it as a key barrier, or a percentage of 41.3% of the total respondents, or a percentage of 17.8% (normalised) of the total answers. Trade barriers of political backgrounds from other countries was the third most selected perceived barriers, with 167 responses, or 32.8% of the total participants, 14.1% (normalised) of the total participants.

Table 28. Main barriers to trade

Barriers Multiple Response	N	Percent (normalised)	Cases
Access Finance	80	6.8 %	15.7 %
Finding Foreign Consumers	210	17.8 %	41.3 %
Labour force skills	83	7.0 %	16.3 %
Corruption	333	28.2 %	65.4 %
Contract Enforcement	66	5.6 %	13.0 %
Standardization / Certification	22	1.9 %	4.3 %
Necessary licenses to export	71	6.0 %	13.9 %
Tax System	63	5.3 %	12.4 %
Infrastructure	49	4.1 %	9.6 %
Bureaucracy	17	1.4 %	3.3 %
Trade barriers from others	167	14.1 %	32.8 %
Court proceedings	17	1.4 %	3.3 %
Other barriers	3	0.3 %	0.6 %
Total	1181	100.0 %	232.0 %

As seen in the Table 28, there were a total of 1181 responses since each participant could select up to three main barriers. Corruption, finding consumers in other countries, and political trade constraints from other countries are found to be largely more significant barriers to exporting compared to the other ones. They are followed by constraints posed from the lack of labour force skills, which was selected by 16.3% of the respondents as a top three barrier to export; constraints from the limited access to finance, seen as a top three main barrier to exporting by 15.7% of the participating firms in the survey; and followed by issues related to necessary licensing and contract enforcements, with 13.9% and 13% of respondents selecting them as top three barriers to export.

Regarding corruption, participants were also asked particularly if corruption negatively impacts their exporting. While among the whole sample 28.6% of the participants have indicated the question is not applicable to them, among the others, 299 have indicated that corruption negatively impacts their export performance, while for 75 participants out of 374 participants corruption does

not impact their export performance. Percentage wise, 80% of the participants for who the question was applicable, indicated corruption negative affects their export performance.

When analysing the relationship between the barriers indicated and the impact of corruption on businesses the following results were retrieved.

Table 29. Perceived barriers and impact of corruption

Barriers Multiple Response	Negative Impact	No Impact	N/A
Access Finance	30,0 %	6,3 %	63,8 %
Finding Foreign Consumers	83,3 %	13,8 %	2,9 %
Labour force skills	73,5 %	15,7 %	10,8 %
Corruption	61,9 %	14,1 %	24,0 %
Contract Enforcement	71,2 %	21,2 %	7,6 %
Standardization / Certification	81,8 %	9,1 %	9,1 %
Necessary licenses to export	77,5 %	15,5 %	7,0 %
Tax System	73,0 %	15,9 %	11,1 %
Infrastructure	46,9 %	32,7 %	20,4 %
Bureaucracy	70,6 %	23,5 %	5,9 %
Trade barriers from others	87,4 %	9,6 %	3,0 %
Court proceedings	82,4 %	11,8 %	5,9 %
Other barriers	0,0 %	33,3 %	66,7 %

Interestingly, participants mentioning other barriers perceive the negative impact of corruption on average at a higher rate (70.1%) than the ones actually mentioning corruption as their priority barrier (61.9%). However, the rate of participants answering “non-applicable” (N/A) is significantly higher than for all other answers apart from one – access to finance. This may suggest that those highlighting corruption have a significantly higher tendency to not claim its negative impacts or respond indifferently.

Nevertheless, the notion that corruption is perceived as the main barrier for exporting businesses is further sustained by the fact that frequencies of responses, when grouped by perceived impact of corruption still have corruption as the most mentioned barrier, even by those that claimed of not being impacted by it. The following tables show the relative distribution of barriers

mentioned, grouped by perceived impact of corruption for the different categories of sales in export.

Table 30. Perceived barriers and percentage of sales exported, the negative impact of corruption

Corruption impacts our business negatively					
Barriers	Our company is not an exporter	Under 10 %	10 % - 49 %	50 % or more	Total
Access Finance	1,0 %	1,0 %	0,7 %	0,2 %	2,9 %
Finding Foreign Consumers	1,0 %	5,6 %	10,0 %	4,6 %	21,2 %
Labour force skills	1,1 %	1,8 %	2,7 %	1,8 %	7,4 %
Corruption	1,8 %	7,7 %	10,2 %	5,1 %	24,8 %
Contract Enforcement	0,2 %	1,1 %	2,8 %	1,6 %	5,7 %
Standardization / Certification	0,2 %	0,6 %	0,8 %	0,5 %	2,2 %
Necessary licenses to export	0,7 %	1,6 %	2,7 %	1,7 %	6,7 %
Tax System	0,4 %	2,2 %	2,2 %	0,8 %	5,6 %
Infrastructure	0,2 %	1,3 %	0,8 %	0,4 %	2,8 %
Bureaucracy	0,0 %	0,6 %	0,7 %	0,1 %	1,5 %
Trade barriers from others	1,7 %	3,0 %	8,5 %	4,5 %	17,7 %
Court proceedings	0,2 %	0,6 %	0,4 %	0,5 %	1,7 %
Total	8,6 %	27,1 %	42,5 %	21,8 %	100,0 %

Table 31. Perceived barriers and percentage of sales exported, no negative impact of corruption

Corruption does not impact our business negatively					
Barriers	Our company is not an exporter	Under 10 %	10 % - 49 %	50 % or more	Total
Access Finance	0,6 %	0,6 %	1,2 %	0,6 %	2,9 %
Finding Foreign Consumers	3,5 %	2,4 %	8,8 %	2,4 %	17,1 %
Labour force skills	2,4 %	1,2 %	3,5 %	0,6 %	7,6 %
Corruption	5,9 %	6,5 %	12,4 %	2,9 %	27,6 %

Corruption does not impact our business negatively					
Barriers	Our company is not an exporter	Under 10 %	10 % - 49 %	50 % or more	Total
Contract Enforcement	2,4 %	1,8 %	3,5 %	0,6 %	8,2 %
Standardization / Certification	0,0 %	0,0 %	1,2 %	0,0 %	1,2 %
Necessary licenses to export	0,6 %	1,8 %	3,5 %	0,6 %	6,5 %
Tax System	0,6 %	2,9 %	2,4 %	0,0 %	5,9 %
Infrastructure	1,8 %	4,1 %	2,4 %	1,2 %	9,4 %
Bureaucracy	0,0 %	0,0 %	2,4 %	0,0 %	2,4 %
Trade barriers from others	2,4 %	0,6 %	4,1 %	2,4 %	9,4 %
Court proceedings	0,6 %	0,0 %	0,6 %	0,0 %	1,2 %
Total	20,6 %	21,8 %	45,9 %	11,8 %	100,0 %

Table 32. Perceived barriers and percentage of sales exported

Impact of corruption not applicable					
Barriers	Our company is not an exporter	Under 10 %	10 % - 49 %	50 % or more	Total
Access Finance	6,0 %	6,0 %	11,5 %	3,8 %	27,5 %
Finding Foreign Consumers	1,1 %	1,6 %	0,0 %	0,5 %	3,3 %
Labour force skills	4,9 %	0,0 %	0,0 %	0,0 %	4,9 %
Corruption	8,2 %	12,6 %	12,6 %	9,9 %	43,4 %
Contract Enforcement	2,7 %	0,0 %	0,0 %	0,0 %	2,7 %
Standardization / Certification	0,0 %	1,1 %	0,0 %	0,0 %	1,1 %
Necessary licenses to export	1,1 %	0,5 %	1,1 %	0,0 %	2,7 %
Tax System	1,6 %	0,5 %	0,5 %	1,1 %	3,8 %
Infrastructure	1,1 %	2,7 %	1,6 %	0,0 %	5,5 %
Bureaucracy	0,5 %	0,0 %	0,0 %	0,0 %	0,5 %
Trade barriers from others	1,6 %	1,1 %	0,0 %	0,0 %	2,7 %
Court proceedings	0,5 %	0,0 %	0,0 %	0,0 %	0,5 %
Total	30,8 %	26,4 %	27,5 %	15,4 %	100,0 %

Table 30 to Table 32 show that corruption is in all cases the most selected barrier by the participants, independent of its impact on the businesses. Interestingly, its percentage among those

who have not specified the impact of corruption is significantly higher (43,4%) than for the other two categories (impacted: 24.8% and not impacted 27.6%). This reaffirms the findings of table 10, hinting at a pronounced tendency of people affected by corruption not to respond to questions related to its impact. This could indicate a reluctance of firms to talk about impacts when being actually involved in forms of corruption. Access to foreign markets and Trade barriers from other countries are listed second and third on average, while required infrastructure as a relevant barrier for those not affected by corruption or not disclosing it.

In terms of percentage of sales exported, it is notable that there are no discernible differences between the groups, non-exporters seem to be equally impacted by corruption as exporters.

Table 33. Perceived barriers and percentage of sales exported

Relative distribution of corruption as barrier per percentage of sales exported					
	Our company is not an exporter	Under 10 %	10 % - 49 %	50 % or more	Total
Negative impact	21,1 %	28,6 %	23,9 %	23,3 %	24,8 %
No impact	28,6 %	29,7 %	26,9 %	25,0 %	27,6 %
N/A	26,8 %	47,9 %	46,0 %	64,3 %	43,4 %

Corruption is mentioned as the most prevalent barrier to export independent of the number of sales that the respondents export and of their assessment of the impact. However, as above the results for companies that did answer N/A for the impact of corruption are significantly higher, particular for the predominately exporting companies, confirming the reluctance of firms affected by corruption to respond to its impacts.

The survey revealed further details about the forms and application of corruption. Giving money, gifts, or other favours was expected from the participants in regard to receiving licences necessary to export products or services, for certifications or standardizations, court cases, grants or subsidies, or a better treatment from the Tax Administration of Kosovo or the Kosovo Customs. These are the main identified interfaces of exporting companies with public institutions. Given the fact that corruption can appear in several of these interfaces with public institutions for the same company, the participants could select as many choices from the above mentioned as they deemed

necessary. It is important to highlight that these questions of the survey aimed at describing in more detail in what form corruption materializes at the interfaces between public institutions and the private sector.

Out of the total sample of 524 participants, 347 indicated they were expected to engage in such form of corruption for at least one of those. Out of the 347 that indicated being expected to engage in corruption, 152 were expected to do so in regards to certifications or standardizations, 114 were expected to do so for better treatment from the Tax Administration of Kosovo or Customs, 93 regarding court cases, 90 for receiving necessary licences needed to export products or services, and 54 for receiving grants.

The survey results revealed that the majority of survey participants had to give money, gifts or provide other favours 'to get things done'. Out of the 524 participants, 283 participants, or 54% of the total sample, engaged in such form of corruption at least once. Out of the 283, 56 survey participants indicated that has been done once, 161 participants indicated this happened more than once, 58 of the participants engaged in such form of corruption periodically, while 8 participants indicated engaging in this form of corruption for every transaction to get things done.

Asked if the participants have reported cases when they were asked for bribes or other favours, 165 of the samples showed either not applicable or no answer. From the remaining 359 samples, more have indicated not reporting cases, or a total of 199, compared to reporting the cases when they were asked for bribes or other favours, which was indicated by 168 of the participants. According to the survey results, reporting was done mostly within the institution where they were asked for bribes or favours, or a mechanism other than the anti-corruption agency or policy. While regarding the reason for not reporting cases by the ones that did not report, the survey results show that 84 participants have indicated the reason was their belief that the reporting would not change anything, while 54 participants indicated the reason was the fear from future punishment, and 6 indicated the cause was other than the aforementioned reasons.

Regarding the judicial system in Kosovo, the majority of participants believe it is a corrupt system. 350 participants have indicated they perceive the judicial system to be corrupt, while 73 indicated they do not perceive it as corrupt, as shown in the table below.

Table 34. Assessment of the judicial system

Corruption of the judicial system			
	Frequency	Percent	Cumulative Percent
not specified	2	0.4 %	0.4 %
Yes	350	66.8 %	67.2 %
No	73	13.9 %	81.1 %
Neutral	99	18.9 %	100.0 %
Total	524	100.0 %	

Moreover, 251 participants have indicated that the perception of a corrupt judicial system reduces the international demand for their products or their services due to the lack of trust from foreign partners, and 208 indicated it reduces the international demand for their products or services due to lack of contract enforcement, while 83 believed such perception does not impact the international demand.

In terms of how the negative perception of corruption in Kosovo affects the firms' relations with foreign business partners, this research finds that 455 out of 524 participants view that they have been negatively affected. The perception of corruption had negative impacts on either the possibility to make joint investments which would have increased their export potential, or on their possibility to secure export contracts, or in building long term business relations with foreign partners.

The survey finds that the majority of firms feel they are treated differently compared to other companies in terms of their right to either obtain certifications, or necessary licenses for exporting, or to obtain construction permits, or in receiving grants subsidies, in paying taxes, in receiving public services or opportunities for extra information, or in their access to infrastructure such as electricity network, water supply, and road networks. 325 participants indicated they felt they are treated differently from other companies, around half of which – 146 participants - felt they are treated differently regarding obtaining certifications. Other prevalent results were shown in regard to paying taxes – 83 participants - and in regards to receiving the necessary licencing for exporting – 80 participants.

Out of the 524 participants, 207 of them indicated they have applied for public contracts (3 participants did not answer this question), with roughly half of them managing to secure at least one – 104 participants, compared to the 103 who were not able to secure public contracts. Out of the ones that have applied for public contracts, 60 of them were asked for money or other favours to be able to secure a public contract.

In the survey the participants were asked also if they have other comments regarding barriers to exporting. The field contained comments mostly related to the questions included in the survey such as problems with corruption as a barrier, or perception of corruption, and that the judicial system needs improvement. Other comments were related to the government policies not supporting exports, and to custom costs as a barrier to exporting, which were investigated further in the third stage of the research with in-depth interviews of firm owners or entrepreneurs.

8.4 How are different sectors affected by trade barriers?

The findings of the survey reveal that the sectors with high rates of participation in exports are merchandising wholesale, food processing, wood processing and raw materials for production. For the merchandising wholesale, 111 companies, out of the 120 total participating companies of this sector, are exporters. The exporters account to 92.5% of the companies. 48 of these export anywhere from 10% to 49% of their sales, while 39 of them export more than half of their sales. These two groups make up 72% of the total number of companies of ICT sector. From the total, 20%, or 24 companies, export a small section of their sales, having under 10% of their sales sold across borders.

Companies belonging to food processing and wood processing companies have similar rates of engagements in exports, with 50 of the 55 food processing firms being exporters, and 49 of the 55 wood processing firms being exporters. This make up to 91% and 89% of the total number of participating companies of these sectors, respectively. According to the survey, the participants belonging to the wood processing sector are more likely to export high number of sales, with 11 – or 20% - companies exporting more than half of their sales. Similarly, to the food processing and wood processing sectors, around 90 % of the firms working with raw materials for production were exporters. Out of the 42 participating firms, 4 of them were not engaging in sales across borders,

while 12 exported up to 10%, 12 others between 10% and 49% of their sales, and 13 exported more than half of their total sales.

The table below shows the crosstabulation of the percentage of exports on sales and the sectors the participants belong to providing an overview of most relevant industry sectors in terms of exporting on which the following analysis will focus.

Table 35. Export on sales per sectors

Export on sales per industry sector	not specified	Our company is not an exporter	Under 10 %	10 % - 49 %	50 % or more	Total
ICT	0	2	4	9	0	15
Merchandise - wholesale	0	9	24	48	39	120
Others	0	0	1	0	0	1
Education	0	4	7	8		20
Construction services	1	10	10	21	7	49
Construction materials	0	17	16	18	8	59
Food processing		5	17	27	5	55
Wood processing	0	6	16	22	11	55
Metal processing	0	9	14	17	4	44
Raw materials for production		4	12	12	13	42
Merchandise - retail	0	11	21	22	10	64
Total	3	77	142	204	98	524

Corruption (as defined in the methodology and further described above in Table 27), which was found to be the biggest trade barrier overall from the survey, is most frequently perceived as a barrier for the sector of construction materials, with 76.3% of the sector's participants believing corruption is one of the three main barriers to exporting, in comparison to 63.5% of the overall sample. Corruption was the least likely to be selected as one of the main barriers to exporting by the participants working in raw materials for production, although it was still perceived as one of the three main barriers by the majority of the participants of this sector, with 52.4%.

Looking at the data per sector, corruption was the most significant barrier for every one of the sectors compared to other barriers. For the ICT sector, the three most significant barriers were corruption with 60% of participants indicating it is one of the three main trade barriers (participants could select up to three main barriers), access to finance with 33.3%, and contract enforcement with 26.7%. In the wholesaling merchandise sector, the most significant barriers were corruption, finding costumers abroad, and political trade barriers from other countries, with 61.7%, 34.2%, and 29.2% selecting these barriers, respectively. In the merchandise retail sector, the main barriers were found to be corruption, access to finance, and finding costumers abroad, with 62.5%, 29,7%, and 26.5% of total sector participants selecting these barriers. Participants from firms working with construction materials indicated corruption, finding costumers abroad, and political trade barriers from other countries were the most significant barriers, with a percentage of selection from 76.3%, 44%, and 42.4%, respectively. The same three barriers were the most significant for construction service firms, with 63.3% selecting corruption as a barrier, 55% selecting finding costumers, and 34.7% selecting political trade barriers from other countries. In the metal processing industry, the main barriers were found to be corruption, finding costumers abroad, and the unskilled local labour force, with 65.9%, 38.6%, 34% of the participants selecting these barriers. From the participants of the wood processing industry, 60% selected corruption, 47.3% selecting finding costumers abroad, and 32.7% selected trade barriers from other countries. Among the participants from firms of the food processing industry sector, 63.6% selected corruption, 43.6% selected finding costumers abroad, and 34.5% selected political barriers from other countries. The table below shows how many participants from each sector views each barrier to be one of the top three barriers for trade (they could select one, two or three options maximum).

Table 36. Sectors and barriers crosstabulation

Sector	1	2	3	4	5	6	7	8	9	10	11	12	13	Total
ICT	5	3	9	0	4	0	1	0	2	1	2	2	0	15
Merchandise - wholesale	26	41	74	12	13	8	20	15	7	3	35	2	0	120
Others	0	0	1	0	0	0	0	0	0	0	1	0	0	1
Education	1	12	14	4	6	0	0	1	0	1	8	0	0	20
Construction services	3	27	31	9	5	6	7	4	5	0	17	0	1	49

Sector	1	2	3	4	5	6	7	8	9	10	11	12	13	Total
Construction materials	4	26	45	11	6	0	11	7	7	2	25	2	0	59
Food processing	5	24	35	6	6	2	3	7	8	4	19	1	0	55
Wood processing	5	26	33	5	9	3	6	9	5	3	18	0	0	55
Metal processing	5	17	29	15	5	1	5	6	8	1	12	4	0	44
Raw materials for production	7	17	22	7	7	2	11	9	3	2	16	2	1	42
Merchandise - retail	19	17	40	14	5	0	7	5	4	0	14	4	1	64
Total	80	210	333	83	66	22	71	63	49	17	167	17	3	

Table 25:

The first row of Table 36 shows numbers, each of which represent one of the barriers: 1 – Access to finance; 2 - Finding costumers abroad; 3 – Corruption; 4 - Unskilled staff; 5 - Contract enforcement; 6 - Standardizations and certifications; 7 – Necessary licenses for exporting; 8 - Tax system; 9 – Infrastructure; 10 – Bureaucracy; 11 - Political trade barriers from other countries; 12 – Court proceedings; 13 – Other barrier.

The following table shows the relative distribution of trade barriers within each sector.

Table 37. Sectors and barriers crosstabulation

Relative Distribution	ICT	Educating	Construction services	Construction materials	Food processing	Wood processing	Metal processing	Raw materials for production	Merchandise - retail	Merchandise - wholesale	Others	Total
Access Finance	17 %	2 %	3 %	3 %	4 %	4 %	5 %	7 %	15 %	10 %	0 %	7 %
Finding Foreign Consumers	10 %	26 %	23 %	18 %	20 %	21 %	16 %	16 %	13 %	16 %	0 %	18 %
Labour force skills	0 %	9 %	8 %	8 %	5 %	4 %	14 %	7 %	11 %	5 %	0 %	7 %
Corruption	31 %	30 %	27 %	31 %	29 %	27 %	27 %	21 %	31 %	29 %	50 %	28 %
Contract Enforcement	14 %	13 %	4 %	4 %	5 %	7 %	5 %	7 %	4 %	5 %	0 %	6 %
Standardization / Certification	0 %	0 %	5 %	0 %	2 %	2 %	1 %	2 %	0 %	3 %	0 %	2 %
Necessary licenses to export	3 %	0 %	6 %	8 %	3 %	5 %	5 %	10 %	5 %	8 %	0 %	6 %
Tax System	0 %	2 %	3 %	5 %	6 %	7 %	6 %	8 %	4 %	6 %	0 %	5 %
Infrastructure	7 %	0 %	4 %	5 %	7 %	4 %	7 %	3 %	3 %	3 %	0 %	4 %
Bureaucracy	3 %	2 %	0 %	1 %	3 %	2 %	1 %	2 %	0 %	1 %	0 %	1 %
Trade barriers from others	7 %	17 %	15 %	17 %	16 %	15 %	11 %	15 %	11 %	14 %	50 %	14 %
Court proceedings	7 %	0 %	0 %	1 %	1 %	0 %	4 %	2 %	3 %	1 %	0 %	1 %
Other barriers	0 %	0 %	1 %	0 %	0 %	0 %	0 %	1 %	1 %	0 %	0 %	0 %
Total	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %

The table shows that the perception of corruption as the most prevalent barrier is independent of the sector being analysed. Other notable findings of this evaluation are:

- Access to finance is particularly challenging for the ICT and Merchandise sectors
- Skilled labour is particularly highlighted by the metal processing sector
- Contract enforcement is a substantial barrier for the ICT and education sectors, both more service oriented than the other sectors

These issues will be further discussed in the in-depth interviews with CEOs and owners/managers of businesses, shown in Chapter 9 of this thesis. Overall, in this survey, the variation between sectors, regarding barriers, are limited and not relevant for further analysis under the scope of this study.

8.5 How does export destination relate to main trade barriers?

A total of 453 companies indicated their export destinations, listing on average 2.61 countries that they are exporting to. The majority of participant firms in the survey export to Albania, a total of 283 companies. Macedonia and Montenegro were the next export destinations, with 138 and 132 firms exporting in these two countries. After the top three export destinations, which were regional countries and part of the CEFTA agreement, the next are European countries: Italy, where 105 firms export to; Switzerland where 98 firms export to; and Austria where 93 firms export to. The table below shows how many of the firms export to each destination, with exporting firms showing in as many countries as they indicated they export to.

Table 38. Export Destinations

Country	Number
Germany	73
Switzerland	98
Italy	105
Belgium	34
United Kingdom	19
Austria	93
Albania	283

Serbia	81
Macedonia	138
Montenegro	132
Bosnia	15
Moldova	17
USA	20
China	5
Turkey	66
Other	7

The percentage of sales to export per export country delivers the following numbers.

Table 39. Export Destinations per percentages of sales to export

Relative Distribution	Under 10 %	10 % - 49 %	50 % or more	Total
Germany	3,9 %	6,1 %	8,1 %	6,0 %
Switzerland	5,9 %	8,8 %	10,1 %	8,3 %
Italy	9,2 %	9,6 %	7,4 %	8,9 %
Belgium	2,3 %	3,0 %	2,7 %	2,8 %
UK	0,3 %	1,6 %	2,7 %	1,5 %
Austria	5,2 %	8,8 %	8,4 %	7,7 %
Albania	34,0 %	22,1 %	17,2 %	24,0 %
Serbia	6,5 %	7,1 %	7,1 %	7,0 %
Macedonia	13,7 %	12,0 %	9,8 %	11,9 %
Montenegro	12,7 %	12,3 %	7,7 %	11,3 %
Bosnia	1,3 %	0,7 %	2,4 %	1,3 %
Moldova	1,3 %	1,3 %	2,0 %	1,5 %
USA	0,0 %	1,4 %	4,0 %	1,7 %
China	0,0 %	0,4 %	1,0 %	0,4 %
Turkey	3,3 %	4,3 %	8,8 %	5,2 %
other	0,3 %	0,5 %	0,7 %	0,5 %
Total	100,0 %	100,0 %	100,0 %	100,0 %

The table shows clearly that companies with less percentage in export sales tend to service regional markets, while companies that are predominantly exporting tend to aim for higher value markets, such as Western Europe or the USA.

The results of the survey were also analysed to see if some of the barriers are more of a burden for companies that export to a certain destination compared to others. Corruption was highly significant for all countries apart from Moldova (35.3%). It was especially significant for participants that exported to EU countries, such as Switzerland, with 78,4% of participants who exported to Switzerland finding corruption to be one of the very three main barriers to export; Belgium, with 75%; Italy, with 74.8%; Austria, with 72.8%, compared to the other countries.

For the participants exporting to the European Union (EU) Countries that were listed in the survey, apart from corruption as a barrier, the other two most significant barriers are finding costumers in foreign countries, and political trade barriers from other countries. This is true for all the listed EU countries of destination. Indicating that ‘finding costumers in other countries’ is a barrier is more significant for exporters to Italy and Switzerland, with 66% and 63.9% indicating so. In cases when the regional countries are a destination, seeing the issue of finding costumers as a barrier decreases, although it remains as one of the top barriers. Regarding seeing political trade barriers imposed from other countries, while it was seen as one of the top priorities for all participants regardless of destination, it is found to be more significant for non-EU and non-regional countries such as USA, China, and Turkey, compared to EU and regional countries. Another barrier that is indicated more often in one country than the rest is contract enforcement, with 36.8% of participating firms that export to the United Kingdom indicating it is one of the main three barriers to exporting. But also for this exporting destination, contract enforcement is slightly less significant compared to the issues of finding costumers in the country of destination and to the issue of political trade barriers, and substantially more significant compared to corruption as a barrier.

The following tables explore the relation between the perception trade barriers and the destination country or region of exports. As companies had the option to mention several countries, they export to but had not the possibility to prioritize barriers per country (this would have led to a level of complexity in the survey that would have been unrealistic to apply in the large scale, paper-based questionnaire format applied here. Hence, responses are interdependent and not statistically

sound for further assessment. However, given the descriptive approach used for the survey, some findings can be driven from the assessment. The relative distribution per country in Table 41 allows for a better assessment of potential differences in perceived barriers by respondent than the total numbers of cases mentioned.

Table 40. Barriers per exporting countries, total numbers

	Germany	Switzerland	Italy	Belgium	UK	Austria	Albania	Serbia	Macedonia	Montenegro	BiH	Moldova	USA	China	Turkey	Others	Total
Access Finance	13	3	8	2	0	15	57	19	31	16	3	0	0	0	8	0	175
Finding Foreign Consumers	24	62	68	16	8	39	103	15	40	48	5	8	12	4	40	3	495
Labour force skills	12	20	16	4	2	11	34	8	25	22	3	4	3	0	8	0	172
Corruption	44	76	77	24	13	67	186	47	74	87	7	6	12	3	42	4	769
Contract Enforcement	14	21	17	6	7	10	31	5	15	9	3	0	1	0	13	2	154
Standardization / Certification	5	10	7	0	1	5	10	3	8	6	1	0	0	0	0	0	56
Necessary licenses to export	8	13	16	1	3	3	26	9	17	19	6	13	5	1	11	1	152
Tax System	6	14	11	5	0	3	31	3	18	17	6	7	2	0	4	1	128
Infrastructure	2	4	9	3	0	5	33	5	14	21	1	1	1	0	6	2	107
Bureaucracy	2	5	7	3	2	4	10	2	6	4	0	1	1	0	0	0	47
Trade barriers from others	23	42	39	12	8	28	52	13	35	37	3	8	18	4	31	2	355
Court proceedings	4	4	4	1	2	3	7	1	5	4	2	1	2	1	3	0	44
Other barriers	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	2
Total	157	274	279	77	46	193	580	130	288	290	40	49	57	13	166	17	265

Table 41. Barrier per country, in relative distribution per country

In % per country	Germany	Switzerland	Italy	Belgium	UK	Austria	Albania	Serbia	Macedonia	Montenegro	BiH	Moldova	USA	China	Turkey	Others	Total
Access Finance	8,3	1,1	2,9	2,6	0,0	7,8	9,8	14,6	10,8	5,5	7,5	0,0	0,0	0,0	4,8	0,0	6,6
Finding Foreign Consumers	15,3	22,6	24,4	20,8	17,4	20,2	17,8	11,5	13,9	16,6	12,5	16,3	21,1	30,8	24,1	17,6	18,6
Labour force skills	7,6	7,3	5,7	5,2	4,3	5,7	5,9	6,2	8,7	7,6	7,5	8,2	5,3	0,0	4,8	0,0	6,5
Corruption	28,0	27,7	27,6	31,2	28,3	34,7	32,1	36,2	25,7	30,0	17,5	12,2	21,1	23,1	25,3	23,5	29,0
Contract Enforcement	8,9	7,7	6,1	7,8	15,2	5,2	5,3	3,8	5,2	3,1	7,5	0,0	1,8	0,0	7,8	11,8	5,8
Standardization / Certification	3,2	3,6	2,5	0,0	2,2	2,6	1,7	2,3	2,8	2,1	2,5	0,0	0,0	0,0	0,0	0,0	2,1
Necessary licenses to export	5,1	4,7	5,7	1,3	6,5	1,6	4,5	6,9	5,9	6,6	15,0	26,5	8,8	7,7	6,6	5,9	5,7
Tax System	3,8	5,1	3,9	6,5	0,0	1,6	5,3	2,3	6,3	5,9	15,0	14,3	3,5	0,0	2,4	5,9	4,8
Infrastructure	1,3	1,5	3,2	3,9	0,0	2,6	5,7	3,8	4,9	7,2	2,5	2,0	1,8	0,0	3,6	11,8	4,0
Bureaucracy	1,3	1,8	2,5	3,9	4,3	2,1	1,7	1,5	2,1	1,4	0,0	2,0	1,8	0,0	0,0	0,0	1,8
Trade barriers from others	14,6	15,3	14,0	15,6	17,4	14,5	9,0	10,0	12,2	12,8	7,5	16,3	31,6	30,8	18,7	11,8	13,4
Court proceedings	2,5	1,5	1,4	1,3	4,3	1,6	1,2	0,8	1,7	1,4	5,0	2,0	3,5	7,7	1,8	0,0	1,7
Other barriers	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	11,8	0,1
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

The results of the comparison of perceived barriers with the list of countries confirms that corruption is consistently the most mentioned barrier for each country with the exception of Moldova, where required export licenses, trade barriers and the tax system rank higher, and the USA and China, where trade barriers and finding foreign customers rank higher or equal to corruption. Equally access to customers in Western European markets is perceived relatively demanding.

8.6 Chapter summary

This survey addressed the first and third research questions of the thesis:

- What is the relationship between institutions and doing business across borders?
- How does corruption in the country of origin affect export performance of firms?

This chapter gave answers from the large scale quantitative research on what the owners and entrepreneurs of Kosovo firms consider as main barriers to export, the impact of corruption on exports, how often the participants were expected to engage in corruption or have done so, etc. The purpose of the survey, rather than providing statistical analysis, was to gain information on views of entrepreneurs from a large number of businesses, and its questions are generally descriptive, or perception based.

The results of the survey, as analysed using SPSS, indicate that corruption is perceived as the main barrier to exporting. From 509 valid answers, the majority of the survey participants, a total of 333 participants, have picked corruption among the three main barriers. This amounts to 65.4% of participants selecting corruption as a key barrier to exporting across borders. Corruption is found to be the most prevalent barrier independent of the sector being analysed, and it is most frequently perceived as a barrier for the sector of construction materials, with 76.3% of the sector's participants believing corruption is one of the three main barriers to exporting. Right after corruption, the inability to find consumers in foreign markets, and the political trade barriers from other countries, were most often selected barriers to exporting from Kosovo.

The results of the survey were also analysed to see if some of the barriers are more of a burden for companies that export to a certain destination compared to others, and corruption was highly

significant for all countries, apart from Moldova, and it was especially significant for participants that exported to European Union countries.

Sample characteristics from the Survey, in this research, are described mostly through frequencies, while cross tabulations allow for more specific assessments related to the research questions. This method provides adequate results for the purpose of this research, which focusses on identifying the impact of formal and informal institutions on export performance, and in particular on the influence of corruption. The findings of the quantitative survey then were explored in more depth in the third and final stage of research comprising of in-depth semi structured interviews with selected businesses.

9 The views of Kosovo CEOs and entrepreneurs on institutions and exports: findings of the third stage of research (qualitative methods)

9.1 Introduction to the chapter

The current chapter presents the results obtained from the third, and final, stage of research, that of the semi structured in-depth interviews with owners and CEOs of firms operating in Kosovo. This stage was part of a mixed methods research combining two stages of qualitative and one stage of quantitative analysis, with the aim of studying the effects of formal and informal institutions on export performance of businesses, and the combination of methods was done to give a more thorough explanation of the phenomena and to offer a greater validity to the analysis. This stage of research ultimately gave a better understanding of the culture specific to firms operating in Kosovo and officials they deal with, and how the firms deal with institutional voids, contributing to an understanding of the influence of institutions on exports. According to McKenzie (2007), entrepreneurs are usually keen to share their experiences and tell their stories; thus, the in-depth interviews in a semi structured setting enable a better understanding of the issues related to firms' export performance and their experiences with exporting, as well as the ease of trading across borders as perceived by them. Comparing the views expressed by key stakeholders during stage one, which mostly have represented formal institutions, with the views of this stage, has helped to uncover any divergences and facilitate a more thorough analysis of the influence of institutions on exports.

The results will be presented based on reoccurring themes, including significant responses from the first stage of qualitative research, giving more weight to recurring patterns, and relevant quotations from data. The next sections present the findings related to education and skills of workforce and their effects on export performance of Kosovo firms, findings on access to finance and its impact on export performance of firms, as well as findings on written regulations and rule of law in Kosovo. Finally, the focus is on how informal institutions affect exports from Kosovo firms, with focus on the impacts of corruption. Focus on this chapter is also given to political barriers from other countries and finding consumers abroad. These findings are compared to those of the first stage of in-depth interviews with key stakeholders, as well as they build up on the results of the survey.

Different formal and informal institutions work together in shaping an institutional environment that play shapes the limited capacities of Kosovo exporters. The experiences of a small developing economy such as Kosovo, with relatively new formal institutions, and a high perceived corruption, are believed to be an important addition to knowledge on the relationship between institutions and trading across borders, on how firms deal with institutional voids, and how corruption in the country of origin affect export performance of firms.

9.2 Education and Skills as obstacles to firms' ability to export

Findings of the stakeholder interviews, suggesting that education and skills of workforce is negatively impacting the export performance of Kosovo firms, are backed up by interviews with business owners and CEOs. The inability to find skilled staff is a major factor that drags down the potential for increasing exports (BI3, BI4, BI6, BI8, BI15). Similar to the views of stakeholders, respondents of this stage agree that education has never been a priority in Kosovo, thus the mismatch between the education sector and the needs required by the market continue to be alarming (BI2, BI3, BI8, BI11).

Quality education measured through cognitive skills by international tests explain differences between developed and developing countries (Hanushek and Kimko, 2009; Hanushek and Woessman, 2010; Schoellman, 2012), while also respondents interviewed for the thesis rely on PISA tests of OECD, where Kosovo scored in the very three lowest, together with Philippines and Dominican Republic, to explain the lack of skills of Kosovo youngsters (BI3, BI11, BI12, BI14). An owner / CEO of a medium enterprise complained during the interview about the inability to find sufficient staff that are capable of being trained (BI12). "I offer paid internships to university graduates and [offer employment] to whoever is capable of being trained, but I rarely see potential in them" explained the same participant. The respondent added that they hire international staff as food technologists and positions related to food safety and standards, also for giving the opportunity for learning know-how, but "locals are either not interested to learn or not capable to learn" (BI12). Other participants of the interviews agreed even university graduates lack basic skills, such as reading comprehension and understanding directions (BI11, BI14). This is in line with findings from stakeholder interviews, that the education system does not provide youngsters the needed skills for future employment (SI1, SI2, SI20, SI8, SI23). Especially, it is in line with these responses from a participant of stakeholder interviews: "starting from elementary school,

children are not taught basic skills and are not taught how to think” and “children continue from a level of schooling to the next, and finally graduating, without skills to use for work” (SI8).

Every one of the interviewees from the private sector sees unskilled labour force and inability to find adequate staff as an obstacle. Business representatives in Kosovo, as found by this research, believe that not focusing on increasing the quality of education in Kosovo by competent authorities will be hurting businesses for years to come (BI3, BI8, BI14, BI15). While education system locally is of low quality, entrepreneurs can also contribute by providing job skills (Whitney, 2011; OECD, 2021). However, companies find staff trainings to be costly and time consuming. In many cases, these companies do not provide trainings due to fear of losing trained staff in future, or because of internal barriers. Both literature review and stakeholder interviews confirmed that, while larger firms are in a better position and financially able to train staff themselves, smaller firms are less likely to be investing in employee training and a sizeable proportion of small firms offer no training at all (SI11; SI23; OECD, 2012; European Commission, 2017). These findings are elaborated with entrepreneurs, and costs of trainings is mentioned most frequently among small and medium firms as a reason to why they offer limited trainings (BI4, BI5, BI6, BI13), followed by time constrained (BI5, BI12, BI15), as well as the belief it is not their job to do what the education system is failing to do (BI5, BI8). “As small businesses it is super costly for us to invest in all trainings of young staff” (BI4). A participant representing a large company during interviews argued their training costs are spread among employees, while small firms might need to provide training for one staff at a time (BI14). Another participant representing a large company claimed trainings are not as costly as having untrained staff: “a real cost is not training your staff” (BI11). Referring to time-constraints for providing trainings, an owner of a firm responded with “Do we work, or do we train others?”, suggesting universities should train the youth while they are students (BI5).

Discussions, with entrepreneurs and firm CEO / managers, about whose job is it to train and educate Kosovo youth, all led to the obvious conclusion that the responsibility of training labour force should be central to the public institutions; however, some focus more on it than others, with representative of larger firms seeing themselves as responsible for taking a more pro-active role in providing trainings. “It is our job to contribute, and even if the public institutions had education as a priority, it would still be our job to contribute” (BI14). Internal barriers of firms play a role in how much firms contribute to training staff, including not identifying training needs, CEO’s not delegating tasks to subordinates, not valuing in-job trainings by management, or inability to

allocate funds or time (BI14). The firm this respondent represents offers staff trainings in an ongoing process, considering also employee needs and development through ongoing evaluations by managers within the company, including in office training and outsource training for selected staff, who in turn train the others. The trainings include effective communication skills, team working skills, time management skills, and skills required for each position. The latter is provided through classic training or job shadowing, and the need for such trainings is adjusted according to the needs of the staff.

Among the more established firms who provide in-job training, they focus on (BI10, BI11, BI14):

- Ensuring staff have the possibility to be trained, either through job shadowing, or being in an environment where they can learn from existing staff or managers.
- Having a training strategy or plan in place.
- Providing orientation training for new staff, including showing what their department does and how that contributes to the overall work of the company.
- Providing internship opportunities, to scan for suitable candidates, and to contribute to building skills for youth.
- Having training needs assessments.
- Offering ongoing trainings to staff, including managers.

Skills, motivation, and qualifications are necessities for exporting. While firms oriented towards exporting goods to foreign markets would benefit from training their staff, only limited companies engage in doing so, due to costs, limited time, internal barriers, or fear of losing trained staff. Youth unemployment and non-quality of education in Kosovo remain big challenges; on top of it, emigration adds to the problems of companies looking for skilled staff (BI4, BI5, BI14). The latest Western Balkan's Labour Market Trends (2019) highlights the fact that emigration of young people, apart from being persistent and strongly linked to the high unemployment rate and the lack of opportunities, it is also linked with the overall situation in the country. Moreover, according to the Gallup survey on the issue of "brain drain", 48% of young people in Kosovo wanted to emigrate, which leads to the issue of having mismatch and creating gaps of young people skilled for work and needs of the private sector (Damjanovic and Chapman, 2010). As a CEO of one of the biggest exporting firms explains, unskilled labour force is the biggest reason they cannot scale

up, and “it is tough to convince skilled staff to work for us as they will move abroad when given the possibility” (BI5). According to both business and stakeholder in-depth interviews in this research, the fear of losing skilled staff, either to migration or other companies, holds back businesses to invest in training of staff (SI1, SI3, BI4, BI5, BI14). As a result, working with unskilled staff hurts their possibilities of growing their businesses and pursuing exporting.

Certain firms count on international staff or internationally educated locals due to the unskilled labour force (BI2, BI9, BI11, BI15). Hiring staff that has been educated abroad or have spent part of their lives living abroad in different institutional set ups is seen as an option, at least partially. “I went to university in [a developed economy]; studying there and living there taught me so much and changed me so much” respondent a business interviewee (BI11), adding that he prefers staff who have had similar experiences. The same business interviewee told internationally educated staff, on top of field specific tasks, tend to be more equipped with skills related to working in teams, communication, and building relations with others. Another respondent believed it is the living abroad that contributed more to the development of internationally educated staff rather than the attending the school or university itself, as they learn work ethics and that they must add value to the work that they do (BI12).

Informal institutions play a role in the inability of Kosovo firms to find suitable staff. In Kosovo there are many young people with degrees, but who are not willing to work in our companies claim respondents from private sector (BI1, BI4, BI11). As suggested by findings of stakeholder interviews, business respondents agree that, it is also a part of culture, fed by informal institutions, that people aim to achieve a certain status in life through getting a university degree, to the point they do not think if it will be required for the market or not but believe the possession of a bachelor's degree or master's degree will put them in a higher level in society (BI1, BI15). “Most graduates are generalists with no certain skills; they do not bring any added value” (BI1), said a participant referring to graduates of Kosovo universities. While these graduates may finish university for being citizens with university degrees rather than for being employable, as suggested by the findings, Kosovo firms struggle to find staff. This is especially true for sectors with potential for growing, but remain unpopular among Kosovars. Sectors such as agriculture, wood and textile industry can absorb far more workers than there is to offer, but despite the high unemployment, and despite these sectors not requiring specific skills, people do not prefer them (BI2, BI15). This

correspondents with the findings of stakeholder interviews, that especially for agriculture sector work, many find it humiliating, aiming for other jobs that are unavailable (SI21).

Findings of stakeholder interviews suggested lack of work ethics fuels the high unemployment rate (SI1) and inability of firms to find suitable staff, as graduates are not driven to work. Position expectations and wage expectations of youngsters remain high, according to business representatives (BI3, BI4, BI6, BI8, BI12), while the will to work remains low (BI12, BI15). This situation is described with informal institutional elements to it, including “they are spoiled” (BI12), and “wanting to be able to flaunt what they do to neighbours and friends” rather than wanting to be employed, as well as finding it humiliating to work in certain sectors. A general manager of a firm explains the public sector employing staff with lack of skills, but reputable position names and decent wages, makes others reluctant to work in their firms (BI15). Other explanations on the same issue came from the stakeholder interviews: among the unemployed job-seekers public sector is preferred, because in the public administration not much is expected from the staff to do, and people believe they do not risk being fired (SI24). These findings suggest there is lack of work ethics and a stronger preference towards having the benefits of employment without having to do the work.

On being asked on their view on salary expectations of local staff, most business representatives, apart from one, think the expectations are too high, mentioning that even for part time paid internships for university students, a pay of around 200 euro per month on top of their being trained and gaining skills that suit them for future employment, is considered too small to bother (BI11, BI12); while full time untrained staff have higher expectations. For reference, the minimum wage per month for full-time work in Kosovo, for up to 35 years old, is 130 euro; while average wage, from the official data of Kosovo Agency of Statistics, was 466 euro per month in 2020. According to business representatives, reasons for not wanting to start working for a lower wage include the culture they were raised in, and the remittances received from Western countries by family from diaspora (BI12, BI15).

Asked if the inadequate labour force is an obstacle to firms’ ability to perform better in foreign markets, an interviewed CEO of an exporting Kosovo firm immediately responded with “very much so, very much so, very much so” (BI5); while another added that the lack of educated and unskilled staff is the very key obstacle to increasing his company’ exports and maintaining growth

plans (BI8). And other CEO's stress on the importance on focusing on quality education as a nation, stating it would be best for exporting if Kosovo Government and other stakeholders focus in improving our education system, which has never been a priority thus far despite being one of the youngest countries in world (BI2, BI9). Related to the labour force, and linked to informal institutions, a respondent answered, "one of the biggest barriers for Kosovo entrepreneurship is its people who do not dare to start their own business" (BI11) explaining the hesitation to start entrepreneurship due to lack of work ethics and unwillingness to take challenges and take risks, which is a precondition to exporting. With an average age of 26 years, Kosovo has the youngest population in Europe (World Bank, 2017). A well trained labour force could be a comparative advantage and a key resource for the growth in general and ability to produce exportable products.

9.3 Access to finance as an obstacle to firms' ability to export

In line with findings of the interviews with stakeholders in Kosovo, the findings from the in-depth interviews with entrepreneurs show that the financial constraints by lack to access to finance play a significant role in diminishing firms' ability to enhance productivity, negatively impacts private sector job creation, and decreases their ability to export (BI1, BI3, B14, BI7, BI13). Respondents tend to believe that exporting firms face high costs to be able to establish themselves in foreign markets (BI1, BI3, BI4), while Kosovo firms are predominantly new ones that merely try to maintain in the position they are, and cannot afford foreign competition and the extra costs.

A CEO of one of the most successful local Kosovo exporting companies explained "if access to finance was not as problematic in Kosovo, we would have scaled up and exported more" (BI9); he added that in Kosovo access to finance has always been an issue for them, as apart from commercial loans there are very limited other methods, such as loans for development purposes, investment funds or other ways firms can rely on if trying to grow as a business. Due to the limited sources to access to finance, the firms' possibilities to grow and export are slim. A CEO of a small exporting company stressed that access to finance is the biggest obstacle they face (BI4) and added that he believes a positive change in this regard, which would allow business to receive development loans, would had made them more competitive in the foreign markets and would have considerably increased their chances of exporting more.

Banks assess associated risks on loans rather conservatively, limiting the number of loans given (BI2, BI4, BI7, BI9). Being unable to receive credit through formal ways keeps firms at the level they are. Apart from financing from bank loans, borrowing from family and friends was the chief source of funds for new businesses in Kosovo. A few interviewees mentioned (BI2, SI15) how start-ups rely on informal borrowings from family or friends since banks require collateral, which is scarce for many smaller firms, while they resort to borrowing funds from personal networks, such as family and friends, or informal institutions. However, while informal borrowings are helpful, for those who have the possibility, to start the business and in the early stages, growing the business remains the biggest challenge due to the limited access to finance (BI9).

Being competitive in international markets requires increase in investments for higher quality of products (BI1, BI2, BI4, BI15). “Being able to sell products in European countries is not the same as here or as in the region; we follow strict quality standards, we invested in state-of-the-art machinery, we are investing in a new factory” (BI15) explained a general manager of a successful exporting company. Cooperating with international partners, for investments in the company in Kosovo, has helped some of these firms be competitive in the foreign markets (BI2, BI10). Companies pursuing exporting require substantial financing to invest in value-added processing and comply to quality standards, for which further investments to guarantee international market requirements are needed (BI10, BI15).

Both existing literature and this empirical research suggest that firms require additional capital and increase in competitiveness to exploit foreign markets. Lack of access to finance holds firms at low value-added stages of the supply chain and restricts them from exploiting more profitable opportunities, while more access to finance encourages firms to boost their export competitiveness (Beck, 2002; Svalyrys and Vlachos, 2005; Kumarasamy and Singh, 2017). The inability to cooperate with foreign investors adds to the restrictions to exploiting exporting. “Foreigners are reluctant to cooperate with Kosovo firms because of some fear whether contracts will be enforced and fear that something might go wrong where they will face injustice” (BI12). By having lower chances of cooperating with foreign investors and benefiting from their financial position and investing, these firms have low chances of growing. Products of Kosovo range on the lower end of value chains - such as metals, plastics, agricultural products - reflecting its development status, for which export options and associated revenues are limited (BI5, BI14). More developed financial markets and higher access to finance are crucial for increasing firms’ exporting activities.

Even if firms find international demand for their products and are asked to export larger quantities, they cannot do it mainly because of not having the capacity. “We simply do not have the capacity to satisfy a big market even if we were to strike a deal in an international event aiming to promote Kosovo products (BI12)”. In more detail, exporting activities require additional, potentially substantial investments to prepare and secure operations beyond the national market that increase the demand for financing of Kosovo’s firms. Given the level of economic development and the status of the involved institutions in Kosovo significant barriers challenge firms to address this demand, with a significant impact on the development of Kosovo’s exports.

While the in-depth interviews with stakeholders helped define key issues with funding and financing need of firms, the in-depth interviews with entrepreneurs and CEO / managers of firms operating in Kosovo helped in understanding the inner nature of issues. Based on these findings, the following figure, figure 12, summarizes the main aspects for each, the demand, the barriers, and the impact. Existing solutions address the barriers partially and would require a more complete understanding of the underlying mechanisms of economic limitations on the demand side as well as the cultural and perceptual causes of barriers, to reduce their impact on export opportunities for Kosovo’s economy.

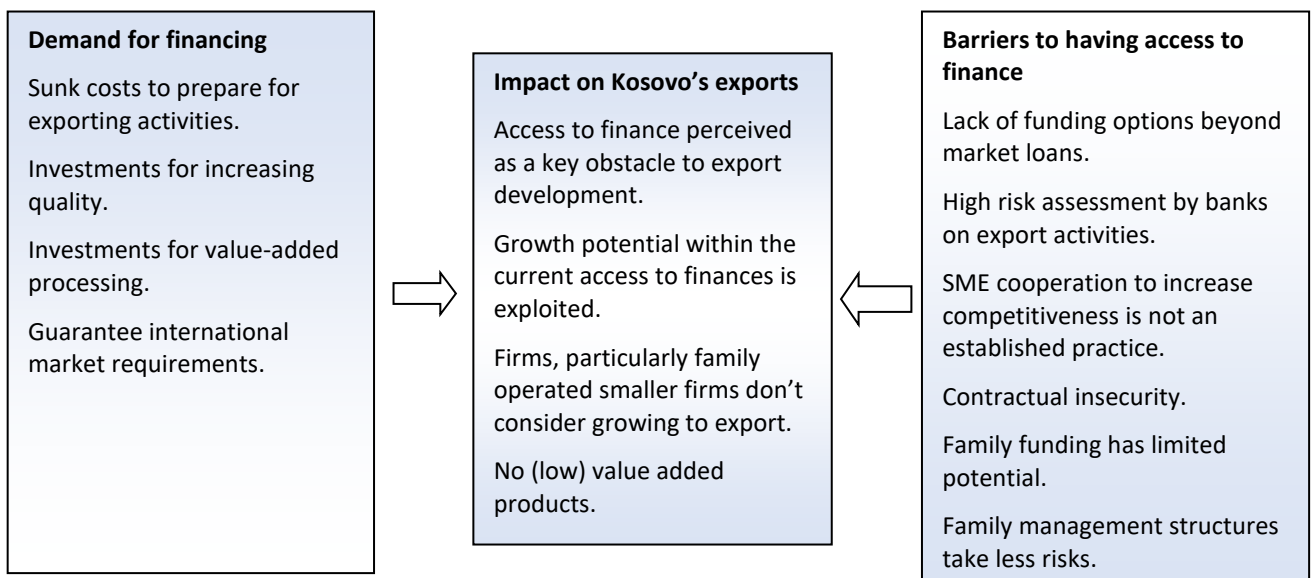


Figure 11. Access to finance as an obstacle to firms’ ability to export

The left-hand side of Figure 11 summarizes findings related to the demand for financing by firms located in Kosovo: firms incur large sunk costs to prepare for exporting activities must and

establish themselves (BI1, BI3, BI4), they need to finance investments for increasing quality, for value-added processing and to guarantee international market requirements (BI10, BI15). The right-hand side of Figure 11 summarizes findings related to why firms have issues to have access to finance, including here the lack of funding options beyond market loans and high risk assessment by banks on export activities (BI2, BI4, BI7, BI9), contractual insecurity scares foreign investors away as they do not want to invest where they cannot protect their finances (BI12, SI1, SI7), SME cooperation to increase competitiveness is not an established practice, family funding has limited potential, family management structures take less risks (SI23, SI11). Whereas the middle box of Figure 11 shows how the financing and barriers to having access to finance impact the export performance of Kosovo firms: access to finance perceived as a key obstacle to export development (BI1, BI3, BI4, BI7, BI13), growth potential within the current access to finances is exploited (SI23), firms, particularly family operated smaller firms don't consider growing to export (SI11, SI23), and Kosovo firms end up offering no value-added products or low value-added products (BI5, BI14, SI14).

9.4 Corruption and export performance of Kosovo firms

From 509 valid answers, the majority of the survey participants, a total of 333 participants, have picked corruption among the three main barriers; this amounts to 65.4% of participants selecting corruption as one of the three main barriers. Thus, the entrepreneurs and CEOs / managers participating in the in-depth interviews were asked about their perceptions and experiences with corruption or perceived corruption, and how it impacts them. The 15 participants interviewed have not mentioned knowledge of, or issues related to, actual high level corruption cases - involving large sums of money, and typically including politicians or the highest levels in private sector engaged in corrupt activities. However, they indicated either participating or witnessing petty corruption, including bribery - which involves persuading officials to act on the favour of the one offering or giving a payment or other good/favour (BI5), facilitation payments - which are payments made to secure documentation from public officials that otherwise would be entitled to the party making the payment, usually done to speed up the process of receiving required documentations (BI1, BI5, BI6, BI15), or nepotism which is described as favouritism based on kinship (mostly in relation to unskilled staff of public administrations) (BI1, BI10, BI12). While

the presence of petty corruption was associated with negative feelings, the business participants did not see it as a major obstacle to exporting.

Regarding the negative perception of corruption, each participant of this stage saw it as a major obstacle. The perception of Kosovo being a high corrupt country negatively affects their chances to find partnerships with foreign brands and in foreign markets. The perception and the unfortunate phenomenon of corruption is considered to have greatly affected their chances to exporting more and foreign companies have reservations when it comes to cooperating with a Kosovo brand (BI6, BI9, BI12, BI15). Moreover, reduced production capacities due to low level of attracting FDI and hindering entrepreneurship, negatively impacts export possibilities (BI2, BI4, BI8). Finding potential investors from abroad would bring funds, technology, and make room for growing enough to increase exports, but due to the negative perception of the country because of high perceived corruption, being able to cooperate with international investors is “too much of a challenge when they think we are some kind of uncivilized crowd, with no morals” (BI6).

Customers of foreign markets have a much harder time on deciding on a brand coming from Kosovo because of the perception as a non-consolidated country and the negative connotation when mentioning Kosovo (BI9). This has prevented Kosovo firms to form agreements to export products abroad. A CEO of a Kosovo firm told that due to the high perception of corruption, only after hiring international reputable companies to conduct due diligence they were able to form international partnerships in some cases (BI7).

Entrepreneurs and firm CEO / managers interviewed during this stage of research gave shorter answers regarding corruption compared to other topics, such as human capital and access to finance. While the belief the perception of corruption is much worse than the reality persisted, the occurrence of petty corruption was confirmed with the findings. It is believed to come from both the demand side and the supply side (BI8, BI13). “We are to be blamed too; we are so used to handing money here and there to be able to finish business as soon as we can” (BI13). Petty corruption is believed to be lower compared to earlier years, but it is still frequent.

9.5 Political barriers from other countries

One third of the Survey participants indicated political barriers to trade are among the very first three obstacles to exporting from Kosovo. These issues were further discussed with entrepreneurs and CEO / managers of firms operating in Kosovo to understand the issue from inside.

Kosovar firms who export to Serbia and Bosnia and Herzegovina, or to European Union countries and transiting through these countries, face difficulties by being fined for missing documentation, not being allowed to pass through due to request for further documentation, or simple having trucks wait in the border to the point of having their products go bad (BI6, BI8, BI12). Their truck drivers are asked for specific transport permits which cannot be obtained anywhere (BI8, BI12). According to these firms' representatives, they complain constantly to relevant offices including the Ministry of Transport and Infrastructure responsible for issuing transport permits, and Ministry of Industry Entrepreneurship and Trade responsible for monitoring CEFTA, but the issues reoccur. One firm representative mentioned being told the issues are because the relevant ministries in Serbia do not cooperate, and documents normally issued by authorities of both countries, jointly, do not exist (BI12). This contradicts with CEFTA articles, and eventually are solved, but representatives of Kosovo firms claim such special requests reoccur sporadically. "A few years ago, we were constantly asked to pay more or turned back because they would not recognize documents mentioning Kosovo, asking for documents issued by UNMIK, which were no longer being issued in an independent country" (BI12). Neighbouring countries Serbia and Bosnia and Herzegovina do not recognize Kosovo as an independent country, not recognizing documents from Kosovo authorities, hurting the Kosovo private sector and Kosovo exports in the process.

The bureaucracies of political background result in exporting less than the potential (BI8, BI12). A frequent hurdle seems to be the recognition of Phyto sanitary standards and certifications. "Kosovo imports from Serbia 10 or 15 times more than our companies manage to export there, there may be other factors but politics and bureaucracies by these countries make it very hard for Kosovo firms to export" (BI8). While Kosovo firms receive certifications from the Agency for Food and Veterinary, those certifications are questioned by foreign authorities (BI6, BI12). Not being able to ship due to having trucks return from the border, or having shipments arrive late in

the destination, because of having trucks trapped in the borders (BI5, BI6, BI8, BI12), do not make Kosovo exporters reliable.

While issues with exporting to Serbia and Bosnia and Herzegovina, or through Serbia, are not very surprising to Kosovo firms, there are also substantial obstacles to exporting Kosovo products to Albania. “We are supposed to be brotherly countries, but Albania sets impossible custom taxes for Kosovo products, making it almost impossible for us to be competitive there (BI12)”. Customs tariffs are more evident in agriculture products from Kosovo, such as potato, onions, and grapes, and despite such issues being resolved between Governments, they are a burden to Kosovo exporters, discouraging them to export more.

Different factors play a role in the incapability of Kosovo firms to export more, but an added major obstacle is being regionally near countries that do not recognize its independence and being dependent on transiting neighbouring countries that pose political or bureaucratic barriers.

9.6 Finding consumers abroad and cooperating with international partners

The inability to find consumers in foreign markets was the second most often picked barrier, right after corruption, to exporting from Kosovo, from the large-scale survey of Kosovo firms in the second stage of research of this thesis. The way to finding consumers abroad, finding international partners, and their experiences regarding these issues were further discussed with entrepreneurs and CEO / managers of firms operating in Kosovo to understand the issue from within.

The negative connotations related to Kosovo, including the negative reputation because of perceived political instability, corruption, and contract enforcement issues, leads to lower evaluation of Kosovo products from foreign consumers (BI2, BI7, BI9, BI11). “The negative propaganda about Kosovo is such an obstacle for us; it is too tough to get international costumers to decide on a Kosovo brand” (BI9) claimed a CEO of a local production company. “We offer products of superb quality, yet the quality of our products is automatically questioned” added another participant, explaining being a producer from Kosovo puts them immediately at a disadvantage compared to producers of more positively viewed countries (BI15). The negative image of Kosovo as country of origin affects the product evaluation of Kosovo products, regardless of their quality.

While Kosovo firms struggle to place their products in foreign markets, “a better political stability perception and less corruption would have reduced uncertainties and brings more confidence on institutions and this country” (BI11). Business representatives claimed they could produce more with a better business environment, and have more foreign investment too, which can lead to increased exports (BI9, BI11, BI12). The negative connotations impact exports also through making it harder for Kosovo firms to find international partners. “If people think investing is safe, they would be more likely to invest, and maybe we could produce products we don’t, too” (BI12). The same goes for finding partners in destination countries. A CEO interviewee told how the company, being from Kosovo, was requested to conduct due diligences as a consequence of a negative perception (BI7) which according to this respondent is an additional request, burden, and cost because the firm comes from a country with a bad image. On the other hand, products of developed countries have the advantage of being perceived as better, due to these countries being connotated with high levels of economic performance and technological development (Huddleston et al., 2001; Ahmed and d’Astous, 2007).

Regarding the cooperation with international partners, Kosovo representatives stress how the lack of political stability in the country is a burden on them (BI9, BI10). “Our foreign partners fear that with changes of political parties in power, there will also be a change in existing regulations and legislations and policies, which happens in non-democratic and autocratic countries” (BI10). Freedom House (2021) describes Kosovo’s political system as historically characterized with dysfunction and instability. “A quick google search on Kosovo politics gives potential investors nightmares” (BI14).

Kosovo firms are most likely to be able to develop agreements with foreign partners through their presence in international fairs and forums (BI3, BI4, BI7, BI9, BI10, BI12). “Our continuous presence in international fairs is the very main route to finding potential foreign partners” (BI9). As Kosovo citizens cannot travel freely, the inability to be equipped with traveling visas for key personnel of companies, to be able to attend international fairs and forums, is a major drawback (BI10), respondent an interviewee representing a large firm. Smaller firms rely less on international fairs, by viewing them as “too costly” (BI6). Attending fairs is more of an option for larger, well-established firms. Some of the well-established firms also invest in CSR activities, which, while contributing to the society, helps them have a better reputation (BI10, BI11, BI4). Some firms manage to form partnerships with foreign partners through existing networks in the destination

countries and hiring qualified experts for international sales (BI9, BI10), or this at times is facilitated by business associations within the country (BI2). These findings suggest the possibilities to have agreements with international partners are likely only for the already established firms, while small firms have small chances of investing in building a possible network and hiring international expertise.

Attending meetings of business associations helps the firms through networking, increasing cooperation locally, as well as with “knowing what is happening and what possibilities are there for Kosovo firms” (BI2). Firms can benefit from private knowledge and extensive knowledge of the environment, when the institutions are not as apparent to be able to navigate through institutional voids (Kingsley and Graham, 2017).

For the companies that manage to have access to international partners, the ability to meet demand can be an obstacle (BI4, BI12). Even if quality of products is convincing, and international partners are interested in buying certain Kosovo products, the demand might be too high for Kosovo producers. “It is impossible for us to increase production by how much they demand immediately” (BI12). Another participant suggested the lack of cooperation between Kosovo producers adds to the inability to get more international contracts, as local firms selling the same product do not cooperate to be able to meet international demand (BI1).

Different formal and informal institutions influence the ability of Kosovo producers to find consumers abroad and to cooperate with international partners. Based on the findings above on this topic, the figure below visualizes this relationship.

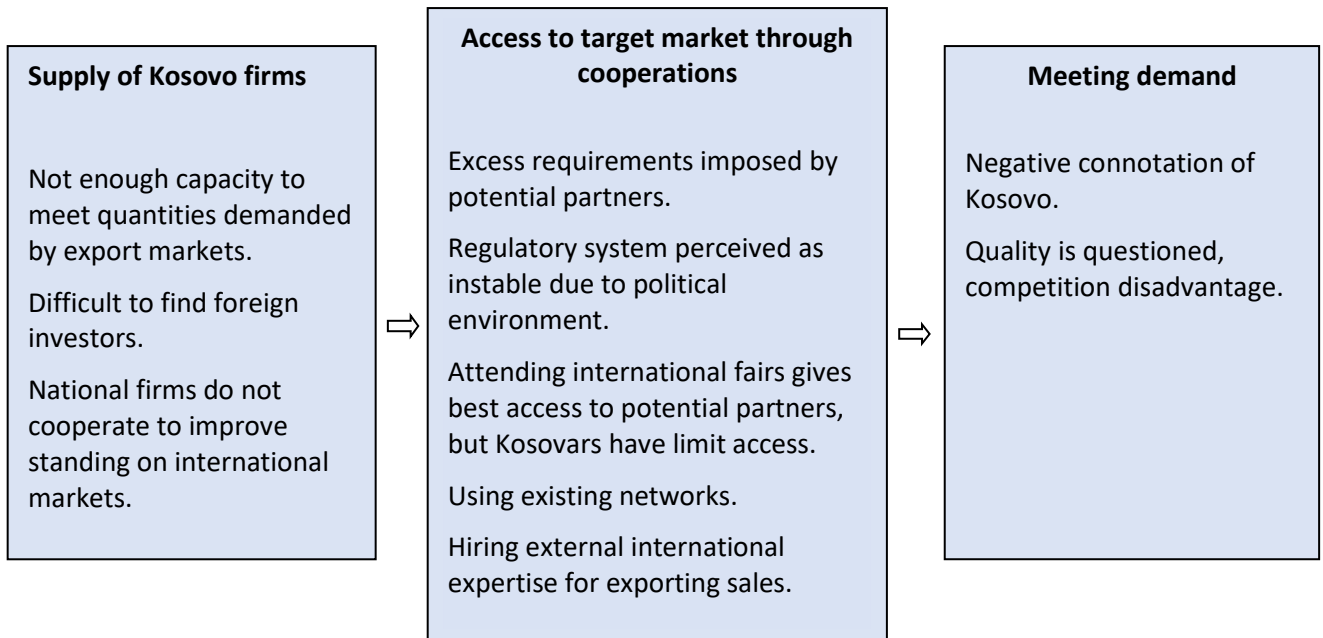


Figure 12. Access of Kosovo firms to international markets

Figure 12 shows the supply side of Kosovo firms in the left-hand side, including the low local production capacity and their inability to meet immediate high demand when opportunities emerge, their overall usual difficulties to find foreign investors, and the lack of cooperation between Kosovo producers. The components to access to target market through cooperation is shown in the middle box, which includes the excess requirements imposed by potential partners such as conducting due diligence, the perceived political instability which scares away potential investors, the attending of international fairs to get access to potential partners which is described as the main way of forming international partnerships but it is not a possibility for all firms, their using their existing network, and the firms need to hire costly external expertise to help in international sale. The components of the demand side, shown on the right hand side, include the difficulties Kosovo firms face due to the negative connotation of Kosovo, and the disadvantage of having quality questioned because of the bad international image of the country of origin.

9.7 Chapter summary

The findings of the third, and final, stage of research, that of the semi structured in-depth interviews with owners and CEOs of firms operating in Kosovo, gave a better understanding of the

issues related to firms' export performance and their experiences with exporting, as well as the ease of trading across borders as perceived by them.

Having the youngest population in Europe, a well trained labour force could be a comparative advantage and a key resource for the growth in general and ability to produce exportable products. However, for Kosovo firms, finding skilled staff is a major factor that drags down the potential for increasing exports, due to skill mismatch, unskilled and untrained labour force, and brain drain due to migration. Entrepreneurs classify Kosovo's education system as of low quality, while many have reservations in training future or current staff within the job, due to costs, time-constraints, or saying they are unable to find staff that is trainable or willing to be trained.

The lack to access to finance plays a significant role in diminishing firms' ability to enhance productivity, negatively impacting private sector job creation, and decreasing their ability to export. Respondents tend to believe that exporting firms face high sunk entry costs to be able to establish themselves in foreign markets, and exporting is an option for only larger and well established firms, while smaller firms struggle to find financing. The growth potential within the current access to finances is exploited, and Kosovo firms end up offering no value-added products or low value-added products.

Kosovo firm representatives, as findings of this research suggests, tend to believe the perception of corruption is worse than the actual corruption taking place. The perception of Kosovo being a high corrupt country negatively affects Kosovo firms' chances to find partnerships with foreign brands and in foreign markets. Customers of foreign markets also have a much harder time on deciding on a brand coming from Kosovo because of the perception as a non-consolidated country and the negative connotation when mentioning Kosovo.

An added major obstacle is being regionally near countries that do not recognize its independence and being dependent on transiting neighbouring countries that pose political or bureaucratic barriers. Kosovar firms who export to neighbouring countries and transit through these countries, face difficulties by being fined for missing documentation, not being allowed to pass through due to request for further documentation, or simple having trucks wait in the border to the point of having their products go bad.

Having access to foreign markets is a struggle for Kosovo firms due to the perceived political instability which scares away potential investors, and the firms need to fulfil extra requirements

because of the bad image of the country or to hire costly external expertise to help in international sale. Kosovo firms have the disadvantage of having quality questioned because of the bad international image of the country of origin.

The perception of corruption and instability, political barriers from neighbouring countries, the requirements to find consumers abroad while dealing with the bad image of the country of origin, the unskilled labour force, and issues related to access to finance leave Kosovo firms unable to boost growth and exports.

10 Discussion

10.1 Introduction to the chapter

Having reported the empirical findings in the chapters 7, 8, and 9, the discussion chapter now explores the meanings and the implications of these findings, and how they relate to the existing literature. This thesis has studied the impact of formal and informal institutions on exports, has explored the challenges entrepreneurs face from corruption, and ways how they deal with institutional voids. Through a pragmatic approach, and by using mixed methods, combining a first stage of in-depth interviews with key stakeholders, a large scale survey of businesses, and follow up in-depth interviews with entrepreneurs to explore issues in more depth, this research's findings make several key contributions with important theoretical and policy implications.

By being based on the research questions of this thesis, and the conceptual framework originally presented in Figure 1., the findings are analysed and discussed, to show the contribution to knowledge, the policy implications, and the recommendations for future research. While the findings from interviewing stakeholders were necessary to give direction to research and were very valuable in finding differences between findings of stakeholder interviews and interviews of entrepreneurs and CEOs / managers, being overall considered, this chapter gives more weight to findings of businesses from the survey result and the in-depth discussions with entrepreneurs and CEOs / managers of firms operating in Kosovo which elaborated the findings of the large scale survey.

The section below, section 10.2., discusses on the key findings, their meanings, and how the findings of this research add to existing knowledge. It focuses on discussions of key findings, rather than all findings, defining which are the main barriers that impact the export performance of Kosovo firms. While section 10.3 gives a chapter summary.

The main section of this chapter, section 10.2 on the interpretation of results and how the findings relate to existing knowledge, by relying on the research questions of this thesis, is structured in the following:

- Formal and informal institutions' impact on export
 - o Education and unskilled labour force

- Access to finance
- Finding Foreign Consumers and Trade barriers from other countries
- How entrepreneurs deal with institutional voids
- The implications of a high perceived corruption.

10.2 Interpretation of results and how they relate to existing knowledge

10.2.1 Formal and informal institutions' impact on exports

Education and unskilled labour force

Based on both stages of in-depth interviews, with key stakeholders and entrepreneurs of firms operating in Kosovo, the lack of quality of education and the unskilled labour are a key obstacle in the growth of exports. Especially, the entrepreneurs very much stressed how their inability to find adequate skilled staff impacts the growth plans and export possibilities of companies, which in line with existing literature review finding labour force to be one of the key components to firms' ability to export (Mate, 2015; Brambilla et al., 2019; World Bank, 2021). The findings suggest that there is a vicious circle at play, rather than a virtuous cycle which comes from investment in high quality human capital (World Bank, 2021). This can imply that Kosovo firms are falling further behind the international market demands, as they struggle to hire qualified or experienced staff, while the education system has not changed its unsuitable output of employees, and the youth, given the current lack of perspectives and the proximity of other labour markets rather emigrates. The unproductivity of Kosovo firms translates to less jobs and lower quality jobs, resulting in less growth, less investments, and less ability to learn.

The findings of this research have confirmed different dimensions of the issue of the unskilled labour force. Coming from the demand side, additional skills or more skills are required by the firms. From the supply side, firms struggle to find qualified workers and have limited options to train existing staff, the working force is not necessarily driven to what jobs are available and the formal education system produces graduates that differ from the actual market demands.

The large-scale survey conducted for this research has put labour force skills after corruption, access to foreign customers and political trade barriers, in 4th place, however labour force skills were perceived to be a key barrier to scaling up and exporting during the follow up in-depth

interviews with entrepreneurs and firm CEOs / managers. This highlights the relevance of the labour force for the private sector and export capabilities; but, having it in the 4th place as a main barrier in survey results can also point to the environmental character of firms, as they might be used to the existing limitations present in the country and the society, and the quality of the work force is not something that is changed within a few years. Also, these firms have witnessed the low quality of education for over two decades of liberated Kosovo with limited or no improvements, hence the actual expectations that the labour force skills might change soon can be toned down. While there is no reliable data that can account for differences in quality of education in Kosovo throughout the years, from the discussions with firm representatives there is either no improvement or limited improvements in the education system or training or skill level of the labour force. This could also be due to the quality of the education being further off from the expectations now than 10 or 20 years ago. While citizens attending schools during the 90s decade attended a parallel education system, with teachers and administration paid outside the formal structures, and with shortened hours, primarily in abandoned houses of diaspora; it has been an expectation of the entrepreneurs and the public that the improvement of the schooling set up past 1999 would produce graduates with more skills.

In particular for the long-term perspective, the education and labour market barriers must be addressed as an identified structural core problem for exporting and economic development at large. As suggested by the existing literature, the quality of education has a substantial impact on the performance of economies which in return translates to more entrepreneurship and exports (Hanushek and Woessmann, 2010; Ramirez, 2015). The findings from this thesis suggest substantial reforms are required for Kosovo. One of the stakeholders interviewed, when asked about the Strategy of Education of Kosovo and small reforms it includes, stressed that “small reforms are not sufficient for education in Kosovo; we need a whole new system” (SI3). Many graduates in Kosovo do not possess basic skills, and entrepreneurs believe training is not an easy task. “Starting from elementary school, children are not taught basic skills and are not taught how to think; [they] continue from a level of schooling to the next, and finally graduating, without skills to use for work” (SI8). Also, as expected based on literature review that developing countries are prone to having a mismatch between skills that are required by the labour market and the skills that workers possess, through training or education (International Labour Organization, 2019), in Kosovo there is a mismatch on what the education system offers (mostly economic and law

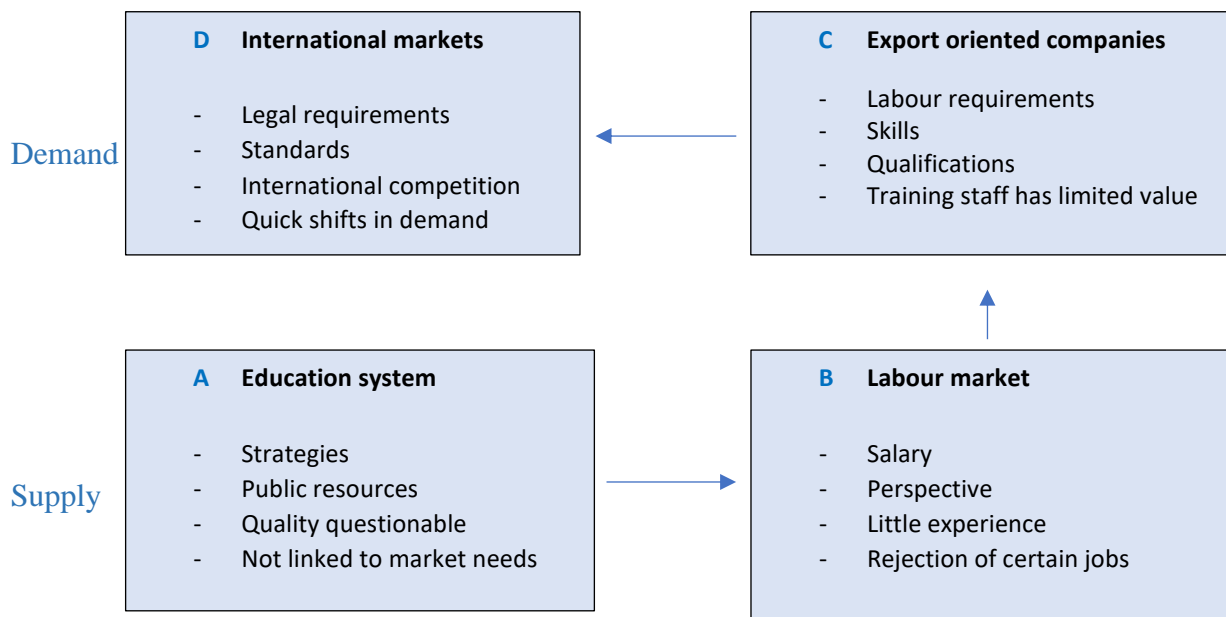
background students) and the needs of the private sector (food technologist, engineers, or in the fields that can contribute to metal processing or wood processing). But the problem seems to be bigger than just the mismatch of fields. When students miss the very basic early math skills and early literacy development, catching up in the education system in the later years of the education is a major challenge.

While Kosovo graduates coming from the local education system are deemed unskilled by the entrepreneurs, some firms take a more proactive role dealing with what the institutions are failing to provide, by providing trainings of their own and ensuring their staff possesses the skilled required for the job. Dealing with equipping staff with skills themselves is not conducted by many entrepreneurs due to costs, time constraints, or internal barriers, giving up at scaling up and improving. However, firms that tackle the issue and work on making of skilled staff on their own, focus on including in office training and outsource training for selected staff, who in turn train the others, consisting of, but not limited to, effective communication skills, team working skills, time management skills, and skills required for each position. The latter is provided through classic training or job shadowing, and the need for such trainings is at times adjusted according to the needs of the staff. Another way how firms proactively deal with the gap in skills in local labour force is the hiring of international staff or internationally educated locals who at least in a part of their lives have lived in different institutional environments.

Existing literature suggested participating in exporting requires labour market skills, especially for exporting value-added products and if higher-income countries are a destination (Bastos et al. 2014; Brambilla et al., 2019). The demand for a skilled labour force depends very much on the exporting sector, however, higher quality exports are more dependent on this factor. As expected from existing literature, to meet industry skills needs, focus should be placed in training future generations for producing value-added products, both from investments and reforms in the education system, and by support through the private sector, which might require programs that call for training staff by joint cooperations of the public and the private sector. However, sectors such as agriculture or mining, with potential to grow in Kosovo, would be less sensitive to the barrier of the skills of labour force, however the interview stages suggest they are not fields that are sought after, which calls for needs to promote them. The findings of this research indicate that there are cultural, informal institutions, at play, by focusing on the perceived status of jobs rather than the economic relevance and availability of jobs.

Both continuing with base exports, such as food products and mining, and focusing on forming the ground to produce higher quality products, would require that the actual needs on the labour market change, and to be addressed by adequate policies on the education system and the labour market.

The overall map painted by the stakeholder interviews of the first stage of research in the section 7.2., presenting the findings regarding the impact of the education system on firms' exports from Kosovo, was backed up also by respondents of the business interviews; confirming the findings of stakeholder interviews, and adding to it more explanation by bringing the perceptions and experiences of entrepreneurs and firm CEOs / managers of Kosovo firms to this picture. Relying on the figure of section 7.2. (also shown below), we can further elaborate on the boxes that are incorporated on it: on the education system (marked with A), labour market (B), export oriented companies (C), and international markets (D).



Original figure 6: The impact of the education system on firms' exports in Kosovo

The education system feeds the labour force. The components of the education system are interpreted below:

- Strategies (A): Based on findings from the interviews, with both stakeholders and business representatives, the education strategy of Kosovo is not sufficient to deal with the pressing issues related to the skill mismatch and the unskilled labour force. While reforms are

included in the existing strategy, mostly related to study programs of higher levels, and focus on quality is mentioned, the reforms are not substantial and the focus on the quality does not have actual action plans that take into consideration country characteristics. The reforms do not tackle the issues starting from elementary schools, which do not ensure the presence of the very basic skills and that the children learn on the ability to think critically. In Kosovo, without tackling the low quality education from the early years, the school children are unable to catch in later years of schooling, but the system allows for them to pass through schooling despite having missed basic learning needs. Furthermore, the current strategy does not ensure the formation of labour skills that are required to match the market needs, or the identification of skills needed, which are issues reforms in which can bring results in the medium term.

- Public resources (A): the findings of both stages of the in-depth interviews suggest policymakers do not have the education as a priority for the country, suggesting focus is on political matters. Education reforms take time to start bringing results. While the budget funding is not found to be low by the findings of this thesis, the budget needs to be maximized to bring the best results it can bring.
- Quality questionable (A): Findings of this research from both sets of interviews suggest the education system is of low quality, as youngsters do not gain usable skills for the market. As expected by the literature, quality of education is found to have a substantial impact on the performance of economies which in return translates to more entrepreneurship and exports (Hanushek and Woessmann, 2010; Ramirez, 2015). The inadequate professional education is among Kosovo's main obstacles to private sector development and exporting. The state of the education system negatively affects the performance of the economy, which hinders entrepreneurship and the possibilities for exporting for Kosovo firms.
- Not linked to market needs (A): The mismatch between the education sector and the needs required by the market is a major factor that drags down the potential for increasing exports. These findings were expected, based on review of existing literature, since developing countries are prone to having a mismatch between skills that are required by the labour market and the skills that workers possess, through training or education (International Labour Organization, 2019). While many factors contribute to the unemployability of local

staff, universities not providing skills that are required in the market but continuing with similar rates in certain fields despite the needs of the markets, leads to a situation in Kosovo where unemployment rate is the very highest in the whole European territory while, at the same time, businesses struggle to find staff for their operational activities.

From the box B, the characteristics of labour force, as per findings of this research, are interpreted below:

- Rejection of certain jobs (B): Due to different factors, but mostly because of the wanted status in the society, and due to not wanting to give too much effort in doing the job (as per findings of the thesis) many of the unemployed hesitate to get the available jobs in the market. This is particularly true for the available agriculture sector work (with the potential to grow), as many would be embarrassed to be working in the sector, aiming for other jobs that are unavailable. Among the unemployed jobseekers, public sector is a preference as well, as the expectations for the staff are lower, in comparison to the expectations in the private sector, and people believe they do not risk being fired in the public sector. The rejection of certain jobs can also be driven by remittances received from diaspora which can lead to the comfort of not having to work.
- Little experience / training (B): locals coming from the local education system into the labour market have little skills and training and are believed to add little or no value to potential jobs. This is due to the education they have acquired, as locally internships or apprenticeships are not part of the university programs, and internships are rare; while the education does not provide the graduates joining the labour markets with enough skills to start performing the jobs.
- Salary (B): The salary expectations of the graduates, and the offers for wages from the firms, also are determining factor in the match between graduates and the labour markets. The minimum wage in Kosovo is low, even compared to neighbouring countries, and not in any way enough to cover even limited monthly expenses (130 euro per month gross for under 35 year olds, and 170 euro per month for older ones), which may be exploited by certain firms and citizens who otherwise have no choice. However, the interviewed firm representative claimed potential staff refuse work despite higher wages offered, mentioning refusal of part-time paid internships of around 200 euro per month as an opportunity that is

refused. Since wages in the public sector have low variety between position levels, such expectation may also be posed from potential staff to private sector employers. Also, while Kosovars depend on remittances, their willingness to work for a smaller than expected wage is negatively affected.

- Perspective (B): What graduates want from the job, and whether that matches what private sector firms offer or allow, also plays a role in the match between potential employees and potential employers.

From the box C, interpretations are given below:

- Labour requirements (C): Firms need staff to work for them to function and produce output, hence employers expect from job seekers to bring value to their companies.
- Skills (C): Firms demand skills that they need to function and to produce output, including skills related to undertaking their business activities and soft skills. Job seekers possessing skills add value to the employers.
- Qualifications (C): Firms require certain education and experience to bring to the table, in order for the staff to be able to perform their duties, contributing to the overall performance of firms and to producing output by the firm.
- Training staff (C): Firms benefit from having trained staff. While the available staff does not get the necessary preparations from the education system, training staff on their own, for the firms, seem to have limited benefits, as they might lose the trained staff to competition or emigration. On the other hand, the interviewees also talked about potential staff not showing willingness or ability to be trained. While, for the more established firms, trainings for the staff were deemed necessary, despite the costs and the time required to have the staff trained.

From the box D, interpretations on characteristics of international markets are given below:

- Legal requirements (D): Exporting products can be prone to different tariffs as set in destination countries, and are expected to face different regulations, testing and licensing

requirements to be able to be sold in foreign countries, which can differ from country of destination to another country of destination.

- Standards (D): The products must meet certain standards (related to quality, health, and safety) to be able to be exported.
- International competition (D): Exporting firms face new competition in destination countries by local companies or other foreign companies they import from. The competition from international companies is expected to be higher in more developed economies, such as European Union countries.
- Quick shifts in demand (D): Changes in prices of substitute products, or changes in incomes, or for other reasons, demands can shift.

The findings of this research support the findings from the existing literature that quality of education and quality of labour force have a strong effect on economic growth levels of countries (Hanushek and Kimko, 2000; World Bank, 2021), and are important factors in the engagement in international trade, especially exporting, and even more so if higher-income countries are a destination (Bastos et al. 2014; Brambilla et al., 2019). The findings of this research contribute to knowledge by offering a comprehensive understanding on how Kosovo's education and labour force impact the entrepreneurship and export possibilities of Kosovo firms, creating a map of how the education system contributes to exports, by its impact on labour force and entrepreneurship in the country, and adding insights from entrepreneurs, as well as stakeholders, of a country which has adopted relatively new formal institutions from developed economies, yet struggling with high unemployment and a deep trade deficit.

Access to finance

Access to finance is another key obstacle to export performance, based on the research findings, as growth potential within the current access to finances is exploited, and due to these limitations firms cannot grow to export. Exporting is mostly dominated by low (or no) value added products. Both stages of the interviews from this research have confirmed the relevance and significance of the lack of access to financing as a barrier for exporting companies, as expected by the literature review that in developing economies, the role of firms in economic development has been limited

by lack of access to finance, especially from financial institutions (Schiffer and Weder, 2001; Cressy, 2002; Levine, 2018).

The findings from this research provide strong evidence on key aspects that determine the lack of access to finance, hence allowing for designing interventions that can address these aspects consistently. As the overall demand for better access to financing is crucial for developing a larger export base for Kosovo, the causes of not meeting the financing requirements must be addressed on the sides of policy makers and entrepreneurs alike.

While the ‘funding and finance’ pillar was found to be one of the three key pillars to supporting entrepreneurship by World Economic Forum (2013), access to finance falls behind other issues entrepreneurs in Kosovo face, despite having access to a narrow range of financial instruments. The reason for this can be because the challenges for exporting companies to access financing are partially a consequence of other barriers, such as the perceived lack of rule of law and limitations in contract enforcement, or corruption, that are limiting foreign investments or are causing inefficient capital allocation.

Causes given by stakeholders and businesses from the two stages of in-depth interviews, regarding access to finance, are largely overlapping. The findings have highlighting conservative risk assessments by banks, contractual insecurity as a deterrent to external funding, and the lower value-added products and the limitations of family-driven businesses. Findings suggest access to finance is a crucial obstacle in scaling up and growing, leaving most firms too small to be an exporter. As Kosovo firms are newer and smaller, access to finance was expected to be a challenge since existing literature find smaller and younger firms are less likely to receive bank loans (Tucker and Lean, 2003; Claessens and Perotti, 2007; Klapper et al, 2010). However, results of this research also indicate that structural causes in Kosovo, such as the dominant family orientation, particularly of SME, are beginning to change and might therefore be easier to address with adequate policy instruments as prevailing opinion suggests.

Notably, regarding access to finance, stakeholders have highlighted the inadequate business plans as a relevant shortcoming leaving companies without the perspective of venturing into export, while the interviewees coming from the private sector have rather stressed the lack of funding options and that the growth potential within available options of funding is already exploited. These findings suggest that stakeholders see unexplored potential due to the lack of capacities within

firms, while findings from the interviewed entrepreneurs and firm CEOs / managers suggest the lack of internal capacities hindering their possibility of receiving funds is not part of the reflection of businesses. This hints at an opportunity for businesses to strengthen their ability to access financing through qualifications or other forms of support.

Finding Foreign Consumers and Trade barriers from other countries

The inability to find consumers in foreign markets was the second most often picked barrier, right after corruption, to exporting from Kosovo, from the large scale survey of Kosovo firms in the second stage of research of this thesis, and the difficulties of entrepreneurs from Kosovo, as discussed during the in-depth interview stage with business representatives, include the bad image of Kosovo abroad and having the quality of products questioned due to the negative connotations. These findings support findings from existing literature that products are perceived as more quality products when the origin country has a higher economic performance and technological development (Huddleston et al., 2001; Ahmed and d'Astous, 2007).

While the negative connotations regarding Kosovo are deemed as major obstacles to firms, an added and substantial restriction to Kosovo exporters are the political barriers by other countries. This is related to goods and services entering or passing through other countries that reflect the political environment related to Kosovo, which has been explored in this research, showing that it is one of the main barriers to exporters, both by findings of the survey and in-depth interviews with selected entrepreneurs. These results confirm the few available literature sources, such as the GIZ (2021) report on Non-Tariff trade barriers. While the barriers with neighbouring countries contradict the CEFTA international agreement, the agreement does not seem to be effective in reducing these barriers as there are no indications given that the obstructing practices are being eliminated for longer term. Interestingly, the interviews provide the impression that government is not pro-actively pursuing to raise these barriers with neighbouring countries.

The focus, as per findings of this research seems to be mostly on food products (requiring phytosanitary certificates). However, despite for negatively impacting the exports to neighbouring countries, these barriers also impact the transiting goods to other countries, such as European Union destination countries, making its relevance too big to be underestimated, as it puts in question the reliability of Kosovo's exports.

10.2.2 How entrepreneurs deal with institutional voids

Institutional voids, being defined as failures of existing institutions to support efficient and effective market transactions (Webb et al., 2010, Mair et al. 2012), are present in the Kosovo institutional environment in both the formal structures and as informal institutional voids. Being considered a country with a weak rule of law, which prevents the efficient functioning of markets, and makes organizations and entrepreneurs see it as a possibility to fill the void by undertaking the function of the institution or using substitute institutions (Khanna and Palepu, 2010; Tracey and Phillips, 2011), this study explored exactly how Kosovo entrepreneurs navigate and overcome these challenges.

An apparent institutional void in Kosovo is the labour market, as there is a mismatch between the labour force and the market needs. While working with unskilled staff or limited skilled leaves firms in a position where they are not able to grow enough, firms deal with the labour mismatch in different ways. First off, certain firms, as per findings of the third stage of research – in-depth interviews with entrepreneurs and firm CEOs / managers, train staff themselves not relying on the lack of training the potential staff have received during their education. While the education system is considered of low quality, some firms invest themselves in trainings of staff for skills that are required for the job though classic trainings or job shadowing, and also including skills trainings for effective communication skills, team working skills, time management skills, apart from skills required for each position. Another way of how firms deal with the lack of quality staff, provided by the local education structures, is hiring internationally educated locals believed to be more skilled and with higher work ethics, or international staff for certain positions.

Firms seeking financing face challenges as the banking system is inefficient, with banks assessing the associated risks on loans rather conservatively, limiting the number of loans given, which leaves Kosovo firms, especially smaller firms, with limited ability to receive credit through formal ways. Being unable to receive financing, without possibilities of business development loans, keeps firms at the level they are, with reduced chances for exporting. At the early levels of business, some firms use borrowing from friends and family as an option. However, the findings of this thesis suggest that informal borrowing, for those who have the possibility, are helpful to start the business and in the early stages, while growing the business remains the biggest challenge

due to the limited access to finance. Growing and pursuing exporting requires substantial financing. Investing in value-added processing and complying to quality standards come with extra needs for investments to guarantee international market requirements. While partnering with international investors seem to be a challenge on its own, as found by this research, selected firms who have received international investments are successful exporters.

The inability to find consumers abroad and cooperate with international partners reduces substantially the chances of Kosovo firms to exporting. Based on the interviews this burden was mostly a result of a bad country image, leading to a lack of trust on Kosovo products, questioning the quality of products or hesitating to cooperate with companies from a country with a perceived high corruption and political instability. This lack of trust, as an institutional void, is dealt with by selected Kosovo firms in different ways: including being more present in international fairs, by using their existing network in host countries, contributing to CSR which in turn increases their reputation and helps these companies be associated less with instability and illegal activities, or by conducting due diligence to prove its value of commercial potential.

Especially since formal institutions are not always clear, firms benefit from networking and receiving more information on their possibilities. This benefits them to operate inside the country, as well as to find their ways in international fairs, or learn on possibilities regarding international cooperations. Due to this, as found from the interviewing firm representatives, firms can benefit from being part of business associations, where they receive information from business associations, and can also discuss with fellow entrepreneurs and firm representatives on how to deal with institutions.

10.2.3 The implication of a high perceived corruption

Another key contribution of the study is confirming the major impact that the perception of corruption has on the ability of Kosovo firms to export. The majority of the survey participants indicated that corruption is among the three main barriers they face, and by number of participants who have selected it as a top barrier, corruption resulted to be the very main barrier to exporting as per findings of the large-scale survey. The findings were discussed in depth with entrepreneurs in follow up interviews who suggest rather than the actual corruption, the perceived corruption is what hurts them most. Corruption negatively impacts export performance both directly and indirectly through other institutions, such as eroding functioning and effectiveness of public

institutions, distorting market mechanisms and weakening trust, and damaging country reputation which makes potential investors reluctant to invest as well as increases hesitancy of other potential partners to engage in business transactions.

The findings from the stage of in-depth interviews with entrepreneurs and CEOs / managers of Kosovo firms, that the perception of corruption impacts them more negatively than the actual practice of corruption, contain several aspects. Corruption as such seems to be a well-established practice where all involved have their experiences and their way of dealing with it. It appears to be a part of the way of doing things. Among business people participating in the interviews, corruption is not perceived as a major barrier to exporting, meaning that its direct impact on processes, procedures for and revenues from exporting is acceptable, at least to their opinion. One of the reasons supporting this finding might be that Kosovo's businesses operated in informality, and have operated in a setup of helping each other out during the phase of Serbian oppression before 1999, establishing a culture of business relationships and public services rooted beyond formal procedures. This culture might have endured during the phases of external administration and initially weak formal institutions, fundamentally developing what was initially a necessary survival strategy under oppression into an informal institution of business relationships and dealing with public services.

Participants of the interviews, however, highlight that the perception of Kosovo being a corrupt country is having implications on their access to international markets, impacts their ability to form partnerships negatively, and reduces their chances to access to foreign investments. The external view on the informal institution of corruption, and its potential implications when getting involved in business or administrative procedures with Kosovo entrepreneurs, makes corruption a critical factor on decision making of those external actors, which can significantly reduce Kosovo's export potential. That external perception corrodes substantial elements of trust needed for successfully connecting with foreign markets. Product quality, reliability as a business partner, the trustworthiness of certificates or quality control, security on investments and contractual obligations, and other factors, can all be questioned under the perception that Kosovo is a highly corrupt country. So, corruption influences other barriers as well, including the possibility to access to finance, access to international markets, and contributes to a weak rule of law. Also, as per findings of the survey, and these findings were sustained by the interviews, the judicial system is

perceived to be very corrupt, resulting into a weak rule of law, which is another key factor that drives FDI and business partners away.

This further confirms the broad impact that perceived corruption has on exporting businesses in Kosovo, as it is suggested to be a main cause for other barriers that were mentioned in the large survey as well. Under access to finance the limitations to access foreign direct investments was indicated to be caused by the perception that Kosovo is not a safe place to invest in due to its prevalent corruption impacting contractual reliability and formal procedures. International markets are reluctant to receive Kosovo products as their quality and reliability is questioned due to the impact that corrupt practices might have. The weak rule of law, sustained by a perception of a highly corrupt judicial system, has significant implications, such as driving away foreign direct investment and potential business partners. These aspects were all confirmed by the interviews with entrepreneurs and CEOs / managers of Kosovo firms.

Another important aspect in the discussion are the differing impacts of high and petty corruption. The external view on corruption is mostly guided by international indices, such as the Transparency International Index on perceived corruption. However, these do not necessarily distinguish between both forms of corrupt practices in the country. Petty corruption is mentioned a prevalent but not so impactful for exporting. The survey does address mostly different forms of petty corruption, given its targeted participants. High corruption has been mentioned by stakeholders to have significant impacts on the business environment in the country. Their description of actual cases, how it is happening, who might be involved and what the impacts are, remained not very clear. The results of the survey and interviews also show that talking about corruption is a sensitive issue and that very concrete results and answers cannot be expected. Many respondents in the interviews and the survey do not specify impacts of corruption directly, while still valuable insights were gathered from the research.

Based on the findings of this research, certain forms of corruption are not perceived as actual corruption or negatively connotated practices by many, as the interviews with stakeholders and enterprises show. They might also be considered as a socially responsible practice and something you would expect from people in such positions, as one interviewee in the first stage of research pointed out: “they see favours as people are heeling each other, but this is killing the private sector and killing the economy” (S18). Indeed, those who would not actively support their kin within their

area of responsibility in either companies or public services are considered social outcast, which also is in line with other existing literature on forms of corruption in developing countries (Tanzi, 1995). At the same time, such practices are also recognised as detrimental to the functioning of formal institutions and in particular to the development of capacities of public organisations. This hints at a necessary shift in perception regarding the acceptance of nepotism and other forms of favouritism, and the need to raise trust in the reliability of public organisations and their administration.

10.3 Chapter summary

This chapter has explored the meanings and the implications of the findings of the research, presented in Chapter 7, 8 and 9, and how these findings relate to the existing literature, with the aim of having an advanced understanding of the impact of formal and informal institutions on exports, and to explore the challenges entrepreneurs face from corruption, and how Kosovo firms and entrepreneurs deal with institutional voids.

The findings of this research support the existing knowledge which has found that quality of education and quality of labour force strongly impact the economic growth levels of countries and are important factors in the engagement in international trade, which is especially true for exporting. This is even more so the case if higher-income countries are a destination to export to. In terms of access to finance, the findings have highlighting conservative risk assessments by banks, contractual insecurity as a deterrent to external funding, and the lower value-added products and the limitations of family-driven businesses; which makes access to finance a crucial obstacle in scaling up and growing for businesses, leaving most firms too small to be an exporter. Moreover, the negative connotations regarding Kosovo are deemed as major obstacles to firms, an added and substantial restriction to Kosovo exporters are the political barriers by other countries.

The chapter has also discussed the state of institutional voids in Kosovo, as per findings of this study, and how they relate to existing literature. The results of this research suggest Kosovo is a country with a weak rule of law, as expected from existing knowledge, which prevents the efficient functioning of markets, and reduces export participation of Kosovo firms.

Another key contribution of the study is confirming the major impact that the perception of corruption has on the ability of Kosovo firms to export. Among businesspeople participating in the

interviews, corruption in itself is not perceived as one of the major barrier to exporting, meaning that its direct impact on processes, procedures and revenues from exporting were not detrimental, at least to their opinion; however, the findings of this research suggest it is the perception of corruption that has profound negative impacts in their capacities to exporting. According to the interviews with entrepreneurs and CEO / managers of Kosovo firms, the perception of corruption undermined their competitiveness in international markets, hampered potential partnerships and investments, and eroded their credibility with customers. The intangible effects of a corrupt image are seen as highly problematic and of significant impact on Kosovo exports.

The conceptual framework from figure 1 of the introduction chapter, which was based on previous literature and existing knowledge, is further supported and extended by the findings of this thesis, by adding to it the results of the multi-phase research, including the discussions of key stakeholders in Kosovo and views of entrepreneurs and CEO / managers of firms operating in Kosovo. Using explanations from previous literature, it integrates new perspectives and adds to the existing knowledge (Dubois and Gadde, 2002). This updated conceptual framework introduces more explanation based on own research, refining the original conceptual framework from figure 1, rather than developing a new one.

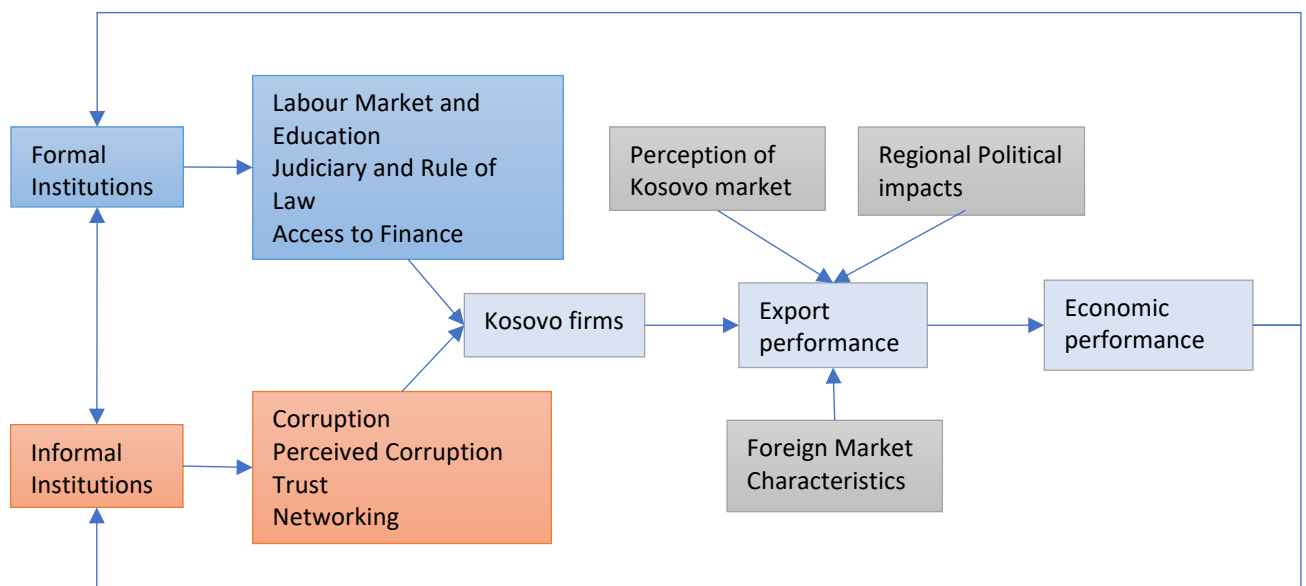


Figure 13: The updated conceptual framework

The formal institutions and informal institutions, of the left-hand side of the conceptual framework, have been explored in this research, finding which institutions are key in influencing

Kosovo firm growth and their export performance. Based on the findings of this mixed methods research, the updated conceptual framework, shown in figure 13, portrays the influence of institutions on Kosovo firms. On the upper part close to the formal institutions box, it breaks down the formal institutions that are more determining of the entrepreneurial environment in Kosovo, such as the ones related to the labour market / education system, judiciary and rule of law, and access to finance for Kosovo firms. While on the lower part in orange, it breaks down informal institutions, into corruption, perceived corruption, trust, networking. Other elements added to the updated conceptual framework are the two grey boxes on the upper side. Together with foreign market characteristics, the perception of Kosovo market from foreigners, and the regional political impacts, also influence the export performance of Kosovo firms. The export performance plays a role on the economic performance of the country, which in turn influences the local institutional environment comprised of formal and informal institutions.

11 Conclusion

11.1 Concluding remarks

This thesis has studied the role of both formal and informal institutions in Kosovo in boosting firms' export performance, the ways entrepreneurs deal with institutional voids, and the effects of corruption in the country of origin on the export performance of firms. It has contributed to a more advanced understanding of the role of institutional building in small developing economies, and the role they play in shaping the entrepreneurial environment to allow for firms to engage in exporting activities. Using a pragmatic approach to propose a framework for understanding the role of institutions on the export performance of firms, this thesis suggested both formal and informal institutions work together, and in dynamic ways, to influence the entrepreneurial environment Kosovo firms operate in. The institutional environment impacts the ability of Kosovo firms to engage in exporting activities (also influenced by other foreign market characteristics), which has an impact on the economic performance of Kosovo, and in turn plays a crucial role on the institutional environment in the country, comprised of both formal and informal institutions. This route suggests Kosovo is in a vicious cycle, compared to a virtuous cycle that could have been caused in case of the presence of quality institutions.

Through using a multi-phase mixed methods approach to research, combining 25 in-depth interviews of key stakeholders for institutional building and trade, a survey of businesses operating in Kosovo with 524 responses, as well as in-depth interviews of 15 entrepreneurs and CEOs / managers of businesses operating in Kosovo, pragmatic techniques has been used to allow for coping with the complexity of studied phenomena and help reveal aspects that would have been otherwise undetectable in regards to how and which institutions impact the ability of Kosovo firms to export.

The institutional environment in Kosovo, is characterized with a presence of institutional voids, where most firms do not grow enough to be competitive in foreign markets, due to multifaceted factors. This situation resembles the institutional environments of other developing countries and agrees with the literature review about institutional characteristics of these countries. The multifaceted factors contributing negatively to weak production capacities and inability to be competitive in foreign markets, include the unskilled or low skilled labour force, limited access to

finance, a weak rule of law presence in the country, difficulties in forming international partnerships for Kosovo firms, and a perceived high presence of corruption in the country which contributes negatively mostly by creating negative connotations to Kosovo and giving Kosovo a bad image as a corrupt state.

Education and skills of workforce is found to negatively impact the export performance of Kosovo firms, and the mismatch between the education sector and the needs required by the market is a major factor that drags down the potential for increasing exports. Entrepreneurs classify Kosovo's education system as of low quality, unable to teach students usable skills for work and unable to provide graduates that can be employable, leading to a situation where unemployment rate of Kosovo is the very highest in the whole European territory while its businesses struggle to find staff to work for them. Many firms also have reservations in deciding to train their future or current staff within the job, due to high costs of doing so, time-constraints, or saying they are unable to find staff that is trainable or willing to be trained. The main findings of this thesis are relevant and useful to both academic studies in the fields of institutions and export barriers, as well as for policy makers. Substantial changes towards a demand and skills - driven education system are required and the long-term process is unavoidable if higher value added is an objective; also changes need to be introduced starting from school years where very basic numeracy and literacy skills are learned, making school children able to learn in later years of schooling, rather than just having them pass through schooling despite having missed basic learning needs and being unable to grasp lectures.

Findings of this research show that financial constraints by lack to access to finance play a significant role in diminishing Kosovo firms' ability to enhance productivity, negatively impacting private sector job creation, and decreasing the firms' ability to engage in exporting activities. The lack of capital and financial assistance has contributed to leaving private sector underdeveloped, while their limited capacities and technology is keeping Kosovo businesses from exporting more or exporting more products with added value since Kosovo products remain at the lower end of the value chain. Regarding the difficulties to access to finance, the causes are identified in this thesis and could be transformed into an adequate policy response as shown lower in this chapter in section 11.3, particularly addressing investment opportunities for SME as an alternative to family based funding and strengthening the capacities of businesses to develop adequate business plans and support applications to existing funding options. Increasing exports and moving away from low

value added exports must be addressed with a broader range of economic development instrument, including the promotion of a stronger stance on free-trade agreements with neighbours, particularly in the light of EU accession for the region

An added major obstacle to exporting more for Kosovo firms is the fact that Kosovo happens to be regionally near countries that do not recognize its independence, and due to Kosovo being dependent on transiting neighbouring countries that pose political or bureaucratic barriers. Furthermore, at least as much of a struggle is the Kosovo firms' access to foreign markets due to the perceived political instability which scares away potential investors, increases their costs, and leads to having the quality of their products questioned because of the bad international image of the country of origin.

The findings of this thesis suggest the perception of corruption is worse than the actual corruption taking place in the country, and this negative perception is seen as the real barrier to Kosovo firms, rather than the corruption itself. The perception of Kosovo being a high corrupt country negatively impacts the firms' chances to form partnerships with foreign brands and in foreign markets, as well as convincing customers of foreign markets on deciding on a brand coming from Kosovo due to the perception as a non consolidated, corrupt country, and due to the negative connotation when mentioning Kosovo.

Given the high perceived corruption, despite findings suggesting that actual corruption might not be that prominent, Government should address this through transparency initiatives, corruption investigations and other suitable measures. Given corruption's systemic impact on how Kosovo is perceived on international markets, demonstrating that Kosovo is willing to combat corruption might serve as one potential booster for the economy, and influence the growth of exporting.

In conclusion of this thesis, this final chapter also shows how specifically this thesis has contributed to existing knowledge in section 11.2. In section 11.3, it gives the policy implications and recommendations to policy makers to influence the formal and informal policies they design and approve, which impact the export performance of Kosovo firms, and in turn contributes to economic growth and development. Section 11.4 highlights the limitations of this research, which might have had at least some influence on the overall results. This final chapter also gives recommendations for future research and discusses the need for more research, by being based on the findings of this study which have the potential to be explored in more detail

11.2 Contribution to knowledge

The findings of this research contribute to knowledge by offering a comprehensive understanding on how, and which, institutions play a role in the export performance of firms. This work has contributed to the existing literature by providing theoretical and policy implications with findings based on Kosovo's institutional framework for exports, giving evidence on experiences of Kosovo firms with exports, and identifying how firms deal with the presence of institutional voids and with the institutional conditions these firms face. It added to the understanding of institutional environments and institutional voids in developing economies, specifically those in Kosovo and in relation to firms' exporting performance.

The findings of this research contribute to knowledge by offering a comprehensive understanding on how the entrepreneurship and export performance of Kosovo firms are influenced by Kosovo's education system and the labour force of the country. This thesis, based on the findings of the research, has created a map of how the education system contributes to exports (originally shown in Figure 5), by its impact on labour force and entrepreneurship in the country, and adding insights from entrepreneurs, as well as stakeholders, of a country which has adopted relatively new formal institutions, yet it is struggling with high unemployment levels and a deep trade deficit with exports that cover imports only minimally (at around 12%).

The findings of this research support existing literature with new data that suggests that firms require additional capital and increase in competitiveness to be able to exploit foreign markets and go into exporting. Lack of access to finance is a reason that holds back, leaving Kosovo firms in low value-added stages of the supply chain and restricting them from exploiting more profitable opportunities, while an increase in access to finance lays behind the encouragement of firms to boost their export competitiveness.

Through a multi phase approach of collecting qualitative and quantitative data, this thesis supports existing literature on the presence of corruption as an obstacle to doing business and increasing possibilities to export. It also suggests that firms not necessarily see petty corruptions as a key obstacle (at least valid for the more established firms, part of this study), different from expectations based on previous research. On top of seeing corruption as an obstacle, the findings contribute to knowledge by adding that it is the perception of corruption which is seen as a key obstacle to exporting for firms from Kosovo, as a developing small economy.

The use of a multi phase mixed methods approach gave a more advanced understanding of the role formal and informal institutions play on Kosovo firms' export performance, and the combination of methods gave a more thorough explanation as well as offering validity to the analysis. This thesis has provided empirical insights and has built on concepts on what institutional environments firms function in, as well as what challenges exporting firms face, and the strategies and tactics those firms adopt to navigate institutional constraints. Given the complexity of the topic, qualitative methods or quantitative methods alone were expected to provide less validity, hence a study combining multiple phases was seen as an appropriate method to use, which adds to the existing knowledge on the researched topics.

While the empirical focus in this study is Kosovo, the results of this thesis also provide valuable insights and theoretical frameworks that can be applied to other developing countries. The research conducted for this study and the findings from them contribute further in understanding the relationships between institutions and exports in other developing countries, especially in cases where there are similarities in institutional frameworks, political systems, economic structures, historical contexts, as well as culture.

11.3 Policy implications

This section serves to extend the discussion of the findings to consider the policy implications. A further aim of this research was to produce findings that are relevant and useful to both academic studies in the fields of institutions and export barriers, as well as recommendation to policy makers.

To support the export performance of the Kosovo firms, all facets of export barriers require structured and comprehensive policy responses. Despite various attempts of policy level changes by recent Kosovo Governments, mainly driven by the EU accession process, institutional reforms, developing the education system and labour markets, access to finance for Kosovo businesses, politically motivated trade barriers and the fight against corruption remain high on Kosovo's development agenda. The very recent Kosovo Report 2022 of the European Commission (2022), published at around the time of completing this thesis, measuring the institutional progress of Kosovo, outlines that while some progress in the areas mentioned above can be observed, significant challenges are yet to be addressed.

This thesis has studied the impact of formal and informal institutions on the export performance of firms; and recommends the institutional reforms of the country should be country specific, considering multi-faceted interventions and the informal institutions of the country. They should address a more efficient and robust public administration as well, particularly the judicial system. It's reliability and trustworthiness are central to better investor's confidence in the Kosovo market. The judicial system of Kosovo is still regarded as slow, inefficient and vulnerable to undue influence (European Commission, 2022), besides the first steps being undertaken to reform the system.

The labour market and the education system require substantial changes towards a demand and skills - driven education system. Furthermore, a shift in perceptions must be driven, depending on export policies. The mismatch between education and labour market need changing, even if it is a long-term process, and it is unavoidable if exporting higher value-added products is an objective. Also, the reforms need to start from elementary schools, to ensure numeracy, literacy, and that the ability to think critically is present, making school children able to learn in later years of schooling, rather than just having them pass through schooling despite having missed basic learning needs and being unable to benefit from more advanced lectures later in their schooling. These aspects are partially addressed in the recent, not yet formally adopted Education Strategy 2022 - 2027 of Kosovo Government. However, fundamental aspects such as available budget and teaching materials, require improvements before the education system can realise a closer link with actual demands of the labour market.

Regarding the access to finance, the causes are identified and could be transformed into an adequate policy response, particularly addressing the investment opportunities for SME as an alternative to family-based funding and strengthening the capacities of businesses to develop adequate business plans / applications to existing funding options. Strengthening the Kosovo credit guarantee fund could serve as a vehicle for those policies. Also, contractual insecurities and the predominant low value-added exports must be addressed with a broader range of economic development instruments. As mentioned above, a higher confidence of foreign investors in the reliability of the Kosovo market, established through a broader set of institutional reform, addressing informal institutions and corruption in particular, could result in more foreign investments, opening new opportunities for Kosovo enterprises to expand their exporting businesses.

Regarding the political trade barriers which contradict international trade agreements (issues of Kosovo firms with CEFTA countries), Kosovo must promote a stronger stance on free-trade agreements with neighbours, particularly in the light of EU accession for the region. The non-tariff barriers remain a constant limitation for Kosovo, further nurtured by the still unresolved political tensions with Serbia. However, joining regional and EU driving forces towards a higher integration and free trade among Western Balkan countries might contribute to addressing the trade barriers beyond the scope of national policy responses.

Given the high perceived corruption that might not be actually that prominent, Government should address this through transparency initiatives, corruption investigations and other suitable measures. Given corruption's systemic impact on how Kosovo is perceived on international markets, demonstrating that Kosovo is willing to combat corruption might serve as one potential booster for the economy, and for inviting FDI and giving way for exporting in particular. First steps are being undertaken, as an example with the adoption of significant anticorruption legislation in 2021 (European Commission, 2022). Among other legislation, the agency for prevention of corruption was strengthened in 2022. However, proactive implementation of legal measures and a robust criminal justice response to high level corruption are required.

In terms of increasing the chances for a better entrepreneurial environment and the possibility to have more exporters, it would be very beneficial to work in raising awareness on how the presence of corruption impacts Kosovo and its businesses negatively to start shifting from informal institutions established during oppression times towards accepting and trusting formal institutions and organisations. Raising awareness on what constitutes corruption is required as an overarching measure as many are not aware that their practices are wrong doings and can be considered corrupt.

Exporter participants of this research have also stressed the benefits of attending international fairs and forums in forming international partnerships and exporting products in foreign markets. Governmental programs and initiatives to support firms in attending international fairs and forums would be a push for firms to be able to start exporting or to export more.

This research provides valuable policy implications for other Eastern European countries. Although policymakers should carefully analyse the local conditions and adapt these implications to the unique circumstances of other Eastern European countries, potential policy implications based on this research include:

- Focusing on improving education and training systems to enhance the skills and knowledge of the labour force, by developing relevant curriculum aligned with the needs of the labour market, enhancing teacher training and recruitment, and paying extra focus to early reading, mathematical and analytical skills as this research suggests children go from a year to year of schooling unable to catch up with topics being taught.
- Prioritizing improving access to finance for businesses to alleviate financial constraints and stimulate export growth, by investing in financial literacy programs, by relying more on public-private partnerships to drive innovation and increase investments, as well as creating laws and regulations that promote financial inclusion and enhance access to credit as these were amongst the main burdens for Kosovo firms which can be applicable to firms of other countries.
- Implementing comprehensive anti-corruption policies, including here public awareness campaigns, and ethics and integrity trainings, on top of strengthening institutions, increasing transparency, and enforcing robust anti-corruption laws that criminalize corruption. Promoting transparency and accountability, as well as positive campaigns on what is being done, and about integrity and reliance on quality, is a further recommendation to improve the negative image of developing countries, as most Kosovo firms as represented in this thesis see that the perception of corruption alone hinders their possibilities for international cooperation and exporting.
- Strengthening rule of law, by ensuring independence and impartiality of judiciary, promoting dispute resolution mechanisms, and reducing barriers to access to justice including bureaucracies and high costs.
- Enhancing transparency and accountability in public institutions, including undertaking public awareness campaigns and civic education programs to educate citizens of rights and responsibilities, publishing budgetary information and conducting public consultations, using e-government initiatives to promote use of communication technologies to enhance transparency, strengthening the capacity and independence of oversight bodies (audit, ombudsperson, anti-corruption commissions).

11.4 Limitations of the research

This section discusses on the reasons as to why the findings of this thesis are not perfect, including limitations on the research itself which could not be overcome.

One limitation of this research could be that it relied on businesses that attend business association meetings, which might leave views of small, and not established firms - the ones that never got to grow – behind. Still, the research took into consideration multi phases of research, including in-depth interviews of key stakeholders, a large scale survey of a significant sample size, and the views of volunteer as well as successful business representatives.

Another limitation of the research was the hesitation of participants of in-depth interviews to speak on corruption, while it was the most selected top barrier from the findings of the survey. While this was a challenge, the researcher relied in multiple sources in the three stages of research to gather considerable information on the subject.

The survey which was initially planned to be conducted online was distributed in hard copy materials, which limited the ability of the researcher to be in direct contact with businesses. However, the survey was distributed by the biggest and most reputable business association in Kosovo, who have done an outstanding job in gathering a large sample size in a relatively short time, which might have been not a possibility for the researcher otherwise.

This research has several limitations, as mentioned above in this section; while the researcher accepts the limitations which exist, the researcher argues the use of a multi phase mixed methods approach was the most appropriate methods to give a more advanced understanding of the role formal and informal institutions play on Kosovo firms' export performance, and the combination of methods gave a thorough explanation of the phenomena and offered validity to the analysis, contributing to the existing literature by providing theoretical and policy implications with findings based on Kosovo's institutional framework for exports, giving evidence on experiences of Kosovo firms with exports, and identifying how firms deal with the presence of institutional voids and with the institutional conditions these firms face.

11.5 Future research

This thesis provides an advanced understanding of the institutional challenges in a country with fairly new formal institutions, based on views of entrepreneurs and stakeholders in Kosovo. This thesis provides some insights to the impact of formal and informal institutions on the export performance of firms, however on top of the key contributions based on the research questions of this thesis, it also points to the significance of some issues that have been scantily explored.

While this research considers the institutional environment as a whole, certain areas of it, such as labour market, access to finance, access to international markets, could be explored in more detail to derive more specific findings and conclusions. However, the added value of this thesis is perceived to be the providing a comprehensive explanation of the most relevant factors on Kosovo's exporting. While formal and informal institutions that impact exporting have been identified and main barriers have been exposed, with this information at hand, the researcher recommends studies that target specific institutions to assess details, such as that of trust as an informal institution that negatively impacts entrepreneurship and exports, the impact of family ties on business growth and export capabilities, the benefits of networks of entrepreneurs in exporting success, that of the impact of training of untrained staff from companies on the growth of exports of Kosovo firms, and how much access to finance is a burden for start ups in Kosovo (especially since this thesis has relied on data and information from more established Kosovo firms, as participants of the research).

Another future research includes more focus on certain informal institutions, such as how entrepreneurs are perceived, which was only partially mentioned in this thesis. This would be a topic that could lead to important policy implications and development of educational curricula. While the negative perceptions of entrepreneurs (such as being unethical, exploiters, and corrupt individuals) might have shifted in Kosovo to a more positive one, the researcher expects the lack of information on entrepreneurship and the lack of visibility of it as a possibility, and also the lack of visibility of firms other than small family businesses, reduces the likelihood of increasing chances to export for the future years.

In the same environment, different issues can be explored as well, such as barriers to women entrepreneurs. From the last stage of research, all interviewed participants, were men, which can

be representative of the overall situation in Kosovo as especially men are seen as heads of more established businesses.

The literature on the topics would also benefit by having certain findings of this research being replicated in different developing economies, including other Balkan countries. The researcher stresses the recommendation for future research on corruption as an obstacle to exporting participation, especially on the view of entrepreneurs on petty corruption, high level corruption, and how the perception of corruption reduces exporting possibilities. Furthermore, since developing countries are prone to having a less skilled labour force and mismatch between the market needs and labour force, with findings of this research at hand, similar research can be replicated in other developing countries.

References

- Abe, K. and Wilson, J. S. (2008) 'Governance, Corruption, and Trade in the Asia Pacific Region'. [online] Available at: <https://openknowledge.worldbank.org/bitstream/handle/10986/6961/WPS4731.pdf?sequence=1&isAllowed=y>
- Acemoglu, D. and Johnson, S. (2005) 'Unbundling Institutions', *The Journal of political economy*, 113(5), pp. 949–995. doi:10.1086/432166.
- Acemoglu, D. and Robinson, J.A. (2013) *Why nations fail?: the origins of power, prosperity, and poverty*. London: Profile Books.
- Acemoglu, D., Johnson, S. and Robinson, J.A. (2001) 'The Colonial Origins of Comparative Development: An Empirical Investigation', *The American economic review*, 91(5), pp. 1369–1401. doi:10.1257/aer.91.5.1369.
- Acemoglu, D., Johnson, S. and Robinson, J.A. (2004) 'Institutions as the Fundamental Cause of Long-Run Growth', NBER Working Paper Series, p. 10481. doi: 10.3386/w10481.
- Acs, Z.J., Desai, S. and Hessels, J. (2008) 'Entrepreneurship, economic development and institutions', *Small business economics*, 31(3), pp. 219–234. doi:10.1007/s11187-008-9135-9.
- Aghion, P. and Howitt, P. (1998) 'Market Structure and the Growth Process', *Review of economic dynamics*, 1(1), pp. 276–305. doi: 10.1006/redy.1997.0007.
- Aguinis, H. and Solarino, A. M. (2019), "Transparency and replicability in qualitative research: the case of interviews with elite informants", *Strategic Management Journal*, 40(8), pp. 1291-1315.
- Ahlstrom, D. and Bruton, G.D. (2002). 'An Institutional Perspective on the Role of Culture in Shaping Strategic Actions by Technology-Focused Entrepreneurial Firms in China', *Entrepreneurship Theory and Practice*, 26(4), pp. 53–68. doi:10.1177/104225870202600404.
- Aidis, R. and Adachi, Y. (2007). 'Russia: Firm entry and survival barriers', *Economic Systems*, 31(4), pp. 391–411. doi:10.1016/j.ecosys.2007.08.003.
- Aidis, R., Estrin, S. and Mickiewicz, T. (2008). 'Institutions and entrepreneurship development in Russia: A comparative perspective', *Journal of Business Venturing*, 23(6), pp. 656–672. doi:10.1016/j.jbusvent.2008.01.005.
- Aitken, N. (1973) 'The Effect of the EEC and EFTA on European Trade: A Temporal Cross-Section Analysis', *The American economic review*, 63(5), pp. 881–892.
- Aizenman, J. and Spiegel, M.M. (2006) 'Institutional Efficiency, Monitoring Costs and the Investment Share of FDI', *Review of international economics*, 14(4), pp. 683–697. doi:10.1111/j.1467-9396.2006.00595.x.
- Alon, A. and Hageman, A.M. (2013) 'The Impact of Corruption on Firm Tax Compliance in Developing Economies: Whom Do You Trust?', *Journal of business ethics*, 116(3), pp. 479–494. doi:10.1007/s10551-012-1457-5.
- Alonso, M.E., González-Montaña, J.R. and Lomillos, J.M. (2020) 'Consumers' concerns and perceptions of farm animal welfare', *Animals (Basel)*, 10(3), p. 385. doi:10.3390/ani10030385.

- Álvarez, I.C. et al. (2018) 'Does Institutional Quality Matter for Trade? Institutional Conditions in a Sectoral Trade Framework', *World development*, 103, pp. 72–87. doi:10.1016/j.worlddev.2017.10.010.
- Anderson, J.E. and Marcouiller, D. (2002) 'Insecurity and the Pattern of Trade: An Empirical Investigation', *The review of economics and statistics*, 84(2), pp. 342–352. doi:10.1162/003465302317411587.
- Aparicio, S., Urbano, D. and Audretsch, D. (2016) 'Institutional factors, opportunity entrepreneurship and economic growth: Panel data evidence', *Technological forecasting & social change*, 102, pp. 45–61. doi:10.1016/j.techfore.2015.04.006.
- Assembly of the Republic of Kosovo (2008). Constitution of the Republic of Kosovo. Official Gazette of the Republic of Kosovo. Act no: K-09042008
- Atkin, D. Khandelwal A., Osman, A. (2017). 'Exporting and Firm Performance: Evidence from a Randomized Experiment', *The Quarterly Journal of Economics*, 132(2), pp. 551–615, <https://doi.org/10.1093/qje/qjx002>
- Ayyagari, M., Demirgüç-Kunt, A. and Maksimovic, V. (2010) 'Formal versus Informal Finance: Evidence from China', *The Review of financial studies*, 23(8), pp. 3048–3097. doi:10.1093/rfs/hhq030.
- Baier, S.L. and Bergstrand, J.H. (2007) 'Do free trade agreements actually increase members' international trade?', *Journal of international economics*, 71(1), pp. 72–95. doi:10.1016/j.jinteco.2006.02.005.
- Bailey, N. (2018) 'Exploring the relationship between institutional factors and FDI attractiveness: A meta-analytic review', *International business review*, 27(1), pp. 139–148. doi:10.1016/j.ibusrev.2017.05.012.
- Baldwin, R.E. (2003) *The decline of US labor unions and the role of trade* [electronic resource]. Washington, D.C.: Institute for International Economics.
- Banerjee, A. and Iyer, L. (2005) 'History, Institutions, and Economic Performance: The Legacy of Colonial Land Tenure Systems in India', *The American economic review*, 95(4), pp. 1190–1213. doi:10.1257/0002828054825574.
- Bank, E.C. (2021). *Survey on the Access to Finance of Enterprises in the euro area - April to September 2021*. www.ecb.europa.eu. [online] Available at: https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/ecb.safe202111~0380b0c0a2.en.html.
- Bańkowska, K., Ferrando, A. and Garcia, J. A. (2020). 'Access to finance for small and medium-sized enterprises since the financial crisis: evidence from survey data', *ECB Economic Bulletin, Issue 4/2020*.
- Barajas, A., Chami, R. and Yousefi, S.R. (2016) 'The Finance and Growth Nexus Re-Examined: Do All Countries Benefit Equally?', *Journal of Banking and Financial Economics*, 5(1), pp. 5–38.
- Barro, R.J. (1999) 'Determinants of Democracy', *The Journal of political economy*, 107(S6), pp. S158–S183. doi:10.1086/250107.
- Bassey, Michael. (2000). Case Study Research in Education Settings. (online) [http://lst-iiiep.iiiep-unesco.org/cgi-bin/wwwi32.exe/\[in=epidoc1.in\]/?t2000=012102/\(100\)](http://lst-iiiep.iiiep-unesco.org/cgi-bin/wwwi32.exe/[in=epidoc1.in]/?t2000=012102/(100)).

- Bastos, P., Silva, J. and Verhoogen, E. (2018) 'Export Destinations and Input Prices', *The American economic review*, 108(2), pp. 353–392. doi:10.1257/aer.20140647.
- Baumol, W. (1990) 'Entrepreneurship: Productive, Unproductive, and Destructive', *The Journal of political economy*, 98(5), pp. 893–921. doi:10.1086/261712.
- Baumol, W.J., Litan, R.E. and Schramm, C.J. (2007) *Good capitalism, bad capitalism, and the economics of growth and prosperity* [electronic resource]. New Haven: Yale University Press.
- Beck, T. et al. (2001) 'New Tools in Comparative Political Economy: The Database of Political Institutions', *The World Bank economic review*, 15(1), pp. 165–176. doi:10.1093/wber/15.1.165
- Beck, T., Demirgüç-Kunt, A. and Levine, R. (2006) 'Bank supervision and corruption in lending', *Journal of monetary economics*, 53(8), pp. 2131–2163. doi:10.1016/j.jmoneco.2005.10.014.
- Beck, T. et al. (2008) 'Finance, Firm Size, and Growth', *Journal of money, credit and banking*. Received October 26, 2006; and accepted in revised form February 19, 2008., 40(7), pp. 1379–1405. doi:10.1111/j.1538-4616.2008.00164.x.
- Beck, T. et al. (2011) *Financing Africa : Through the Crisis and Beyond*. World Bank.
- Bellone, F. et al. (2010) 'Financial Constraints and Firm Export Behaviour', *World economy*, 33(3), pp. 347–373. doi:10.1111/j.1467-9701.2010.01259.x.
- Bénassy-Quéré, A., Coupet, M. and Mayer, T. (2007) 'Institutional Determinants of Foreign Direct Investment', *World economy*, 30(5), pp. 764–782. doi:10.1111/j.1467-9701.2007.01022.x.
- Berger, R. (2015). Now I see it, now I don't: researcher's position and reflexivity in qualitative research. *Qualitative Research* 15(2): 219–234.
- Berkowitz, D. and Holland, J. (2001) 'Does privatization enhance or deter small enterprise formation?', *Economics letters*, 74(1), pp. 53–60. doi:10.1016/S0165-1765(01)00535-3.
- Berkowitz, D., Moenius, J. and Pistor, K. (2006) 'Trade, Law, and Product Complexity', *The review of economics and statistics*, 88(2), pp. 363–373. doi:10.1162/rest.88.2.363.
- Bernard, H. & Ryan, G. (2009). *Analyzing Qualitative Data: Systematic Approaches*.
- Bhardwaj, A., Dietz, J. and Beamish, P.W. (2007) 'Host Country Cultural Influences on Foreign Direct Investment', *Management international review*, 47(1), pp. 29–50. doi:10.1007/s11575-007-0003-7.
- Biesta, G. (2010). Pragmatism and the philosophical foundations of mixed methods research.
- Biglaiser, G. and DeRouen, K.R. (2006) 'Economic Reforms and Inflows of Foreign Direct Investment in Latin America', *Latin American research review*, 41(1), pp. 51–75. doi:10.1353/lar.2006.0001.
- Bigsten, A. et al. (2000) 'Rates of Return on Physical and Human Capital in Africa's Manufacturing Sector', *Economic development and cultural change*, 48(4), pp. 801–827. doi:10.1086/452478.
- Bislimi, F. (2010). Kosovo: 'The Building of a European State or Just Another State in Europe?' Dalhousie University

- Blundel, R. (2007). 'Critical realism: a suitable vehicle for entrepreneurship research?' In H. Neergaard, J. P. Ulhoi, & (eds), *Handbook of qualitative research methods in entrepreneurship*. Cheltenham: Edward Elgar.
- Bosker, M. and Garretsen, H. (2009) 'Economic development and the geography of institutions', *Journal of economic geography*, 9(3), pp. 295–328. doi:10.1093/jeg/lbn047.
- Bowles, S. (1998) 'Endogenous Preferences: The Cultural Consequences of Markets and Other Economic Institutions', *Journal of economic literature*, 36(1), pp. 75–111.
- Brambilla, I., Lederman, D. and Porto, G. (2019) 'Exporting firms and the demand for skilled tasks', *The Canadian journal of economics*, 52(2), pp. 763–783. doi:10.1111/caje.12382.
- Brander, J.A. and Spencer, B.J. (1985) 'Export subsidies and international market share rivalry', *Journal of international economics*, 18(1), pp. 83–100. doi:10.1016/0022-1996(85)90006-6.
- Braun, V., and Clarke, V. (2006). 'Using thematic analysis in psychology', *Qualitative Research in Psychology*, 3, pp. 77-101. 10.1191/1478088706qp063oa.
- Brierley, J. (2017) The role of a pragmatist paradigm when adopting mixed methods in behavioural accounting research. *International Journal of Behavioural Accounting and Finance*, 6 (2). pp. 140-154. ISSN 1753-1969
- Briguglio, L., Cordina, G., Farrugia, N., and Vella, S., 2009, 'Economic Vulnerability and Resilience: Concepts and Measurements', *Oxford Development Studies*, 37(3), pp. 229–247.
- Brixiova, Z. and Égert, B. (2017) 'Entrepreneurship, institutions and skills in low-income countries', *Economic modelling*, 67, pp. 381–391. doi:10.1016/j.econmod.2017.02.020.
- Brunetto, Y. and Farr-wharton, R. (2007) 'The Moderating Role of Trust in SME Owner/Managers' Decision-Making about Collaboration', *Journal of small business management*, 45(3), pp. 362–387. doi:10.1111/j.1540-627X.2007.00218.x.
- Bryan, J. (2006) 'Training and Performance in Small Firms', *International small business journal*, 24(6), pp. 635–660. doi:10.1177/0266242606069270.
- Bryman, A. and Bell, E. (2011) *Business Research Methods*. 3rd Edition, Oxford University Press, Oxford.
- Busse, M. and Hefeker, C. (2007) 'Political risk, institutions and foreign direct investment', *European Journal of Political Economy*, 23(2), pp. 397–415. doi:10.1016/j.ejpoleco.2006.02.003.
- Calvert, R.L. (1995). 'The Rational Choice Theory of Institutions: Implications for Design. In: *Institutional Design*', *Recent Economic Thought Series*, vol 43. Springer, Dordrecht. https://doi.org/10.1007/978-94-011-0641-2_4
- Chang, Y. (2010) 'An Empirical Study of Compensation Paid in Eminent Domain Settlements: New York City, 1990–2002', *The Journal of legal studies*, 39(1), pp. 201–244. doi:10.1086/605095.
- Cheng, X. and Degryse, H.. (2010) 'The impact of bank and non-bank financial institutions on local economic growth in China', *Journal of financial services research*, 37(2-3), pp. 179–199. doi:10.1007/s10693-009-0077-4.

- Claessens, S. and Perotti, E. (2007) 'Finance and inequality: Channels and evidence', *Journal of Comparative Economics*, 35(4), pp. 748–773. doi:10.1016/j.jce.2007.07.002.
- Cochran, W. G. (1977). *Sampling Techniques* (3rd ed.). New York: John Wiley and Sons.
- Corrado, G. (2020) 'Institutional quality and access to financial services: evidence from European developing economies', *Journal of economic studies (Bradford)*, 47(6), pp. 1363–1376. doi:10.1108/JES-03-2019-0131.
- Costinot, A. (2009) 'On the origins of comparative advantage', *Journal of international economics*, 77(2), pp. 255–264. doi:10.1016/j.jinteco.2009.01.007.
- Crespo Cuaresma, J. and Wörz, J. (2005). On Export Composition and Growth. *Review of World Economics*, 141, pp. 33-49. 10.1007/s10290-005-0014-z.
- Cressy, R. (2002) 'Funding gaps: A symposium', *The Economic journal* (London), 112(477), pp. F1–F16. doi:10.1111/1468-0297.00680.
- Creswell J. (2004) *Research design: qualitative, quantitative and mixed methods approaches*. 4th ed. London: Sage; 2014.
- Creswell J. and Plano Clark V. (2007). *Designing and Conducting Mixed Methods Research*. SAGE 2007.
- Creswell, J. and Plano Clark, V. (2011) *Designing and Conducting Mixed Methods Research*. 2nd Edition, Sage Publications, Los Angeles.
- Crowther, D. and Lancaster, G. (2008). *Research Methods: a concise introduction to research in management and business consultancy*.
- Cuervo-Cazurra, A. (2016) 'Corruption in international business', *Journal of world business : JWB*, 51(1), pp. 35–49. doi:10.1016/j.jwb.2015.08.015.
- Cull, R., Demirgüç-Kunt, A. and Morduch, J. (2009) 'Microfinance Meets the Market', *The Journal of economic perspectives*, 23(1), pp. 167–192. doi:10.1257/jep.23.1.167.
- Da Rin, M., Di Giacomo, M. and Sembenelli, A. (2018). 'Trust and foreign ownership: Evidence from intra-European foreign direct investments', *Review of International Economics*. 27. 10.1111/roie.12378.
- Damjanovic, V. and Chapman, J. (2010). 'Two Years In, Kosovo Albanians More Sober on Independence', Gallup. (online) <https://news.gallup.com/poll/125978/two-years-kosovo-albanians-sober-independence.aspx>
- Daude, C. and Stein, E. (2007) 'THE QUALITY OF INSTITUTIONS AND FOREIGN DIRECT INVESTMENT', *Economics and politics*, 19(3), pp. 317–344. doi:10.1111/j.1468-0343.2007.00318.x.
- De Groot, H.L.F. et al. (2004) 'The Institutional Determinants of Bilateral Trade Patterns', *Kyklos (Basel)*, 57(1), pp. 103–123. doi:10.1111/j.0023-5962.2004.00245.x.
- De Loecker, J. (2007) 'Do exports generate higher productivity? Evidence from Slovenia', *Journal of international economics*, 73(1), pp. 69–98. doi:10.1016/j.jinteco.2007.03.003.
- De Loecker, J. (2013) 'Detecting Learning by Exporting', *American economic journal. Microeconomics*, 5(3), pp. 1–21. doi:10.1257/mic.5.3.1.
- Demirgüç-Kunt, A. and Klapper, L. (2012) 'Financial Inclusion in Africa : An Overview', 6088.

- Demirgüç-Kunt, A. et al. (2020) 'The Global Findex Database 2017: Measuring Financial Inclusion and Opportunities to Expand Access to and Use of Financial Services', *The World Bank economic review*, 34, pp. S2–S8. doi: 10.1093/wber/lhz013.
- Denny, E. and Weckesser, A. (2022). 'How to do qualitative research? Qualitative research methods', *BJOG* 129 (7), pp. 1166-1167 <https://doi.org/10.1111/1471-0528.17150>
- Denzin, N.K. and Lincoln, Y.S. (2013) *The landscape of qualitative research*. 4th ed. Thousand Oaks, Calif. ; London: SAGE.
- Dias, J. and Tebaldi, E. (2012) 'Institutions, human capital, and growth: The institutional mechanism', *Structural change and economic dynamics*, 23(3), pp. 300–312. doi:10.1016/j.strueco.2012.04.003.
- Dimaggio, P. and Powell, W. (1983) 'The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields', *American sociological review*, 48(2), pp. 147–160. doi:10.2307/2095101.
- DiMaggio, P.J. and Powell, W.W. (2000) 'The iron cage revisited institutional isomorphism and collective rationality in organizational fields', in *Advances in Strategic Management*. Emerald Group Publishing Limited, pp. 143–166. doi:10.1016/S0742-3322(00)17011-1.
- Dixit, A.K. and Blundell, R. (2004) *Lawlessness and economics [electronic resource] : alternative modes of governance*. Course Book. Princeton, N.J.: Princeton University Press.
- Djankov, S. (2009). 'The Regulation of Entry: A Survey', *The World Bank Research Observer*, 24(2), 183–203. <http://www.jstor.org/stable/40649281>
- Doh, J. et al. (2017) 'International business responses to institutional voids', *Journal of international business studies*, 48(3), pp. 293–307. doi:10.1057/s41267-017-0074-z.
- Dollar, D. and Kraay, A. (2003) 'Institutions, Trade, and Growth : Revisiting the Evidence', WPS 3004.
- Dowling, M. et al. (2019) 'Trust and SME attitudes towards equity financing across Europe', *Journal of world business : JWB*, 54(6), p. 101003. doi:10.1016/j.jwb.2019.101003.
- Downward, P. and Mearman, A. (2007). Retrodution as Mixed-Methods Triangulation in Economic Research: Reorienting Economics into Social Science. *Cambridge Journal of Economics*. 31. 77-99. 10.1093/cje/bel009.
- Dubois, A. and Gadde, L. (2002). Systematic combining: an abductive approach to case research. *Journal of Business Research*, 55(7), pp.553-560.
- Dunning, J.. and Lundan, S.. (2008) 'Institutions and the OLI paradigm of the multinational enterprise', *Asia Pacific journal of management*, 25(4), pp. 573–593. doi:10.1007/s10490-007-9074-z.
- Dunning, J.H. (1993) *Multinational enterprises and the global economy*. Wokingham: Addison-Wesley.
- Easterly, W. (2013) *The tyranny of experts : economists, dictators, and the forgotten rights of the poor*. New York: Basic Books, a member of the Perseus Books Group.
- Easterly, W. and Levine, R. (2003) 'Tropics, germs, and crops: how endowments influence economic development', *Journal of monetary economics*, 50(1), pp. 3–39. doi:10.1016/S0304-3932(02)00200-3.

- Easterly, W. and Levine, R. (2016) 'The European origins of economic development', *Journal of economic growth (Boston, Mass.)*, 21(3), pp. 225–257. doi:10.1007/s10887-016-9130-y.
- Eaton, J., Kortum, S. and Kramarz, F. (2004) 'Dissecting Trade: Firms, Industries, and Export Destinations', *The American economic review*, 94(2), pp. 150–154. doi:10.1257/0002828041301560.
- Edelman, L.F., Brush, C.G. and Manolova, T.S. (2002) 'The impact of human and organizational resources on small firm strategy', *Journal of small business and enterprise development*, 9(3), pp. 236–244. doi:10.1108/14626000210438562.
- Edwards, S. (1993) 'Openness, Trade Liberalization, and Growth in Developing Countries', *Journal of economic literature*, 31(3), pp. 1358–1393.
- Efendic, A., Mickiewicz, T. and Rebmann, A. (2015) 'Growth aspirations and social capital: Young firms in a post-conflict environment', *International small business journal*, 33(5), pp. 537–561. doi:10.1177/0266242613516987.
- El Ghoul, S., Guedhami, O. and Pittman, J. (2016) 'Cross-country evidence on the importance of Big Four auditors to equity pricing: The mediating role of legal institutions', *Accounting, organizations and society*, 54, pp. 60–81. doi:10.1016/j.aos.2016.03.002.
- Elert, N., Henrekson, M. and Sanders, M. (2019) *The Entrepreneurial Society [electronic resource] : A Reform Strategy for the European Union*. 1st ed. 2019. Berlin, Heidelberg: Springer Berlin Heidelberg : Imprint: Springer.
- Ellickson, R.C. (1991) *Order without law [electronic resource] : how neighbors settle disputes*. Cambridge, MA: Harvard University Press.
- Elliott, C. and de Morsier, F. (1976) 'Patterns of Poverty in the Third World: A Study of Social and Economic Stratification', *Population and Development Review*. The Population Council, pp. 287–287. doi:10.2307/1972027.
- Elliott, K. (1997). 'Corruption as an International Policy Problem', *Overview and Recommendations*. [online] Available at: https://www.piie.com/publications/chapters_preview/12/10jie2334.pdf.
- Estrin, S. and Mickiewicz, T. (2011) 'Institutions and female entrepreneurship', *Small business economics*, 37(4), pp. 397–415. doi:10.1007/s11187-011-9373-0.
- Estrin, S. and Prevezer, M. (2011) 'The role of informal institutions in corporate governance: Brazil, Russia, India, and China compared', *Asia Pacific journal of management*, 28(1), pp. 41–67. doi:10.1007/s10490-010-9229-1.
- Estrin, S., Mickiewicz, T. and Stephan, U. (2013) 'Entrepreneurship, Social Capital, and Institutions: Social and Commercial Entrepreneurship Across Nations', *Entrepreneurship theory and practice*, 37(3), pp. 479–504. doi:10.1111/etap.12019.
- European Commission (2020). *Commission Staff Working Document. Kosovo* 2019 Report*. (online) <https://neighbourhood-enlargement.ec.europa.eu/system/files/2019-05/20190529-kosovo-report.pdf>
- European Commission (2022). *Commission Staff Working Document. Kosovo* 2022 Report*. (online) <https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-10/Kosovo%20Report%202022.pdf>

- Fazekas, M. and Wachs, J. (2020) 'Corruption and the network structure of public contracting markets across government change', *Politics and governance*, 8(2), pp. 153–166. doi:10.17645/pag.v8i2.2707.
- Feld, B. (2012). *Startup communities: Building an entrepreneurial ecosystem in your city*. Hoboken, NJ: Wiley
- Fielding, N.G. and Fielding, J.L. (1986). *Linking Data: The Articulation Of Qualitative And Quantitative Methods In Social Research*. Beverly Hills: Sage.
- Frankel, J.A. and Romer, D. (1999) 'Does Trade Cause Growth?', *The American economic review*, 89(3), pp. 379–399. doi:10.1257/aer.89.3.379.
- Franz, W., Hanushek, E., and Woessmann, L. (2016). 'The Knowledge Capital of Nations Education and the Economics of Growth', *Jahrbücher für Nationalökonomie und Statistik*, 236(1), pp. 145–147. doi:10.1515/jbnst-2015-1006.
- Frederking, L.C. (2004) 'A cross-national study of culture, organization and entrepreneurship in three neighbourhoods', *Entrepreneurship and regional development*, 16(3), pp. 197–215. doi:10.1080/0898562042000197126
- Freund, C. and Omelas, E. (2010). *Regional Trade Agreements*. [online] Available at: <https://openknowledge.worldbank.org/handle/10986/3799>.
- Frieden, J. (2020). 'The political economy of economic policy', *Finance and Development, IMF*. (online) <https://www.imf.org/en/Publications/fandd/issues/2020/06/political-economy-of-economic-policy-jeff-frieden>
- Gabrish et al., (2016). 'Improving Competitiveness in the Balkan Region – Opportunities and Limits', WIIW Research report 411. (online) <https://wiiw.ac.at/improving-competitiveness-in-the-balkan-region--opportunities-and-limits-dlp-3917.pdf>
- Girardi, D. and Bowles, S. (2018) 'Institution shocks and economic outcomes: Allende's election, Pinochet's coup and the Santiago stock market', *Journal of development economics*, 134, pp. 16–27. doi:10.1016/j.jdeveco.2018.04.005.
- GIZ (2021). *Report on Non-Tariff Measures in CEFTA: Support to regional economic integration*. (online) <https://www.giz.de/en/downloads/giz2022-en-report-on-non-tariff-measures-in-cefta.pdf>
- Glaeser, E.L. et al. (2004) 'Do Institutions Cause Growth?', *Journal of economic growth (Boston, Mass.)*, 9(3), pp. 271–303. doi:10.1023/B:JOEG.0000038933.16398.ed.
- Godfrey PC (ed.) (2015) *Management, Society, and the Informal Economy. Routledge Advances in Management and Business Studies*. Abingdon: Routledge. doi: <https://doi-org.sheffield.idm.oclc.org/10.4324/9781315757445>
- Greenaway, D., Morgan, W. and Wright, P. (2002) 'Trade liberalisation and growth in developing countries', *Journal of development economics*, 67(1), pp. 229–244. doi:10.1016/S0304-3878(01)00185-7.
- Greif, A. and Kingston, C., (2011). *Institutions: Rules or Equilibria?*. 10.1007/978-3-642-19519-8_2.
- Guiso, L., Sapienza, P. and Zingales, L. (2009) 'Cultural Biases in Economic Exchange?', *The Quarterly journal of economics*, 124(3), pp. 1095–1131. doi:10.1162/qjec.2009.124.3.1095.

- Haddad, M. and Shepherd, B. (2011) *Managing Openness : Trade and Outward-oriented Growth After the Crisis*. World Bank.
- Hall, R.E. and Jones, C.I. (1999) ‘Why do Some Countries Produce So Much More Output Per Worker than Others?’, *The Quarterly journal of economics*, 114(1), pp. 83–116. doi:10.1162/003355399555954.
- Hanushek, E.A. and Kimko, D.D. (2000) ‘Schooling, Labor-Force Quality, and the Growth of Nations’, *The American economic review*, 90(5), pp. 1184–1208. doi:10.1257/aer.90.5.1184.
- Hanushek, E.A. and Woessmann, L. (2010) *Education and economic growth, Education and Economic Growth* | Eric A. Hanushek. Available at: <http://hanushek.stanford.edu/publications/education-and-economic-growth>
- Hanushek, E.A., Rivkin, S.G. and Schiman, J.C. (2016) ‘Dynamic effects of teacher turnover on the quality of instruction’, *Economics of education review*, 55, pp. 132–148. doi:10.1016/j.econedurev.2016.08.004.
- Haradinaj, R. (2017). Article in Epokaere.com, online: <https://www.epokaere.com/haradinaj-rinia-e-kosoves-e-do-evropen-dhe-deshiron-ti-bashkohet-asaj/>
- Hardin, G. and Diamond, J. (1997). Guns, Germs, and Steel: The Fates of Human Societies. *Population and Development Review*, 23(4), p.889. doi:10.2307/2137390.
- Harriss, J., Hunter, J. and Lewis, C.M. (1997) *The new institutional economics and Third World development*. London; New York: Routledge
- Harvey, W. S. (2011). ‘Strategies for conducting elite interviews’, *Qualitative research*, 11(4), pp. 431–441, doi: 10.1177/14687941111404329.
- Hausmann, R., Hwang, J. & Rodrik, D. (2007). ‘What you export matters’, *J Economic Growth* 12, 1–25. <https://doi.org/10.1007/s10887-006-9009-4>
- Harvard Catalyst (2022). Getting Started with Mixed Methods Research. (online) https://catalyst.harvard.edu/wp-content/uploads/2021/09/HCAT_CEP_MixedMethodsResearch-Accessible.pdf
- Heeks R., et al. (2021). ‘Digital platforms and institutional voids in developing countries: The case of ride-hailing markets’, *Elsevier World Development*, 145. <https://doi.org/10.1016/j.worlddev.2021.105528>
- Heldeweg, M.A., Sanders, M. and Harmsen, M. (2015) ‘Public-private or private-private energy partnerships? Toward good energy governance in regional and local green gas projects’, *Energy, sustainability and society*, 5(1), pp. 1–12. doi:10.1186/s13705-015-0038-8.
- Helmke, G. and Levitsky, S. (2004) ‘Informal Institutions and Comparative Politics: A Research Agenda’, *Perspectives on politics*, 2(4), pp. 725–740. doi:10.1017/S1537592704040472
- Helpman, E. (1981) ‘International trade in the presence of product differentiation, economies of scale and monopolistic competition: A Chamberlin-Heckscher-Ohlin approach’, *Journal of international economics*, 11(3), pp. 305–340. doi:10.1016/0022-1996(81)90001-5.
- Hennink, M., Kaiser, B. and Marconi, V. (2017) ‘Code Saturation Versus Meaning Saturation’, *Qualitative health research*, 27(4), pp. 591–608. doi: 10.1177/1049732316665344.

- Henisz, W.J. and Mansfield, E.D. (2006) 'Votes and Vetoes: The Political Determinants of Commercial Openness', *International studies quarterly*, 50(1), pp. 189–212. doi:10.1111/j.1468-2478.2006.00398.x.
- Hillman, A. and Keim, G. (1995) 'International Variation in the Business-Government Interface: Institutional and Organizational Considerations', *The Academy of Management review*, 20(1), pp. 193–214. doi:10.2307/258892.
- Hindriks, F. and Guala, F. (2015) 'Institutions, rules, and equilibria: a unified theory', *Journal of institutional economics*, 11(3), pp. 459–480. doi:10.1017/S1744137414000496.'
- Hodgson, G. (2006). 'What Are Institutions?', *Journal of Economic Issues*. XL. 1-25. 10.1080/00213624.2006.11506879.
- Honohan, P. (2008) 'RISK MANAGEMENT AND THE COSTS OF THE BANKING CRISIS', *National Institute economic review*, (206), pp. 15–24.
- Hoskisson, R.E. et al. (2000) 'Strategy in Emerging Economies', *Academy of Management journal*, 43(3), pp. 249–267. doi:10.2307/1556394.
- Howden, D. (2015) 'Nicolai J. Foss, Peter G. Klein: Organizing entrepreneurial judgment: a new approach to the firm', *International Entrepreneurship and Management Journal*. Boston: Springer US, pp. 239–241. doi:10.1007/s11365-013-0276-1.
- Hudson, L. A., and Ozanne, J. L. (1988). Alternative ways of seeking knowledge in consumer research. *Journal of Consumer Research*, 14, 508-521. <http://dx.doi.org/10.1086/209132>
- International Labour Organization (2017). *Handbook on assessment of labour provisions in trade and investment arrangements International Labour Office – Geneva*: ILO, 2017. ISBN 978-92-2-130343-5 (web pdf)
- International Labour Organization (2019). *Skills and jobs mismatches in low- and middle-income countries International Labour Office – Geneva*: ILO, 2019. ISBN 978-92-2-131562-9 (web pdf)
- International Labour Organization and United Nations Educational, Scientific and Cultural Organization (2006). *Towards an Entrepreneurial Culture for the Twenty First Century*. ISBN 978-92-3-104034-4
- IMF (2001). *Kosovo Macroeconomic Issues and Fiscal Sustainability*. International Monetary Fund, Washington, D.C.
- International Monetary Fund (2017). *Making Trade an Engine of Growth for All: The Case for Trade and for Policies to Facilitate Adjustment*. Available at: <https://www.imf.org/en/Publications/Policy-Papers/Issues/2017/04/08/making-trade-an-engine-of-growth-for-all>
- Isenberg, D. (2011). 'The entrepreneurship ecosystem strategy as a new paradigm for economic policy: Principles for cultivating entrepreneurship', *The Babson Entrepreneurship Ecosystem Project*. Wellesley College.
- Isenberg, D.J. (2010) 'The big idea: How to start an entrepreneurial revolution', *Harvard business review*, 88(6), p. 40.
- Isenberg, D.J. (2016) 'Applying the Ecosystem Metaphor to Entrepreneurship', *Antitrust bulletin*, 61(4), pp. 564–573. doi:10.1177/0003603X16676162.

- Jalilian, H. and Kirkpatrick, C. (2005) 'Does Financial Development Contribute to Poverty Reduction?', *The Journal of development studies*, 41(4), pp. 636–656. doi:10.1080/00220380500092754.
- Jalilian, H., Kirkpatrick, C. and Parker, D. (2007) 'The Impact of Regulation on Economic Growth in Developing Countries: A Cross-Country Analysis', *World development*, 35(1), pp. 87–103. doi:10.1016/j.worlddev.2006.09.005.
- Jansen, M. and Nordås, H. K., (2004) 'Institutions, Trade Policy and Trade Flows', *WTO Staff Working Paper* No. ERSD-2004-02 , Available at SSRN: <https://ssrn.com/abstract=923544> or <http://dx.doi.org/10.2139/ssrn.923544>
- Jogulu, U. and Pansiri, J. (2011), "Mixed methods: a research design for management doctoral dissertations", *Management Research Review*, 34(6), pp. 687-701.
- Johnson, R. and Onwuegbuzie, A. (2004). Mixed Methods Research: A Research Paradigm Whose Time Has Come. *Educational researcher*. 33. 14. 10.3102/0013189X033007014.
- Johnson, S., McMillan, J. and Woodruff, C. (2002) 'Property Rights and Finance', *The American economic review*, 92(5), pp. 1335–1356. doi:10.1257/000282802762024539.
- Jones, et al. (2011). 'A thematic analysis of the conceptualisation of self-care, self-management and self-management support in the long-term conditions management literature', *Journal of Nursing and Healthcare of Chronic Illness*, 3, pp. 174 - 185. 10.1111/j.1752-9824.2011.01096.x.
- Julian, C. C. (2014). *The Research Handbook on Export marketing*. Cheltenham. Edward Elgar, 2014. ISBN: 978 1 78195 438 6
- Jütting, J. (2003) *Institutions and Development* [electronic resource]: A Critical Review. Paris: OECD Publishing.
- Kang, Y. and Jiang, F. (2012) 'FDI location choice of Chinese multinationals in East and Southeast Asia: Traditional economic factors and institutional perspective', *Journal of world business : JWB*, 47(1), pp. 45–53. doi:10.1016/j.jwb.2010.10.019.
- Kapitan, T. (1992). Peirce and the Autonomy of Abductive Reasoning , *Erkenntnis*, 37(1) 37(1):1-26 DOI:[10.1007/BF00220630](https://doi.org/10.1007/BF00220630)
- Katsikeas, C.S. (1994) 'Export Competitive Advantages: The Relevance of Firm Characteristics', *International marketing review*, 11(3), pp. 33–53. doi:10.1108/02651339410067049.
- Kavoussi, R.M. (1984) 'Export expansion and economic growth: Further empirical evidence', *Journal of development economics*, 14(1), pp. 241–250. doi:10.1016/0304-3878(84)90052-X.
- Keefer, P. and Knack, S., (1995). 'Institutions and Economic Performance: Cross-Country Test Using Alternative Institutional Measures', *Economics and Politics*, 7 (3), 207-227.
- Khanna, T. (2018). *Trust: Creating the Foundation for Entrepreneurship in Developing Countries*. Oakland, CA: Berrett-Koehler Publishers, 2018.
- Khanna, T. and Palepu, K., (2010). 'Winning in Emerging Markets: A Road Map for Strategy and Execution', *NHRD Network Journal*. 3. 10.1177/0974173920100316.
- Khanna, T., & Palepu, K. (1997). 'Why Focused Strategies May Be Wrong for Emerging Markets', *Harvard Business Review*, 75, pp. 41-51.

- Khera I., (2001). 'Business Ethics East versus West: myths and realities', *Journal of Business Ethics*, 30(1), pp. 29-39.
- Klapper, L., Amit, R, and Guillén, M. F. (2010). 'Entrepreneurship and Firm Formation across Countries,' *NBER Chapters*, in: *International Differences in Entrepreneurship*, pages 129-158, National Bureau of Economic Research, Inc.
- Klein, G., Calderwood, R. and Clinton-Cirocco, A. (2010) 'Rapid Decision Making on the Fire Ground: The Original Study Plus a Postscript', *Journal of cognitive engineering and decision making*, 4(3), pp. 186–209. doi:10.1518/155534310X12844000801203.
- Kleynhans, E. (2006). 'The role of human capital in the competitive platform of South African industries', *South African Journal of Human Resource Management*. 4. 10.4102/sajhrm.v4i3.100.
- Ključnikov, A. (2016). 'Uncover SMEs finance through the impact of the specific factors. Evidence from Slovakia', *Transformations in Business and Economics*. 15. 741-754.
- Knight, J. (1992). *Institutions and Social Conflict*. Cambridge, NY: Cambridge University Press. <http://dx.doi.org/10.1017/CBO9780511528170>
- Kobrin, S. (1979) 'Political Risk: A Review and Reconsideration', *Journal of international business studies*, 10(1), pp. 67–80. doi:10.1057/palgrave.jibs.8490631.
- Konjufca, G. (2022). Article in Zeri.info, online: <https://zeri.info/aktuale/470093/konjufca-nuk-deshirojme-qe-kosova-ne-vitin-2060-ti-kete-1-2-milion-banore/>
- Kosovo Agency of Statistics (2011). Population, Households and Housing Census in Kosovo. (online) <https://askdata.rks-gov.net/pxweb/en/ASKdata/>
- Kosovo Agency of Statistics (2020a). Gross Domestic Product 2008 – 2019. Series 4: Government Account Statistics. (online) <https://ask.rks-gov.net/media/5600/gross-domestic-product-gdp-of-the-expenditure-and-production-approach-2019.pdf>
- Kosovo Agency of Statistics (2020b). Export and import by partner country. (online) https://askdata.rks-gov.net/pxweb/en/ASKdata/ASKdata__External%20trade__Yearly%20indicators/tab02.px/
- Kosovo Agency of Statistics (2022a). Gross Domestic Product by economic activities in constant prices, 2008-2021. Online: https://askdata.rks-gov.net/pxweb/en/ASKdata/ASKdata__National%20and%20government%20accounts__National%20accounts__Annual%20national%20accounts/gdp11.px/
- Kosovo Agency of Statistics (2022b). Sectoral data. <https://askdata.rks-gov.net/pxweb/en/ASKdata/>
- Krasniqi, B. and Branch, D. (2020) 'Institutions and firm growth in a developing and post-conflict economy of Kosovo', *Journal of entrepreneurship in emerging economies*, 12(2), pp. 187–204. doi:10.1108/JEEE-05-2017-0034.
- Krueger, A. (1998) 'Why Trade Liberalisation is Good for Growth', *The Economic journal (London)*, 108(450), pp. 1513–1522. doi:10.1111/1468-0297.00358.
- Krugman, P. (1981) 'Trade, accumulation, and uneven development', *Journal of development economics*, 8(2), pp. 149–161. doi:10.1016/0304-3878(81)90026-2.
- Krugman, P. (1991) 'Increasing Returns and Economic Geography', *The Journal of political economy*, 99(3), pp. 483–499. doi:10.1086/261763.

- Krugman, P.R. (1979) 'Increasing returns, monopolistic competition, and international trade', *Journal of international economics*, 9(4), pp. 469–479. doi:10.1016/0022-1996(79)90017-5.
- Kuhn, T. (1970). *The Structure of Scientific Revolutions*. The University of Chicago Press, Chicago, IL
- Kurti, A. (2022). News in Vetevendosje political party website, online: <https://www.vetevendosje.org/kryetari-kurti-shpalose-platformen-e-tij-per-mandatin-e-ri-4-vjecar/>
- Langlois, R. (2016). 'The Corporation Is Not a Nexus of Contracts. It's an iPhone,' *Working papers 2016-06*, University of Connecticut, Department of Economics.
- Lauth, H., (2000). *Informal Institutions and Democracy*. *Democratization*, 7 (4), 21-50.
- Le Goff, M. and Singh, R.J. (2014) 'Does trade reduce poverty? A view from Africa', *Journal of African trade*, 1(1), pp. 5–14. doi:10.1016/j.joat.2014.06.001.
- Leamer, E. (2016). The Heckscher-Ohlin Model in Theory and in Practice. [online] Available at: https://www.princeton.edu/~ies/IES_Studies/S77.pdf
- Leonidas, L. et al. (2006). An integrated model of the behavioural dimensions of industrial buyer-seller relationships. *European Journal of Marketing*, 40, pp, 145-173. 10.1108/03090560610637365.
- Leonidou, L.C. et al. (2007). An analytical review of the factors stimulating smaller firms to export: Implications for policy makers. *International Marketing review*, 24 (6), 735-70
- Levchenko, A. (2007). 'Institutional Quality and International Trade', *Review of Economic Studies* 74, 791-819.
- Levine, R. (2005). 'Finance and Growth: Theory and Evidence', *Handbook of Economic Growth Volume 1, Part A*, 2005, Pages 865-934
- Levine, R. and Edward Elgar Publishing, publisher (2018) *Finance and growth*. Vol. 1. Northampton, MA: Edward Elgar Pub., Inc.
- Levitsky, S., and Helmke G., (2006). 'Informal Institutions and Democracy: Lessons from Latin America'. *Johns Hopkins University Press*. Copy at <http://www.tinyurl.com/m3b25kg>
- Lewer, J. and Van den Berg, H. (2007) 'Religion and International Trade: Does the Sharing of a Religious Culture Facilitate the Formation of Trade Networks?', *The American journal of economics and sociology*, 66(4), pp. 765–794. doi:10.1111/j.1536-7150.2007.00539.x.
- Li, H., Xiao, H. and Gong, T. (2015) 'The impact of economic well-being on perceptions of anti-corruption performance: Evidence from China', *Policy & society*, 34(2), pp. 97–109. doi:10.1016/j.polsoc.2015.05.001.
- Lincoln Y. and Guba E. (1985) *Naturalistic Inquiry*. Sage, Beverly Hills, CA.
- Linton, J. (2013) 'Startup Communities: Building an entrepreneurial ecosystem in your city', *Municipal World*. St. Thomas: Municipal World Inc, p. 33.
- Littlewood, D., Rogers, P. and Williams, C. (2020). 'Experiences, causes and measures to tackle institutional incongruence and informal economic activity in South-East Europe', *Current sociology*, 68(7), pp. 950–971. doi:10.1177/0011392118788911.

- Love, J. H., and Roper, S. (2015). 'SME Innovation, Exporting and Growth: A Review of Existing Evidence', *International Small Business Journal*, 33, 28-48.
- Mair, J. and Marti, I. (2009). 'Entrepreneurship in and around institutional voids: A case study from Bangladesh', *Journal of Business Venturing*, 24, pp. 419–435
- Mair, J., Battilana, J. and Cardenas, J. (2012) 'Organizing for Society: A Typology of Social Entrepreneurial Models', *Journal of business ethics*, 111(3), pp. 353–373. doi:10.1007/s10551-012-1414-3.
- Maizel, A. (1963). *Industrial Growth and World Trade*. Cambridge, the University Press.
- Marano, V. et al. (2016) 'Home Country Institutions and the Internationalization-Performance Relationship: A Meta-Analytic Review', *Journal of management*, 42(5), pp. 1075–1110. doi:10.1177/0149206315624963.
- Marland, A., & Esselment, A. L. (2019). 'Negotiating with gatekeepers to get interviews with politicians: qualitative research recruitment in a digital media environment', *Qualitative Research*, 19(6), 685–702. <https://doi.org/10.1177/1468794118803022>
- Mate, D. (2015). 'Impact of human capital on productivity growth in different labour-skilled branches', *Acta Oeconomica*, 65(1), pp. 51–67. <http://www.jstor.org/stable/24857543>
- Maxcy, S. (2003) 'Pragmatic threads in mixed methods research in the social sciences. The search for multiple modes of inquiry and the end of the philosophy of formalism', in Tashakkori, A., Teddlie, C. (Eds): *Handbook of Mixed Methods in Social and Behavioral Research*, Sage, Thousand Oaks, CA.
- Maxwell, J. (2011). Paradigms or toolkits? Philosophical and methodological positions as heuristics for mixed methods research. *Mid-Western Educational Researcher*. 24. 27-80.
- McAdam, M., Crowley, C. and Harrison, R. (2019). 'To boldly go where no [man] has gone before', *Technological Forecasting and Social Change*, 146, pp. 912-922
- McCaig, B. (2011). 'Exporting out of poverty: Provincial poverty in Vietnam and U.S. market access', *Journal of International Economics*, 85, (1), 102-113
- McKenzie, B. (2007). Techniques for collecting verbal histories, in Neergaard, H. and Ulhøi, J.P. (eds) *Handbook of qualitative research methods in entrepreneurship*, Cheltenham, UK: Edward Elgar, pp. 308-330.
- Melitz, M. (2003), 'The Impact of Trade on Aggregate Industry Productivity and Intra-Industry Reallocations,' *Econometrica* 71(6), 1695-1725.
- Mengistu, B. and Adams, S. (2007). 'Foreign Direct Investment, Governance and Economic Development in Developing Countries', *Journal of Social, Political, and Economic Studies*. 32.
- Meon P, and Khalid Sekkat (2004). 'Does the Quality of Institutions Limit the MENA's Integration in the World Economy?', *The World Economy*. 27(9), pp. 1475-1498
- Merriam-Webster Dictionary (2021): url: <https://www.merriam-webster.com/dictionary/human%20capital>
- Meyer K. E. (2001). 'Institutions, transaction costs and entry mode choice in Eastern Europe'. *Journal of International Business Studies*, 32(2), pp. 357–367.

- Meyer, J. and Rowan, B. (1977). 'Institutionalized Organizations: Formal Structure as Myth and Ceremony', *American Journal of Sociology*, 83
- Mingers, J. (2005). A critique of statistical modelling in management science from a critical realist perspective: Its role within multimethodology. *Journal of The Operational Research Society* - J OPER RES SOC. 57. 10.1057/palgrave.jors.2601980.
- Ministry of Finance (2021). *Tax Regime in Kosovo*. Republic of Kosovo, Ministry of Finance. (online) <https://mf.rks-gov.net/desk/inc/media/BF132BC8-11B1-4A96-81CF-601B4E441D9C.pdf>
- Ministry of Trade and Industry (2020). *Trade Policy Analysis: Factors inhibiting export growth on goods*. (online) <https://mint.rks-gov.net/desk/inc/media/9114D315-62CB-4816-97B2-9236E886A115.pdf>
- Molina-Azorin, Jose. (2012). 'Mixed Methods Research in Strategic Management Impact and Applications', *Organizational Research Methods*. 15, pp. 33-56. 10.1177/1094428110393023.
- Morgan, D. (2014). *Integrating qualitative and quantitative methods*. SAGE Publications, Inc., <https://dx.doi.org/10.4135/9781544304533>
- Morgan, R. M., and Hunt, S. D. (1994). 'The Commitment-Trust Theory of Relationship Marketing', *Journal of Marketing*, 58(3), pp. 20–38. <https://doi.org/10.2307/1252308>
- Muethel, M. and Hoegl, M. (2013). 'Shared leadership effectiveness in independent professional teams', *European Management Journal*, Elsevier 31(4), pp. 423-432.
- Muharremi, R. (2020). 'Establishing Institutions under International Administration: The Case of Kosovo', *HKJU-CCPA*, 20(1), pp. 7–28. <https://doi.org/10.31297/hkju.20.1.1>
- Naude, W. and Krugell, W. (2007). 'Investigating Geography and Institutions as Determinants of Foreign Direct Investment in Africa Using Panel Data', *Applied Economics*, 39, pp. 1223-1233.
- Neergaard, H. and Ulhoi, J.P. (2007), "Introduction: Methodological variety in entrepreneurship research", in H. Neergaard & J.P. Ulhoi(Eds.), *Handbook of Qualitative Research Methods in Entrepreneurship Edward Elgar*, Cheltenham, UK, pp. 1-16
- Nelson, R.R. and Sampat, B.N. (2001) 'Making sense of institutions as a factor shaping economic performance', *Journal of economic behavior & organization*, 44(1), pp. 31–54. doi:10.1016/S0167-2681(00)00152-9.
- Nemec, D. *et al.* (2022) 'Corruption in Public Administration as a Brake on Developing to Industry 4.0', *SAGE open*, 12(1), p. 215824402210850. doi:10.1177/21582440221085009.
- Nielsen, B.B., Asmussen, C.G. and Weatherall, C.D. (2017) 'The location choice of foreign direct investments: Empirical evidence and methodological challenges', *Journal of world business : JWB*, 52(1), pp. 62–82. doi:10.1016/j.jwb.2016.10.006.
- Nimal, F. (2007). 'Low-income households' access to financial services: International experience, measures for improvement, and the future', *EARD Special Studies*, Asian Development Bank.
- North, D., (1990). *Institutions, Institutional Change, and Economic Performance*, Cambridge University Press, New York.
- North, D., and Thomas, R., (1973). *The Rise of the Western World: a New Economic History*. Cambridge University Press.

- Nunn, N. (2007). 'Relationship-specificity, incomplete constraints, and the pattern of trade', *Quarterly Journal of Economics* 122(2), pp. 569-600.
- O'Donnell, G. (1996). 'Illusions about Consolidation', *Journal of Democracy*, 7(2), pp. 34-51.
- OECD (2017). 'Small, Medium, Strong. Trends in SME Performance and Business Conditions', *OECD Publishing*, Paris, <https://dx.doi.org/10.1787/9789264275683-en>.
- OECD (2019). *Building a Business Case for Access to Justice*. Available at: <https://www.oecd.org/gov/building-a-business-case-for-access-to-justice.pdf>
- OECD (2021a). *Competitiveness in South East Europe 2021, A Policy Outlook*. ISSN: 20765762 (online) <https://doi.org/10.1787/20765762>
- OECD (2021b). Multi-dimensional Review of the Western Balkans: Assessing Opportunities and Constraints. (online) <https://doi.org/10.1787/4d5cbc2a-en>
- OECD (2022). *Recommendation of the Council on Principles of Corporate Governance*, oecd/legal/0413 (online) <https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0413>
- Office of the Prime Minister (2021). Cabinet of the Government. <https://kryeministri.rks-gov.net/home/kabineti-qeveritar/>
- Oiken, B. and Pande, R. (2012). 'Corruption in Developing countries'. *Annual Review of Economics*, 4, pp. 479-509. doi.org/10.1146/annurev-economics-080511-110917
- On the world map (2021) online: <https://ontheworldmap.com/kosovo/>
- Opdenakker, R. (2006). 'Advantages and Disadvantages of Four Interview Techniques in Qualitative Research', *Forum: Qualitative Social Research*, 7(4), Art. 11, <http://nbn-resolving.de/urn:nbn:de:0114-fqs0604118>.
- O'Reilly, M. and Parker, N. (2013) 'Unsatisfactory Saturation': a critical exploration of the notion of saturated sample sizes in qualitative research', *Qualitative research : QR*, 13(2), pp. 190–197. doi: 10.1177/1468794112446106.
- Osano, H. and Languitane, H. (2016). 'Factors Influencing Access to Finance by SMEs in Mozambique: Case of SMEs in Maputo Central Business District', *Journal of Innovation and Entrepreneurship*
- Osmani, V. (2022). Article in nacionale.com, online: <https://nacionale.com/live/presidentja-osmani-rinia-eshte-fryma-dhe-themeli-i-republikes-sone>
- Patton, M. (2002). *Qualitative Research and Evaluation Methods*, 3rd ed. Thousand Oaks: Sage Publications.
- Peng, M.W. et al. (2009) 'The Institution-Based View as a Third Leg for a Strategy Tripod', *Academy of Management perspectives*, 23(3), pp. 63–81. doi:10.5465/AMP.2009.43479264.
- Pontell, H. and Geis G. (2007). *International Handbook of White-Collar and Corporate Crime*. New York: Springer.
- Porter, M. E. (1990). *The Competitive Advantage of Nations*. New York: Free Press.
- Pritchett, L. (2006), 'Does Learning to Add up Add up? The Returns to Schooling in Aggregate Data', *Handbook of the Economics of Education*, 1, Elsevier

- Przeworski, A. (2004). 'Institutions Matter?', *Government and Opposition*, 39(4), pp/ 527-540. doi:10.1111/j.1477-7053.2004.00134.x
- Puffer, S. M., McCarthy, D. J., and Boisot, M. (2010). 'Entrepreneurship in Russia and China: The Impact of Formal Institutional Voids', *Entrepreneurship Theory and Practice*, 34(3), pp. 441–467.
- Punch, K. (2005). *Introduction to Social Research Quantitative and Qualitative approaches*, second edition. London: Sage.
- Quintini G. and Martin, S. (2014) *Same Same but Different: School-to-work Developings in Emerging and Advanced Economies*. OECD Publishing. doi:10.1787/5jzbb2t1rcwc-en.
- Ramirez, G.B. (2015) 'Translating quality in higher education: US approaches to accreditation of institutions from around the world', *Assessment and evaluation in higher education*, 40(7), pp. 943–957. doi:10.1080/02602938.2014.960361.
- Ratnovski, L. and Narain, A. (2007) 'Public Financial Institutions in Developed Countries: Organization and Oversight', *IMF working paper*, 7(227), p. 1. doi:10.5089/9781451867916.001.
- Ricardo, D. (1817). *On the principles of political economy and taxation*, Cambridge University Press, London.
- Riinvest Institute (2002). SME survey database. Riinvest Institute for Development Research.
- Rodgers, P., Stokes, P., Tarba, S. *et al.* The Role of Non-market Strategies in Establishing Legitimacy: The Case of Service MNEs in Emerging Economies. *Management International Review* 59, pp. 515–540 (2019). <https://doi.org/10.1007/s11575-019-00385-8>
- Rodriguez, F. and Rodrik, D. (2000). 'Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence', *NBER Macroeconomics Annual* 2000, 15
- Rodríguez-Pose, A. and Tselios, V. (2010) 'Inequalities in income and education and regional economic growth in western Europe', *The Annals of regional science*, 44(2), pp. 349–375. doi:10.1007/s00168-008-0267-2.
- Rodrik, D. (2000a). 'Trade Policy Reform as Institutional Reform', Harvard University. (online) <https://drodrik.scholar.harvard.edu/files/dani-rodrik/files/trade-policy-reform-institutional-reform.pdf>
- Rodrik, D. (2000b). 'Institutions for High-Quality Growth: What They are and How to Acquire Them', *NBER Working Paper* No. 7540.
- Rodrik, D. (2007). *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth*. Princeton, NJ: Princeton University Press.
- Rodrik, D. (2008) 'Understanding South Africa's economic puzzles', *The economics of developing*. Received: January 24, 2008; Acceptance: July 9, 2008, 16(4), pp. 769–797. doi:10.1111/j.1468-0351.2008.00343.x.
- Rodrik, D. et al. (2004). Institutions Rule: The primacy of institutions over Geography and Integration in Economic Development. *Journal of Economic Growth*, 9, pp. 131-165.
- Rojas-Suarez, L. (2010). *Access to Financial Services in Emerging Powers: Facts, Obstacles and Recommendations*. Available at SSRN: <https://ssrn.com/abstract=2559807> or <http://dx.doi.org/10.2139/ssrn.2559807>

- Roland, G., (2004). 'Understanding Institutional Change: Fast-Moving and Slow-Moving Institutions', *Studies in Comparative International Development*, 38 (4), p. 109-131.
- Russett, B., and Oneal, J. (2001). *Triangulating Peace: Democracy, Interdependence, and International Organizations*. New York: Norton.
- Sachs, J., and Warner, A., (1995). 'Economic Convergence and Economic Policies', *Brookings Papers in Economic Activity*, 1 (1), p. 1–95.
- Sachs, J.D. and Warner, A.M. (1995) 'Natural Resource Abundance and Economic Growth', *NBER Working Paper Series*, p. 5398. doi:10.3386/w5398.
- Salomon, R.M. and Shaver, J.M. (2005) 'Learning by Exporting: New Insights from Examining Firm Innovation', *Journal of economics & management strategy*, 14(2), pp. 431–460. doi:10.1111/j.1530-9134.2005.00047.x.
- Saunders, M., Lewis, P. and Thornhill, A. (2012) *Research Methods for Business Students*. 6th Edition, Pearson Ltd., Harlow.
- Schiffers, M. and Weder, B. (2001). 'Firm Size and the Business Environment: Worldwide Survey Results', *International Finance Corporation (Discussion Paper)*, FD43.
- Schneider, F. and Williams, C., (2013). 'The Shadow Economy', *Institute of Economic Affairs*, Available at SSRN: <https://ssrn.com/abstract=2286334>
- Schneider, F., Buehn, A. and Montenegro, C.E. (2010) 'New Estimates for the Shadow Economies all over the World', *International economic journal*, 24(4), pp. 443–461. doi:10.1080/10168737.2010.525974.
- Scott, W. R. and Meyer, J. (1994). *Institutional Environments and Organizations Structural Complexity and Individualism*. Sage publications inc.
- Shleifer, A. and Vishny, R.W. (1993) 'Corruption', *The Quarterly journal of economics*, 108(3), pp. 599–617. doi:10.2307/2118402.
- Smallbone D. and Welter F., (2006), 'Conceptualising entrepreneurship in a developing context', *International Journal of Entrepreneurship and Small Business*, 3(2), pp. 190-206
- Smallbone, D. and Welter, F. (2012) 'Entrepreneurship and institutional change in developing economies: The Commonwealth of Independent States, Central and Eastern Europe and China compared', *Entrepreneurship and regional development*, 24(3-4), pp. 215–233. doi:10.1080/08985626.2012.670914.
- Smallbone, D. Welter, F. (2001), 'The Distinctiveness of Entrepreneurship in Developing Economies', *Small Business Economics*, 16(4), pp. 249-62
- Smith, A. (1910) *The wealth of nations*. Vol. 2. London: Dent.
- Spigel, B. (2017). 'The Relational Organization of Entrepreneurial Ecosystems', *Entrepreneurship Theory and Practice*, 41(1), pp. 49–72.
- Stam, E. and Spigel, B. (2016). 'Entrepreneurial Ecosystems,' *Working Papers* 16-13, Utrecht School of Economics.
- Starr, R. (2011). *General Equilibrium Theory: An Introduction (2nd ed.)*. Cambridge: Cambridge University Press. doi:10.1017/CBO9780511975356

- Sutton, J. (2007) 'Quality, Trade and the Moving Window: The Globalisation Process', *The Economic Journal (London)*, 117(524), pp. F469–F498. doi:10.1111/j.1468-0297.2007.02119.x.
- Tanzi, Vito (1995). *Corruption, Arm's Length and Markets. The Economics of Organized Crime*. Cambridge UK: Cambridge University Press.
- Tashakkori, A., & Teddlie, C. (1998). *Mixed methodology: Combining qualitative and quantitative approaches*. Sage Publications, Inc.
- Tashakkori, A., & Teddlie, C. (2003). *Handbook of Mixed Methods in Social and Behavioral Research*. Thousand Oaks: Sage.
- Thaci, H. (2009). News on the office of the prime minister webpage, online: <https://kryeministri.rks-gov.net/blog/fjalimi-i-kryeministrit-te-republikes-se-kosoves-hashim-thaci-ne-qendren-per-studime-dhe-hulumtime-nderkombetare-ceri-ne-paris/>
- Tong, H. and Wei, S.-J. (2014) 'Does trade globalization induce or inhibit corporate transparency? Unbundling the growth potential and product market competition channels', *Journal of international economics*, 94(2), pp. 358–370. doi:10.1016/j.jinteco.2014.08.004.
- Tonoyan, V. et al. (2010) 'Corruption and Entrepreneurship: How Formal and Informal Institutions Shape Small Firm Behavior in Developing and Mature Market Economies', *Entrepreneurship theory and practice*, 34(5), pp. 803–831. doi:10.1111/j.1540-6520.2010.00394.x.
- Tracey, P. & Phillips, N. (2011). 'Entrepreneurship in Emerging Markets: Strategies for New Venture Creation in Uncertain Institutional Contexts', *Management International Review*, 51, pp. 23-39. 10.2307/23012233.
- Transparency International (2019). Corruption Perception Index (online) <https://www.transparency.org/en/cpi/201>
- Trauth, E. (2001). The Choice of Qualitative Methods in IS Research. 10.4018/9781930708068.ch001.
- Treisman, D. (2000). 'The causes of corruption: a cross-national study', *Journal of Public Economics*, 76(3), pp. 399-457
- Tucker, J. and Lean, J. (2003) 'Small firm finance and public policy', *Journal of small business and enterprise development*, 10(1), pp. 50–61. doi:10.1108/14626000310461367.
- Ufere, N., Perelli, S., Boland, R. and Carlsson, B. (2012). 'Merchants of Corruption: How Entrepreneurs Manufacture and Supply Bribes', *World Development*, 40, pp. 2440–2453. 10.1016/j.worlddev.2012.05.025.
- UK Department for International Development (2015). 'Why corruption matters: understanding causes, effects, and how to address them', *Department for International Development, UK*.
- Ullah, B. (2020) 'Financial constraints, corruption, and SME growth in developing economies', *The Quarterly review of economics and finance*, 75, pp. 120–132. doi:10.1016/j.qref.2019.05.009.
- UNDP Kosovo (2016). Public Pulse % on Corruption %. (online) <https://www.undp.org/sites/g/files/zskgke326/files/migration/ks/PUBLIC-PULSE-ENG-FIN.pdf>

- United Nations (2003). Report of the secretary general on the united nations interim administration in Kosovo. S/2003/996
- United Nations (2006). Report of the secretary general on the United Nations interim administration in Kosovo. S/2006/906
- United Nations (2012). *UN General Assembly, Declaration of the High-Level Meeting of the General Assembly on the Rule of Law at the National and International Levels : resolution / adopted by the General Assembly, 30 November 2012, A/RES/67/1*, available at: <https://www.refworld.org/docid/50c5e6e02.html>
- United Nations (2018). *The 2030 Agenda and the Sustainable Development Goals: An opportunity for Latin America and the Caribbean* (LC/G. 2681-P/Rev.)
- UNMIK (2001). *Regulation no. 2001/26 on Payment Transactions*. (online) https://bqk-kos.org/repository/docs/korniza_ligjore/english/UNMIK%20regulations/On%20payment%20transactions%20-%202001-26.pdf
- UNMIK (2002). *Regulation no. 2002/12 on the Establishment of Kosovo Trust Agency*. (online) https://unmik.unmissions.org/sites/default/files/regulations/02english/E2002regs/RE2002_12.pdf
- UNODC (2013). *Business, Corruption and Crime In Kosovo: The impact of bribery and other crime on private enterprise*. (online) https://www.unodc.org/documents/data-and-analysis/statistics/corruption/Kosovo_Business_corruption_report_EN.pdf
- Valdez, M.E. and Richardson, J. (2013) ‘Institutional Determinants of Macro-Level Entrepreneurship’, *Entrepreneurship theory and practice*, 37(5), pp. 1149–1175. doi:10.1111/etap.12000.
- Vorley, T. and Williams, N. (2016) ‘Between petty corruption and criminal extortion: How entrepreneurs in Bulgaria and Romania operate within a devil’s circle’, *International small business journal*, 34(6), pp. 797–817. doi:10.1177/0266242615590464.
- Walgrave, S., and Dejaeghere, Y. (2017). ‘Surviving information overload: how elite politicians select information’, *Governance*, 30(2), pp. 229-244.
- Walsham G. (1993). Reading the organization: metaphors and information management. *Information Systems Journal*, 3(1), pp. 33-46. <https://doi.org/10.1111/j.1365-2575.1993.tb00113.x>
- Walsham, G. (1995). Interpretive case studies in IS research: nature and method. *Eur J Inf Syst* 4, pp. 74–81. <https://doi.org/10.1057/ejis.1995.9>
- Webb, J.W., Khoury, T.A. and Hitt, M.A. (2020) ‘The Influence of Formal and Informal Institutional Voids on Entrepreneurship’, *Entrepreneurship theory and practice*, 44(3), pp. 504–526. doi:10.1177/1042258719830310.
- Wei, S.-J. and Frankel, J.A. (1998) ‘Open Regionalism in a World of Continental Trade Blocs’, *IMF staff papers*, 45(3), pp. 440–453. doi:10.2307/3867411.
- Wells, L. and Gleason, E. (1995) ‘IS FOREIGN INFRASTRUCTURE INVESTMENT STILL RISKY’, *Harvard business review*, 73(5), pp. 44–58.

- Welter, F., and Baker, T. (2021). 'Moving Contexts Into New Roads: Clues From Other Disciplines', *Entrepreneurship Theory and Practice*, 45(5), pp. 1154–1175. <https://doi.org/10.1177/1042258720930996>
- Wheeler, M. et al. (2002) *The evolution of cultural entities*. Oxford: Published for the British Academy by Oxford University Press.
- Williams, C.C., Horodnic, I.A. and Windebank, J. (2015) 'Explaining participation in the informal economy: An institutional incongruence perspective', *International sociology*, 30(3), pp. 294–313. doi:10.1177/0268580915578745.
- Williams, C. And Bezeredi, S. (2018) 'Explaining informal entrepreneurship in South-East Europe: a tax morale approach', *Eastern journal of European studies*, 9(2), pp. 47–68.
- Williams, C.C. and Krasniqi, B. (2018) 'Explaining Informal Sector Entrepreneurship In Kosovo: An Institutionalist Perspective', *Journal of developmental entrepreneurship*, 23(2), p. 1850011. doi:10.1142/S1084946718500115.
- Williams, N. and Vorley, T. (2014) 'Economic resilience and entrepreneurship: lessons from the Sheffield City Region', *Entrepreneurship and regional development*, 26(3-4), pp. 257–281. doi:10.1080/08985626.2014.894129.
- Williamson, J., (2000). 'What Should the World Bank Think About the Washington Consensus?', *World Bank Research Observer*, 15 (2).
- Winiecki, J. (2003) 'The Role of the New, Entrepreneurial Private Sector in Developing and Economic Performance in Light of the Successes in Poland, the Czech Republic, and Hungary', *Problems of economic developing*, 45(11), pp. 6–38. doi:10.1080/10611991.2003.11049805.
- Winters, L.A., McCulloch, N. and McKay, A. (2004) 'Trade Liberalization and Poverty: The Evidence So Far', *Journal of economic literature*, 42(1), pp. 72–115. doi:10.1257/002205104773558056.
- World Bank Group (2017a). Republic of Kosovo Systematic Country Diagnostic. Report No. 114618-xk. (online) <https://openknowledge.worldbank.org/bitstream/handle/10986/26573/Kosovo-SCD-FINAL-May-5-C-05052017.pdf?sequence=1&isAllowed=>
- World Bank Group (2017b). World Development Report 2017 : Governance and the Law. Washington, DC: World Bank. (online) <https://openknowledge.worldbank.org/handle/10986/25880>
- World Bank (2018) Global Financial Development Report 2017/2018 : Bankers without Borders. Washington, DC. doi: 10.1596/978-1-4648-1148-7.
- World Bank Group (2018). Doing Business 2018. Reforming to Create Jobs.
- World Bank Group (2021). Kosovo Country Economic Memorandum: Boosting Exports. (online) <https://openknowledge.worldbank.org/bitstream/handle/10986/37502/P1719510a18cbf05d08125099b43aaa27cb.pdf?sequence=1&isAllowed=y>
- World Bank Group (2022). *The Long Shadow of Informality: Challenges and Policies*. DOI: 10.1596/978-1-4648-1753-3

- World Bank Group (2022b). DataBank Worldwide Governance Indicators. (online)
<https://databank.worldbank.org/source/worldwide-governance-indicators#>
- World Economic Forum (2014) *Entrepreneurial Ecosystems Around the Globe and Early-Stage Company Growth Dynamics – the Entrepreneur’s Perspective*. Available at:
https://www3.weforum.org/docs/WEF_II_EntrepreneurialEcosystemsEarlyStageCompany_Report_2014.pdf
- World Trade Organization (2013). *World trade report 2013. Factors shaping the future of world trade*. ISBN 978-92-870-3859-3
- World Trade Organization (2017). *Investing in Skills for Inclusive Trade*.
DOI: <https://doi.org/10.30875/e8db886e-en>
- Wright, P.M. et al. (2005) ‘The relationship between HR practices and firm performance: examining causal order’, *Personnel psychology*, 58(2), pp. 409–446. doi:10.1111/j.1744-6570.2005.00487.x.
- Yang, S., Milner, C., Lancheros, S. (2020). ‘Access to Finance, Technology Investments and Exporting Decisions of Indian Services Firms’, *Open Economies Review* 31, pp. 1009–1036. <https://doi.org/10.1007/s11079-020-09595-2>
- Yeung, H. (2002). ‘Entrepreneurship in International Business: An Institutional Perspective’, *Asia Pacific Journal of Management* 19, pp. 29–61. <https://doi.org/10.1023/A:1014887523110>
- Young, L. and Anderson, J.E. (2006) ‘Trade and Contract Enforcement’, *The B.E. journal of economic analysis & policy*, 5(30).
- Zahra, S.A. and Wright, M. (2011) ‘Entrepreneurship's Next Act’, *Academy of Management perspectives*, 25(4), pp. 67–83. doi:10.5465/amp.2010.0149.
- Zysman, J. (1994) ‘How Institutions Create Historically Rooted Trajectories of Growth’, *Industrial and corporate change*, 3(1), pp. 243–283. doi:10.1093/icc/3.1.243.

Appendices

Appendix 1: Survey of Businesses

Barriers to exporting from Kosovo

* 1. Which sector does your company belong to?

- ICT
- Education
- Construction services
- Construction materials
- Food processing
- Wood processing
- Metal processing
- Raw materials for production
- Merchandise -retail
- Merchandise – wholesale
- Other (please specify)

2. In what year was your company established?

3. Which region is your business primarily based in?

Prishtina

Peja

Prizren

Ferizaj

Gjakova

Gjilan

4. Please indicate the number of persons employed in your company.

- 1-9
- 10-19
- 20-49
- 50-99
- 100-249
- 250 or more

" 5. What percentage of your sales (volume of sales) is exported?

- Our company is not an exporter
- Under 10%
- 10% - 49%
- 50% or more

6. If you answered your company is not an exporter (related to Q5), do you have ambition to start exporting?

- Yes No N/A

7. If your company is already an exporter (related to Q5), do you have ambition to export more than you do?

- Yes No N/A

8. Do you generate more or less profit from selling products (or services) to foreign markets compared to domestic sales?

- Higher Same Lower N/A

9. Where does your company export to? (check all that apply)

Germany

Switzerland

Italy

Belgium

United Kingdom

Austria

Albania

Serbia

Macedonia

Montenegro

Bosnia and Herzegovina

Moldova

USA

China

Turkey

Other (please specify)

10. What do you perceive are the main barriers to export from Kosovo (please pick three, ranking the main barrier with number 1)?

Access to Finance

Finding Customers in foreign markets

Inability to find skilled staff

Corruption

Enforcement of contracts

Standardization / Certifications

Licensing necessary to export

Tax system

Infrastructure

Bureaucracy

Trade barriers of political background from other countries

Court proceedings

Other: ~

” 11. Does corruption affect your export performance?

- Corruption negatively impacts our export performance
- Corruption does not affect our export performance
- N/A

12. Were you ever expected to give money, gifts or do other favors for any of the following (check all that apply)?

- Licences necessary to export products of services
- Certifications / Standardization
- Court cases
- Grants / Subsidies
- Better treatment from TAK or Customs
- I did not have to give money, gifts or do other favors
- Other (please specify)

13. In what form (check all that apply)?

- Money
- Gift
- Asked to employ someone in your company
- N/A
- Other (please specify)

14. How often were you asked to give money, gifts or do favors to get things done?

- One time
- In more than one case, but not upon each transaction or periodically
- Periodically (Monthly, yearly)
- Upon each transaction
- N/A

15. Have you reported cases when asked for bribes or other favors?

- Yes No N/A

16. If yes (related to Q15), where did you report the case (check all that apply)?

- Police or court
- Anti-corruption agency
- Other mechanism within the institution of the corrupt official
- N/A
- Other (please specify)

17. If not (related to Q15), why did you not report the case (check all that apply)?

- Possibility for future punishment
- Belief your complaint will not change a thing
- N/A
- Other (please specify)

18. Do you perceive the judicial system in Kosovo to be corrupt?

- Yes
- No

Neutral

19. If Yes (related to Q18), how does that affect your export performance? Check all that apply.

It reduces the international demand for our products/services due to lack of trust from foreign partners

It reduces the international demand for our products/services due to lack of contract enforcement

It does not affect our export performance

Other (please specify)

20. How does the negative perception of corruption in Kosovo affect your relations with foreign business partners (such as investors or importers of your products)? Check all that apply.

Negatively affects possibility to make joint investments to increase export potential

Negatively affects export contracts

Negatively affects long term business relations with foreign partners

The perception does not impact our ability to export

Other (please specify)

21. Do you feel you are treated differently than other companies in the following regards? Check all that apply.

Obtaining licenses necessary to export products of services

Obtaining certifications

Receiving grants / subsidies

Obligations to pay taxes

Obtaining construction permits

Receiving public services or opportunities for extra information

Access to electricity network / water supply / road network

N/A

Other (please specify)

” 22. If you were treated differently (related to Q21), how did that affect your export performance?

- Our company does not export because of this issue
- Our company could not realize one or more shipments
- Our company exports less than the potential we have
- It did not have much impact on our export level
- N/A

23. When exporting, were you ever asked for informal payments or other favors from any of the following (check all that apply)?

Political parties

Business partners

Business intermediaries, such as trade agents, business consultants, lobbying firms

Interest groups such as business associations or business clubs

N/A

Other (please specify)

24. Have you ever secured a public contract?

- Yes
- No, but our company has applied for at least one
- No, our company does not apply for public tenders

25. If your company has applied for at least one public tender, were you expected to give money or do any other favor to secure a public contract?

- Yes No N/A

26. If you have other comments about barriers to export from Kosovo, please give them in this box.

27. Please leave your name, name of company and contact number/e-mail, if you consider being part of a focus group regarding barriers to exporting from Kosovo.

Appendix 2. Ethics Application

Application 007088

Section A: Applicant details

Created:

Fri 4 December 2015 at 12:02

First name:

Linda

Last name:

TahiriRukiqi

Email:

mgp12mt@sheffield.ac.uk

Programme name:

Ph.D. in Management

Module name:

Thesis

Last updated:

02/06/2016

Department:

Management School

Date application started:

Fri 4 December 2015 at 12:02

Applying as:

Postgraduate research

Research project title:

The role of formal and informal institutions on Kosovo's export performance

Section B: Basic information

1. Supervisor(s)

Name Email

Tim Vorley tim.vorley@sheffield.ac.uk

2: Proposed project duration

Proposed start date:

Sun 1 May 2016

Proposed end date:

Mon 31 December 2018

3: URMS number (where applicable)

URMS number

- not entered -

4: Suitability

Takes place outside UK?

Yes

Involves NHS?

No

Healthcare research?

No

ESRC funded?

No

Involves adults who lack the capacity to consent?

No

Led by another UK institution?

No

Involves human tissue?

No

Clinical trial?

No

Social care research?

No

5: Vulnerabilities

Involves potentially vulnerable participants?

No

Involves potentially highly sensitive topics?

No

Section C: Summary of research

Section C: Summary of research

1. Aims & Objectives

The aim of the thesis is to examine the role of both formal and informal institutions in Kosovo in boosting firms' export orientation. It uses a mixed methods approach, by combining quantitative methods (in-depth interviews with Kosovar exporting firms and key stakeholders), as well as quantitative methods (a survey of Kosovo exporting businesses). The proposed methodology will reach the aim by addressing the key objectives of the study, namely to:

1. Review Kosovo's institutional framework for exports

1.1. Review policies and strategies for exports

1.2. Review incentives to export

1.3. Examine the trade agreements on exports

(Reaching this objective requires in-depth interviews with key stakeholders)

2. Gain an understanding of Kosovo firms' experiences with exporting

2.1. Identify barriers and constraints to export

2.2. Identify structure of exports

2.3. Identify which sectors are more competitive

(Reaching this objective requires a survey of firms operating in Kosovo and in-depth interviews with firms)

3. Examine asymmetries between formal and informal institutions.

(Reaching this objective requires a combination of in-depth interviews with stakeholders, as well as survey of firms and in-depth interviews with selected firms)

2. Methodology

To examine the relationship between institutional reforms and the volume of goods exported from Kosovo, this study will use a mixed methods approach; the methodology of this thesis will comprise of three main stages to achieve the research aim and its objectives. The stages will be: in-depth interviews with key stakeholders conducted in a semi structured setting (stage 1), a quantitative online survey administered to Kosovo exporting businesses (stage 2), and follow-up in-depth interviews with selected Kosovo exporting businesses conducted in a semi structured setting (stage 3). Each stage will contribute to the development of the next stage, intending to result in an overall complementary and synergetic approach.

The interviews of stakeholders will include officials from the relevant organizations in Kosovo that influence and shape the institutional framework for exports, i.e. Kosovo Government officials, business associations and donor organizations. The questions to be included in these interviews are influenced by the literature review on institutions and trade (a set of questions is included in the initial content of research tools below). The main goal of this stage is to understand how formal institutions influence exports. In-depth interviews with main stakeholders will take place prior to the survey of businesses; I expect the discussions will shape questions and lead to additional questions to be included in the surveys.

The companies for the survey are selected from data received from Kosovo Customs. The received data includes the list of all Kosovo firms that have exported to at least once during the period 2005-2014, a total of 2,762 companies, showing products exported, countries exported to, and the values exported per year in Euro amount. The list of exporting firms is structured by excluding firms that have not registered exports in both years 2013 and 2014. All remaining companies, close to 1,000, are the selected companies for the survey. The distribution of surveys will be carried out by the two main business associations in Kosovo, namely Kosovo Chamber of Commerce and American Chamber of Commerce in Kosovo; having them carry out the process helps with having a higher response rate, given their close cooperation with Kosovo entrepreneurs. These two associations represent around 90% of the exporting companies. Since the average response rate of surveys distributed by email, according to SurveyMonkey is 40%, and given that the survey will be administered by the two main business associations in Kosovo (explained in the paragraph below), namely the Kosovo Chamber of Commerce and the American Chamber of

Commerce in Kosovo, the response rate is expected to be a minimum of 40% (average response rate or higher). The survey will include questions related to export policies, barriers to trade, trade incentives and rule of law aspects (questions will be influenced by interviews of key stakeholders as well).

In-depth interviews with businesses, selected on basis of size (including Large businesses and SME), as well as sectors and importing groups of countries (including EU countries, CEFTA members, and other countries Kosovo mostly exports to), should be performed to explore key aspects in more detail and advance the understanding of their behaviour. This stage will include 30 business representatives, and it is expected to give a better understanding of entrepreneurs and CEO / business managers' experiences, perceptions, and beliefs, as well as show asymmetries between formal and informal institutions. Similar to the interviews with key stakeholders, key questions will be prepared in advance, but the interviews of this stage will have a semi-structured format as well, allowing sufficient flexibility to explore the depth of experiences and perceptions of the participants.

3. Personal Safety

Raises personal safety issues? No

Personal safety management

- not entered -

Section D: About the participants

1. Potential Participants

The persons to be interviewed in the first stage (interviews with key stakeholders) were selected based on position held during the time reforms have taken place and the role they played in designing policies. They will be contacted via personal contacts or office contacts; the interviews will take place either in their offices or at a neutral place (local coffee shops), and at least one interview will take place via conference call (if the person is located outside Kosovo). Below is the list on main stakeholders to be interviewed:

OMITTED DUE TO ANONYMITY REQUIREMENTS

The companies for the survey are selected from data received from Kosovo Customs. The received data includes the list of all Kosovo firms that have exported to at least once during the period 2005-2014, a total of 2,762 companies, showing products exported, countries exported to, and the values exported per year in Euro amount. The list of exporting firms is structured by excluding firms that haven't registered exports in both years 2013 and 2014. All remaining companies, close to 1,000, are the selected companies for the survey. The distribution of surveys will be carried out by the two main business associations in Kosovo, namely Kosovo Chamber of Commerce and American Chamber of Commerce in Kosovo; having them carry out the process helps with having a higher response rate, given their close cooperation with Kosovo entrepreneurs. These two associations represent around 90% of the exporting companies. Since the average response rate of surveys distributed by email, according to SurveyMonkey is 40%, and given that the survey will be administered by the two main business associations in Kosovo (explained in the paragraph below), namely the Kosovo Chamber of Commerce and the American Chamber of Commerce in Kosovo, the response rate is expected to be a minimum of 40% (average response rate or higher).

Business to be included in the 3rd stage will be selected among businesses that responded to the survey. This stage will include 30 businesses selected on basis of size (including Large businesses and SME), as well as sectors and importing groups of countries (including EU countries, CEFTA members, and other countries Kosovo mostly exports to). The interviews will be arranged via two main business associations.

2. Recruiting Potential Participants

Officials for the stakeholder interviews will be contacted via personal contacts of office contacts (depending on the current job they have); the interviews will take place either in their offices or at a neutral place (local coffee shops), and at least one interview will take place via conference call (if the person is located outside Kosovo). Prior to the interview, they will be given a participant information sheet which explains the aims of the project, why they are being interviewed, and that it is up to them if they want to be part of the interview. Consent form will be given as well to be signed.

2) The companies for the survey are selected from data received from Kosovo Customs. The received data includes the list of all Kosovo firms that have exported to at least once during

the period 2005-2014, a total of 2,762 companies, showing products exported, countries exported to, and the values exported per year in Euro amount. The list of exporting firms is structured by excluding firms that have not registered exports in both years 2013 and 2014. All remaining companies, close to 1,000, are the selected companies for the survey. The distribution of surveys will be carried out by the two main business associations in Kosovo, namely Kosovo Chamber of Commerce and American Chamber of Commerce in Kosovo; having them carry out the process helps with having a higher response rate, given their close cooperation with Kosovo entrepreneurs. The quantitative data will be collected through SurveyMonkey.

3) Entrepreneurs or owner/managers for the firm interviews will be contacted by the two main business associations as well. Prior to the interview, they will be given a participant information sheet which explains the aims of the project, why they are being interviewed, and that it is up to them if they want to be part of the interview. Consent form will be given as well to be signed.

2.1 Advertising methods

Will the study be advertised using the volunteer lists for staff or students maintained by CiCS? No

- not entered -

3. Consent

Will informed consent be obtained from the participants? (i.e. the proposed process) Yes

Each interview participant will be given a Participant information sheet prior to the interview, explaining the aim of the project, why they are being interviewed, that the interview is voluntary, what will happen to the data and other important information (sheet uploaded in section F). Furthermore, they will be given a consent form to be signed (form uploaded in section F).

4. Payment

Will financial/in kind payments be offered to participants? No

- not entered -

5. Potential Harm to Participants

What is the potential for physical and/or psychological harm/distress to the participants?

None

How will this be managed to ensure appropriate protection and well-being of the participants?

No potential for harm or distress

Section E: About the data

1. Data Confidentiality Measures

The information received from the interviews will be kept as confidential and anonymous as possible. Each interviewee will be given a code and these codes are used in the analysis, rather than names of interviewees or names of their organizations. The doctoral researcher will act as the custodian for the data generated by the project, and only the doctoral researcher and supervisors will have access to the data collected for this research project.

2. Data Storage

Interview data will be kept securely on a password protected laptop and deleted after five years.

Section F: Supporting documentation

Information & Consent

Participant information sheets relevant to project?

Yes

Participant Information Sheets

LTRparticipantinformationsheet.docx

(Document 019908)

Consent forms relevant to project?

Yes

Consent Forms

LTRconsentform.doc

(Document 019909)

Additional Documentation

Pyetje-bn.docx (Document 022527)

Preliminary set of questions to be used in stage 1

External Documentation

- not entered -

Offical notes

- not entered -

Section G: Declaration

Signed by:

Linda Tahiri Rukiqi

Date signed:

Fri 27 May 2016 at 16:24

Appendix 3. Information Sheet

Participant Information Sheet

The role of formal and informal institutions on Kosovo's export performance

You are being invited to take part in a research project. Please take time to read the following information carefully. Ask the doctoral researcher if there is anything that is not clear or if you would like more information. Thank you for reading this.

Project purpose

This study examines the role of both formal and informal institutions in Kosovo in boosting firms' export orientation. Institutions contribute to the establishment of incentives in the process of human action by defining and constraining the choice of alternatives available to each individual or organization, hence they affect a country's business environment and its trade performance. Using a mixed methods approach, by combining qualitative methods (in-depth interviews with Kosovar exporting firms and key stakeholders), as well as quantitative methods (a survey of Kosovo exporting businesses), this thesis will explore the institutional framework for exports, provides a deeper understanding of experiences of Kosovo firms with exports, and identifies asymmetries between formal and informal institutions.

Why have I been chosen?

You are being invited to participate in the study because you are, or have been recently, a representative of an institution that influences the institutional environment in Kosovo, or represent a firm which operates in this institutional environment.

What is the interview setting like, and what type of information will be asked from me?

The format of the interviews is semi-structured in order to allow the exploration of various issues. Should you not wish to answer any particular question or questions, you are free to decline. The interview will explore the institutional environment in Kosovo, export performance, and the link between institutions and exports.

Will I be recorded, and how will the recorded media be used?

You will be recorded only if you agree to (by ticking box nr. 5 in the separate consent form). The audio recordings made during this research will be used only for analysis undertaken as part of the research project. In case you prefer not to be recorded, the researcher will take notes throughout the interview.

Will my taking part in this project be kept confidential?

The information received from the interviews will be kept as confidential and anonymous as possible. The doctoral researcher will act as the custodian for the data generated by the project, and only the doctoral researcher and supervisors will have access to the data collected for this research project.

What will happen to the results of the project?

The results will be analysed for the purposes of the research project and will be published in academic journals.

Who has ethically reviewed the project?

This project has been ethically approved via University of Sheffield's Ethics Review Procedure.

Contact for further information

For further information about the project and your participation please contact the doctoral researcher Ms. Linda TahiriRukiqi, mgp12mt@sheffield.ac.uk.

If you have any other queries or concerns please contact Prof. Vorley (supervisor), tim.vorley@sheffield.ac.uk.

Appendix 4. Information Sheet for Survey participants

Participant Information Sheet

The role of formal and informal institutions on Kosovo's export performance

You are being invited to take part in a survey, part of a research project. Please take time to read the following information carefully. Thank you for reading this.

Project purpose

This study examines the role of both formal and informal institutions in Kosovo in boosting firms' export orientation. Institutions contribute to the establishment of incentives in the process of human action by defining and constraining the choice of alternatives available to each individual or organization, hence they affect a country's business environment and its trade performance. Using a mixed methods approach, by combining qualitative methods (in-depth interviews with Kosovar exporting firms and key stakeholders), as well as quantitative methods (a survey of Kosovo exporting businesses), this thesis will explore the institutional framework for exports, provides a deeper understanding of experiences of Kosovo firms with exports, and identifies asymmetries between formal and informal institutions.

Why have I been chosen?

You are being invited to participate in this survey because you represent a firm which operates in this institutional environment.

Will my taking part in this survey be anonymous?

The information received from the survey will be kept as confidential and anonymous as possible. The doctoral researcher will act as the custodian for the data generated by the project, and only the doctoral researcher and supervisors will have access to the data collected for this research project.

What will happen to the results of the project?

The results will be analysed for the purposes of the research project and will be published in academic journals.

Who has ethically reviewed the project?

This project has been ethically approved via University of Sheffield's Ethics Review Procedure.

Contact for further information

For further information about the project and your participation please contact the doctoral researcher Ms. Linda TahiriRukiqi, mgp12mt@sheffield.ac.uk.

If you have any other queries or concerns please contact Prof. Vorley (supervisor), tim.vorley@sheffield.ac.uk.

Appendix 5. Consent Form

Participant Consent Form

Title of Research Project: The role of formal and informal institutions on Kosovo's export performance

Name of Researcher: Linda TahiriRukiqi

Participant Identification Number for this project:

Please initial box

1. I confirm that I have read and understand the information sheet explaining the above research project and I have had the opportunity to ask questions about the project.

2. I understand that my participation is voluntary and should I not wish to answer any particular question or questions, I am free to decline.

3. I understand I am free to contact the doctoral researcher if I want to clarify a response or ask for a response to be removed.

4. I understand that my name will not be linked with the research materials, and I will not be identifiable as far as possible in the reports that result from the research.

5. I agree to be recorded during the interview and I consent to the audio recording and interview notes to be used for the purpose of the research project and in publications related to this research project.

6. I agree to take part in the above research project.

Name of Participant Date Signature

To be signed and dated in presence of the participant

Lead Researcher Date Signature

To be signed and dated in presence of the participant

Copies: Once this has been signed by all parties the participant should receive a copy of the signed and dated participant consent form, the pre-written information sheet and any other written information provided to the participants. A copy of the signed and dated consent form should be placed in the project's main record (e.g. a site file), which must be kept in a secure location.

Appendix 6. Policy documents and legislation related to Kosovo exports

Below I include Kosovo laws and policy documents that support or are related to exports:

- Private sector development strategy 2013-2017 (Ministry of Trade and Industry, 2013).

The aim of the Private Sector Development Strategy is to accelerate development of the private sector, through certain policy measures in three different areas: SME policies; internal market regulation and international trade. It provides set of measures, aiming to promote exports, including: Promotion of the Kosovo companies and products in different international fairs; Creation of 'Quality of Kosovo' brand; increased cooperation with diaspora; identification and support of the priority sectors for exports; membership to WTO; signing and implementation of the Stabilization and Association Agreements with European Union; further development of quality infrastructure, standardization and product safety infrastructure.

- Kosovo national strategic development plan 2016-2021 (Government of the Republic of Kosovo, 2016).

This plan aims to address the main constraints to the country's economic development. It also proposes measures and policies that would enable new cycle of sustainable development, including following pillars: labour force, rule of law, competitive industries and infrastructure. It focuses on the re-industrialization of the country in order to empower private companies to produce different products with added value and compete with them domestically and internationally. Furthermore, this document proposes several specific government intervention to support improvement of the quality of Kosovo products, in order to increase their potential for exports.

- Program for agriculture and rural development 2013 (Ministry of Agriculture and Rural development in Kosovo, 2013)

It targets improvement of the physical and soft infrastructure for Agriculture and Rural Development in Kosovo. It proposes certain number of measures that would impact competitiveness of the Kosovo agriculture products and increase exports of those products in different international markets.

- Stabilization and association agreement between European Union and Kosovo

The Stabilisation and Association Agreement constitutes the framework of relations between the European Union and the Western Balkan countries for implementation of the Stabilization and Association Process, as a cornerstone of the European Integration Process for the Western Balkan Countries, including Kosovo. European Union and Kosovo, gradually are expected establish a free trade zone, according to GATT – General Agreement on Trade and Tariffs and other World Trade Organisation provisions, thus enabling new opportunities for Kosovo exports to the European Union.

- Trade policy of Kosovo (Ministry of Trade and Industry, 2009)

This policy document has been developed to provide basic guidelines for national trade policies. It claims it sets the key direction for the export policies, based on the principle of free trade.

- CEFTA Agreement (CEFTA, 2006)

This agreement was formed with the aim to create a free trade zone between the countries of the Western Balkan (not members of the EU).

- Kosovo education strategic plan 2011-2016 (Ministry of Education, Science and Technology, 2011)

It's main goal is to support, regulate and promote quality education for all citizens of Kosovo. One of the key constraints for competitiveness of the Kosovo companies and products in domestic and international markets is lack of skilled labour force. Kosovo Education Strategy aims to fill the gap between education and labour market, with certain measures in development of curricula and programs for skills development.

- Law on foreign investments (Official gazette of the Republic of Kosova, 2013).

The purpose of this law is to protect, promote and encourage foreign investment in the Republic of Kosovo, to provide foreign investors with a set of fundamental rights and guarantees that will ensure foreign investors that their investments will be protected and treated with fairness in strict accordance with the accepted international standards and practices. It creates the framework for the development of the policies that would attract Foreign Direct Investments. Higher inflow of FDI-s will increase the potential for exports. The establishment of the Kosovo

Investment and Enterprise Support Agency, in charge of the development of export promotion policies, is a direct result of this law.

- Law on economic zones (Official gazette of the Republic of Kosova, 2009).

The purpose of this law is the establishment of the economic zones, free economic zones, and creation of the basis for drafting the national plan for economic zones. The establishment of economic zones intends to: stimulate and encourage investments in Kosovo by providing the investors with suitable infrastructure for the development of business activities attract private investments in production activities; create business conditions for easier access to transport, energy supply, water and business support services that support business. The expected outcome of the creation of the economic zones is attract advanced technologies increased competitiveness of domestic products and services in domestic and international markets and enhanced economic connections of Kosovo market with the international market.

- Law on geographical indications and designation of origin (Official gazette of the Republic of Kosova, 2016).

The purpose of the law is to define the rules and procedures for the registration of geographical indications and designations of origin deriving by the registration and implementations of these rights, in accordance with EU legislation. It creates the legal basis for protection of the designation of origin or geographical indication of the Kosovo products in international markets.

- Law on the establishment of the Kosovo credit guarantee fund

This law is expected to meet the need for increased access to finance for micro, small and medium enterprises in Kosovo in order to create jobs, increase local production and value added services, improve the trade balance, and enhance financing opportunities for SME-s. It creates the legal basis for establishment of the Kosovo Credit Guarantee Fund. One of the main aims of this fund will be improvement of the trade balance, through easing the access of the exporting companies to the bank financing.

- Law on foreign investments

The purpose of this law is to protect, promote and encourage foreign investment in the Republic of Kosovo, to provide foreign investors with a set of fundamental rights and guarantees that will ensure foreign investors that their investments will be protected and treated with fairness in strict accordance with the accepted international standards and practices. It creates the framework for the development of the policies that would attract Foreign Direct Investments. Higher inflow of FDI-s will increase the potential for exports. The establishment of the Kosovo Investment and Enterprise Support Agency, in charge of the development of export promotion policies, is a direct result of this law.

- Law on economic zones

The purpose of this law is the establishment of the economic zones, free economic zones, and creation of the basis for drafting the national plan for economic zones. The establishment of economic zones intends to: stimulate and encourage investments in Kosovo by providing the investors with suitable infrastructure for the development of business activities attract private investments in production activities; create business conditions for easier access to transport, energy supply, water and business support services that support business. The expected outcome of the creation of the economic zones is attract advanced technologies increased competitiveness of domestic products and services in domestic and international markets and enhanced economic connections of Kosovo market with the international market.

- Law on product safety

The purpose of this Law is to ensure that the products placed in the market are safe. Safety of the products placed is a basic export requirement.

- Law on external trade

This law provides the provision for external trade activities of the Kosovo companies and adherence of the International Trade Rules. Some of the main provisions of the law are directly related with regulation of the export activities, including the basic criteria for export licensing, as one of the pre-conditions for companies, aiming to export to the international markets.

- Law on business organizations

This law specifies the types of business organization through which business activity may be conducted in Kosovo. Although this law does not provide specific provisions for exporting companies, is the basic law for any activity of the companies aiming to do business in Kosovo, including exporting to international markets. The following types of businesses can be registered in Kosovo: Individual businesses, general partnerships, partnerships, limited liability companies, joint stock companies, foreign companies, socially owned enterprises and agricultural cooperatives

- Law on central bank

The Law on Central Bank provides legal provisions for the establishment and functions of Central Bank of Kosovo. According to this law, the primary objective of the Central Bank is to foster and to maintain a stable financial system, including a safe, sound and efficient payment system. A crucial part of international trade transactions is ensuring that you get paid. Central Bank provides the regulatory framework for the financial intuitions and instruments that play crucial role in facilitating and financing of the exports.

- Law on value added tax

This Law establishes the system of Value Added Tax (VAT) in the territory of Republic of Kosovo. Tax on Added Value includes application of overall tax in consumption for goods and services that is exactly proportional with the cost of goods and services. VAT is calculated in this cost according to the applicable norm, it is loaded in different phases of the production, delivery and living cycle of the trade with goods and services, and in the end it is carried forward from the last consumer. Three different VAT rates are applicable: 0 %; 8%; 16%. This law has a direct impact to the competitiveness producers of the exported goods. Furthermore, Law on Value Added Tax provides the specific provisions with regard to the VAT rates applicable to the exports, respectively VAT exemption for the exports, one of the main incentives for the exported goods.

- Law on corporate income tax

This Law establishes the system of Corporate Income Tax in the territory of Republic of Kosovo. The current applicable Corporate Income Tax Rates are: 0% and 10%. Corporate Income Tax has a direct impact to the competitiveness of the companies, both domestically and internationally. Kosovo tax legislation, including Law on corporate Income Tax is very favourable for the competitiveness of the companies, with very low tax rates on incomes: 0% and 10%.

- Law on standardization

It provides legal basis for definition and application of the Kosovo Standards for different products, in line with European standards. Application of the standards aims to increase the level of safety for products and processes, in the function of requirements to protect and improve the life quality, health safety, environment and consumer protection, by ensuring common rules, thus impacting abolishing the technical barriers in the international trade, including export barriers to certain countries.