



KOSME

Kosovo SME Promotion Programme

READINESS OF KOSOVO SMEs TO INVEST IN GROWTH AND EXPANSION

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List of Acronyms

BSS	Business Support Services
EU – EURED	European Union – European Union for the Research in Economic Democracy
HELVETAS - EYE	Helvetas Swiss Intercooperation – Enhancing Youth Employment Project
ICT	Information and Communication Technology
IMF	International Monetary Fund
KAS	Kosovo Agency of Statistics
KIESA	Kosovo Investment and Enterprise Support Agency
KOSME	Kosovo SME Promotion Programme
MEF	Ministry of Economy and Finance
MTI	Ministry of Trade and Infrastructure
NACE	Nomenclature generale des Activites economiques
OEK	Kosovo Chamber of Commerce
SBA	Small Business Act
SME	Small and Medium Enterprises
TAK	Tax Administration of Kosovo

➤ 1. Context and Purpose of the Report

The main objective of Kosovo SME Promotion Program (KOSME) is to contribute to the promotion of market-oriented private sector development in Kosovo and foster global competitiveness of Kosovo's SMEs in line with the principles of sustainable development.

The key objective is to contribute the improvement of framework conditions and service provision for SMEs in Kosovo as a result of extended access to finance and professionalized business development services provided by the Kosovo Investment and Enterprise Support Agency (KIESA), with special emphasis on the creation of opportunities for the poor – men, women, youth and minorities.

This research is carried out as part of the first component of the project "Capacity Development for KIESA" under the activity 1.3.c "Research for SBA Assessment". The purpose of this research is twofold: to improve evidence-based policymaking, and to develop capacities in the research, processing, analysis and publishing of SME data.

The aim of this research is to improve Kosovo's rating within the SBA Assessment. The Small Business Act (SBA) is an overarching framework for the EU policy on Small and Medium Enterprises (SMEs). It aims to improve the approach to entrepreneurship in Europe, simplify the regulatory and policy environment for SMEs and to remove the remaining barriers to their development.¹

The main priorities of the SBA are: a) Promoting entrepreneurship; b) decrease the regulatory burden; c) improve access to finance; and d) access to markets and internationalization.

In general, the Kosovo SME sector experienced a fast growth both in terms of number of enterprises and employment. In particular, this sector outperformed large-scaled enterprises in creation of jobs. However, much of the growth in the SME sector happens in the micro-enterprise segment and this appears to be concentrated on relatively few companies, while the majority of companies are more or less stagnating. The SME sector continues to be dominated by micro and small enterprises, whilst the medium ones have relatively small relevance in the overall economy.

Yet, despite this early success, Kosovo's micro enterprises are often economically fragile and vulnerable and most of them are struggling to survive.²

There are a number of obstacles that influence the growth and expansion of SMEs in Kosovo, including external factors such as access to finance, competition, corruption and barriers to trade, as well as internal factors like management competences, lack of skilled labor, marketing strategies, level of innovation and investment in technology.

Kosovo institutions have recently put the emphasis on supporting the SME sector as it is broadly ac-

1 http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm

2 Source: 2014 KOSME, Report on State of SMEs in Kosovo, (page 28)

knowledge that its growth will have a crucial impact in fighting unemployment and poverty.

Hence, this research looks at the supporting and hindering factors for the growth and expansion of Kosovo SMEs from two different perspectives: a) from the internal perspective (i.e. revenue based expansion and growth possibilities) and b) from the external perspective (availability of finance and grants, institutional investment support services, institutional business support services, etc). The aim of this study is to obtain different views and perspectives to identify supporting and hindering factors for SME growth.

The research itself was divided in three phases: desk research, field research, data evaluation and report writing.

1.1 Methodology Used

For the purpose of this research, the project team has obtained a comprehensive list of SMEs from the database of Tax Administration of Kosovo (TAK), an agency with the most accurate data on active businesses operating in Kosovo. In accordance with project team's requests about the type and the size of companies, the provided list contained over 11,500 active businesses with rather updated addresses and contact information.

The database had important information on size of SMEs (in terms of the number of employees), sectors and regions where the companies operate and owners' personal information. These characteristics were important when preparing the sample – by comparing the characteristics of sample (size and/or sector) with characteristics of whole population (TAK database) a representative sample was selected.

The project team evaluated that in order to obtain reliable results, a sample with 300+ SMEs across Kosovo is required. During the sampling phase the project team identified additional 30 SMEs that would eventually substitute the SMEs that could refuse to respond or would not be available during the planned surveying period.

The project team has then engaged its enumerators to conduct the survey. Prior to the engagement, these enumerators were trained and tested with real life cases. Moreover, the project team has piloted the questionnaire with seven most representative SMEs in order to find out potential problematic areas and introduce the required modifications.

Once the questionnaire was finalized and printed, enumerators conducted the survey for a period of four weeks. During this time, completed questionnaires were submitted to the project team office, where a controlling team conducted two parallel processes; the first one, a logical control – that is a process where controllers check whether there are answers that contradict logically each other – and the second, the field control. The project team applied a telephone control to a number of surveys conducted, in order to check whether the obtained responses truly represent SME opinions. In order to ensure

credibility in answers, enumerators had to interview only owners or top managers. Subsequently, the collected data were inserted into professional surveying online software, through which the final results were obtained.

1.2 Desk Research

One of the first activities within this project was the desk research on SBA Assessment. The project team reviewed the existing SBA assessments for Kosovo as well as its implications for the SME policymaking in the country. The knowledge gained during this first activity helped the project team to better understand the assignment and develop an effective and efficient working plan for the project.

As part of the desk research phase, the project team also reviewed similar studies conducted on the private sector in Kosovo.

An important activity of the desk research phase was to develop a SMEs questionnaire that includes qualitative and quantitative questions to gather the required data, as well as the interview guidelines, which were used to interview a number of key stakeholders related to the researched fields. As an outcome of this activity a basis for a more structured research plan in the following phases was secured.

1.3 Field Research

In the field research phase, the project team conducted interviews with 325 Kosovo SMEs, whereas 305 completed questionnaires have been obtained and included in the study. The distribution of interviews across different company types (micro, small and medium), regions and sectors was done in accordance with the sampling plan. However, the number of medium enterprises available for interviews was much lower, mainly due to their significantly lower prevalence, and also because their owners and/or managers were not available to meet with enumerators.

Interviews were conducted face-to-face with company owners or key managers in the company premises. In order to guarantee professional data gathering services, the project team implemented quality assurance measures as described above. The aim of such measures was to ensure that interviewers are correctly instructed and are conducting interviews effectively and in accordance with the best practices. The completed original questionnaires were handed over to the project team, which together with this report have been forwarded to KOSME.

1.4 Sampling

This research was focused on the following four sectors (see table 1 for details): Manufacturing, Construction, Business Support Services and ICT. These sectors are considered to have the biggest potential to impact the economic growth in Kosovo.

Table 1. Planned distribution of the sample across sectors

Sectors	Number of companies to be interviewed
Manufacturing	150
Construction	80
Business Related Services	70
ICT	30
Total	330

Manufacturing has been a sector that has already created a large number of jobs and is expected to continue along the same trend in the next few years. Construction has been a booming market over the past 15 years and is expected to continue to provide jobs to a large number of people in the future based on the construction needs of the country. Business Support Services has been chosen as it is expected that this sector needs to grow in tandem with the growth of the SME sector in the country. Finally, ICT has been chosen due to its recent performance and the beneficial demographics of the country (70% under the age of 35), which is a supporting factor for the further development of the ICT industry.

Table 2. Planned distribution of the sample across regions

Regions	Number of companies to be interviewed
Prishtina	100
Prizren	40
Peja	40
Gjilan	35
Mitrovica	40
Gjakova	30
Ferizaj	45
Total	330

As table 2 shows, the surveying plan has foreseen to interview SMEs from seven main regions in Kosovo, which cover the total territory of the country, except for the northern part of Kosovo, where central authorities have yet to extend their rule.

In the covered regions, SMEs have been surveyed mainly in bigger towns and their surroundings, since most of SME activity is focused around cities. Nevertheless, some of the interviews were also conducted in smaller locations where SMEs from minority groups live, i.e. Mamusha in Prizren or Ranilluga in Gjilan.

1.5 Quality Assurance

After the final version of the questionnaire for SMEs was developed, the project team has organized briefing/training sessions with the interviewing team (enumerators) in order to instruct them on the proper interviewing approach and on which particular sections of the survey to focus (while insisting to get broader answers from the interviewees). The project team maintained regular communication with the interviewing team in order to monitor the survey flow and consequently modify the sampling plan when considered necessary. It also checked the work of enumerates by randomly selecting companies with whom interviews have been successfully conducted and contacting them to confirm the accuracy of data.

During the whole duration of the project, the project team delivered weekly status reports to KOSME and held joint meetings when considered necessary for the benefit of the project.

2. Overview

2.1 Structure and Development of the SME Sector in Kosovo

Kosovo began its transition process after the 1998-1999 war and is the last country in the region to embark on the road towards open market economy. In the war's aftermath, the emphasis was put on the immediate reconstruction needs, which delayed the tackling of employment and poverty. Hence SMEs and other businesses operating in Kosovo confronted a lack of support, making Kosovo's economy heavily reliant on imports.

Immediately after the war, the economic growth of the country reached double digits, a growth pattern that lasted briefly and was driven mainly by the international assistance. However, from 2008 when Kosovo declared independence, the growth rates, though steady, became sluggish and stood around four percent. The economic growth of Kosovo throughout these years was driven mainly by consumption and public expenditure, while the importance of foreign aid and donations continued to be substantial. Although investments increased, they were insufficient to boost domestic production, which remained on insufficient levels, leaving the country mainly dependent on imports. Exports remained on rather insignificant levels. Throughout this period, the main trade partners of Kosovo remained the EU, Serbia, Macedonia and Turkey.

Other macroeconomic figures are also not impressive. For instance, at present, Kosovo with 1.7 million inhabitants, most living in urban areas, has an unemployment rate of 35.3%.³ Additionally, over 12% of Kosovars live in extreme poverty with daily income of less than one dollar. As argued by several studies conducted till now, although the growth rates in Kosovo were amongst highest in the region, they failed to translate into job creation opportunities or poverty reduction inputs.

An important element in the analysis of Kosovo's economy is its demographic structure. According to latest statistics, more than 65% of Kosovo's population is under 35 years old. Although new jobs are being created (around 7-10,000 annually), the fact that the country has a very high number of job market entrants (around 30,000 each year) the unemployment rate remains constant. An important source of livelihood and social stability are the Diaspora remittances. It is estimated that Kosovo economy benefits annually from at least EUR600 million in form of remittances. However, this important income source has a limited impact on job creation as most of it goes for consumption of imported goods.

The latest growth projections of around 4% are insufficient to address the unemployment problems of the country. Encouraging, however, are the projected growth rates of exports, foreseen to increase by roughly 10% every year, although starting from a very low base (IMF, 2014). Growth in exports, combined with an eventual fall in the growing trend of imports, means that the country is expected to improve the trade deficit in the coming years.

2.2 SME specifics in Kosovo

As every country in the region, Kosovo is also a SME-based economy. According to the TAK, SMEs represent around 99.9% of all active businesses in Kosovo. Despite the many difficulties, SMEs in Kosovo represent the main source of job creation and play a crucial role in the economic development of the country. As a UNDP report (2012) points out, SMEs are fundamentally important for reduction of poverty and extreme poverty, therefore a drastic reform is required on business environment in order to enable the SME growth.

The SME development in Kosovo is not only relevant for economic growth, but it is also essential to increase employment opportunities, to reduce poverty rates, to enable equal regional development and to ensure inclusion of vulnerable groups i.e. youth and women. To achieve these goals, countries of the region provide various incentives to enable SMEs to become more competitive and grow faster. An accelerated growth of the SME sector creates additional value in the market and improves trade balances. For a country with a huge trade deficit like Kosovo, improvement of the SME related business climate inevitably contributes to enhance the general economic situation and to promote exports.

There are some doubts as to the precise number of SMEs in Kosovo, not only due to the fact that these numbers vary across the agencies that record such data, but also because many of the registered SMEs

3

Source: Kosovo Agency of Statistics at: <http://ask.rks-gov.net>; (10 February 2016)

are inactive or have ceded to exist. This study has relied on TAK, which has a rather accurate database at disposal, including businesses that have acquired a fiscal number and are currently paying taxes.

According to TAK there are over 46.032 businesses operating in Kosovo.⁴ The distribution of businesses according to their size is given in table 3 below.

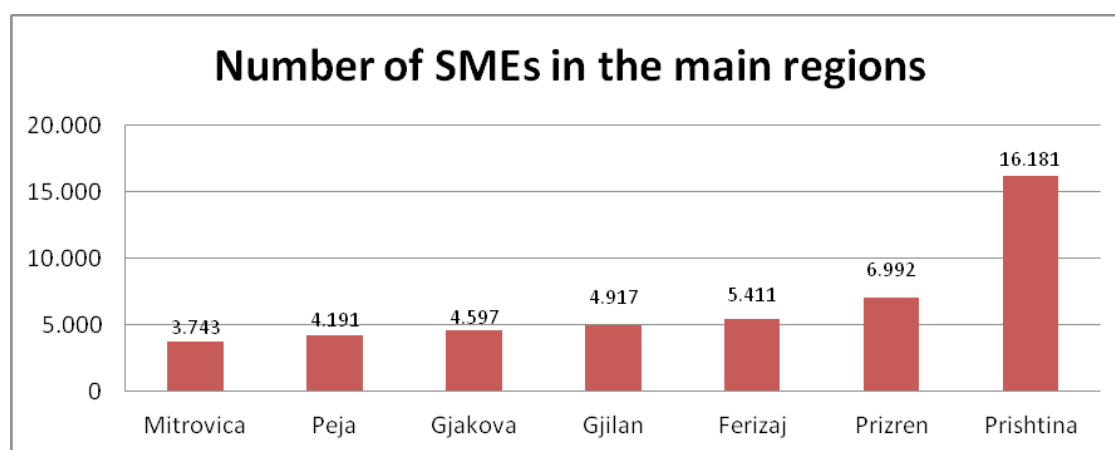
Table 3. Actual distribution of companies by size in Kosovo⁵

Size	Number of employees	Percentage
Micro enterprises	1 to 9	95 %
Small enterprises	10 to 49	4.2 %
Medium enterprises	50 to 249	0.7 %
Large enterprises	250 or more	0.1 %
Total		100 %

The vast majority (95%) of businesses in Kosovo are micro enterprises, with 1 to 9 employees. The percentage is similar to the regional countries, most notably to Albania and Macedonia. The second group consists of small enterprises, with 10 to 49 employees; around 4.2% of the firms in Kosovo are small. Kosovo has only 0.7% of medium enterprises, while the large firms account only for 0.1% of the total number of businesses.

The data on the regional distribution of SMEs shows that Prishtina region has the largest number of businesses (over 16,000 or around one third of total active businesses) followed by Prizren (roughly 7,000).

Chart 1. Distribution of SMEs among the main regions⁶



4 Source: 2014 KOSME, Report on State of SMEs in Kosovo (page 11)

5 Source: 2014 KOSME, Report on State of SMEs in Kosovo (page 12)

6 Source: 2014 KOSME, Report on State of SMEs in Kosovo (page 14)

The number of enterprises correlates with the number of inhabitants across Kosovo cities (KAS, 2011). Prishtina is the largest market in Kosovo because it is the country's capital and the most populated city. This, in turn, provides sufficient incentives for firms to operate in and around this region. But this is not the only reason why firms are concentrated around the capital. Another argument is that most of the administrative, logistic and other facilitating activities occur in the capital city, offering an attractive environment for business activity.

Mitrovica and Gjakova represent the regions with the lowest business activity. Both regions, prior to the war and especially during the former Yugoslav rule before the 90s, were fully depended on heavy industries. Most of the country's factories were located in these two cities. During the 90s under the Serbian rule, these cities suffered most from the collapse of the industry. In addition, both cities suffered major war and post war destruction. Gjakova is one of the most damaged city during the war, while Mitrovica divided into two parts along ethnic lines, has suffered considerably from ethnic tensions and highly risky business environment.

Regarding the type of ownership, 'Individual Business (B.I.)' is by far the dominant legal form in Kosovo, especially among solo-entrepreneurs and other micro enterprises with less than 10 persons employed. In these size categories, 92% and 77% of businesses respectively are using the B.I. form. Small and medium enterprises (10-249 persons employed) are more often organized as a Limited Liability Company (Sh.P.K). In this category, 43% are using the Sh.P.K form.⁷

➤ 3. The SMEs survey

Aimed at obtaining the most accurate picture of intentions of SMEs for growth and expansion, but also to understand the main obstacles that they face in this aspect, the project team has used a sample consisting of companies of different sizes and businesses. The sample has been chosen to allow a balance between those SMEs who have already experienced solid growth and others with more moderate development but which are looking ahead to boost their business and hence expand their size by also engaging in exports.

In the section below the results of every part of the questionnaire, accompanied by relevant explanation for each of them, is provided.

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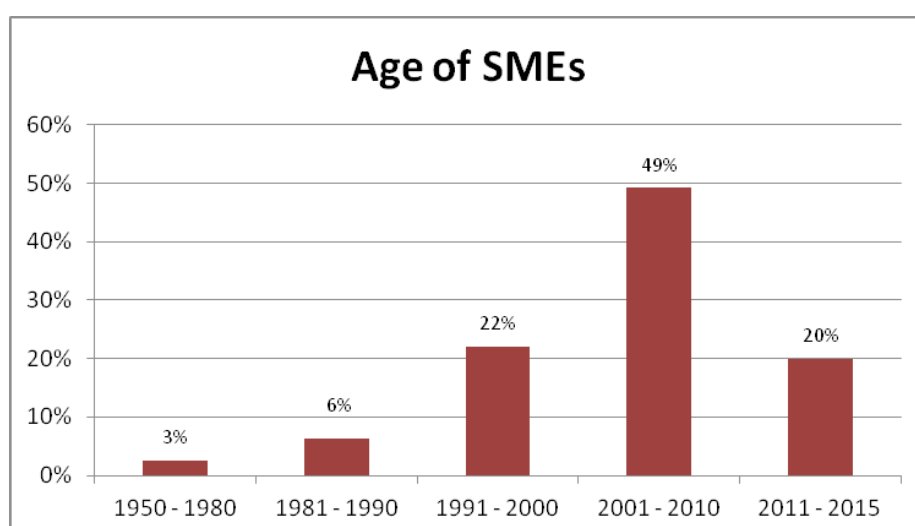
Source: 2014 KOSME, Report on State of SMEs in Kosovo (page 21)

3.1 Company size and human structure

3.1.1 Age of SMEs

Kosovo has a relatively young SME sector. The majority of the surveyed SMEs have been established after the Kosovo war, in the periods 2001-2010 (49.18%) and 2011-2015 (20%). The second largest group of surveyed SMEs was established during the 1990s, when Albanians were dismissed from their jobs and massively engaged in private business activity to secure livelihood. The last two groups contain companies founded: a) during the 1980s when under the socialist system some economic freedom was given to the private initiatives; b) after the Second World War (the smallest percentage) mainly metal or wood processing companies, registered during those years as handcraft businesses, which however have grown after the fall of socialist system and continued their activity presently.

Chart 2. Distribution of SMEs by period of establishment



3.1.2 Sectors researched

Although the project team planned to interview a balanced number of targeted sectors, during the course of survey, the need to apply several changes to the sample emerged. This because particular companies within a given sector were not available or ready to meet with enumerators. In addition, a number of ICT and BSS businesses were replaced with producing companies since they were not compatible with the purpose of this survey (e.g. lacking answers on many of the questions). The table below shows the final percentages of the sectors covered in this study.

Table 4. Distribution of sectors in the sample

Sector	Sub-sector	Number of companies interviewed	Percentage of total sample
Construction	Building	66	21.6%
	Construction materials	34	11.1%
Production	Food packaging	1	0.3%
	Food trading	1	0.3%
	Food producer	11	3.6%
	Food processing	51	16.7%
	Textile processing	2	0.6%
	Oil production	1	0.3%
	Gas processing	1	0.3%
	Leather processing	1	0.3%
	Rubber processing	1	0.3%
	Plastic processing	19	6.2%
	Metal processing	27	8.8%
	Wood processing	47	15.4%
BSS and Tourism	BS	9	2.9%
	Tourism	21	6.9%
	ICT	11	3.6%
Total		304	100 %

In line with Kosovo-wide business sector breakdown, most of the surveyed companies belonged to the construction sector and production of construction materials, followed by companies in the food processing industry (both producers and service providers), and wood and metal processing industry. Tourism, ICT and BSS sectors were the last large groups represented in the sample.

3.1.3 Core products/services

Logically, core products and services delivered by the interviewed companies render from their respective sectors. Hence, building of residential buildings and roads are the main activities within the construction sector, followed by producers of concrete and bricks from the construction materials sector. Bread and similar wheat products comprise the main part of food production/processing sector, while doors, windows, but also furniture are main products within the wood processing sector (with doors and windows taking the biggest share of the metal processing sector, too). Tourism mainly consists of hotels and similar service providers and the majority of ICT companies are active in programming and IT maintenance services. Notary and law firms are the main service providers in the BS sector.

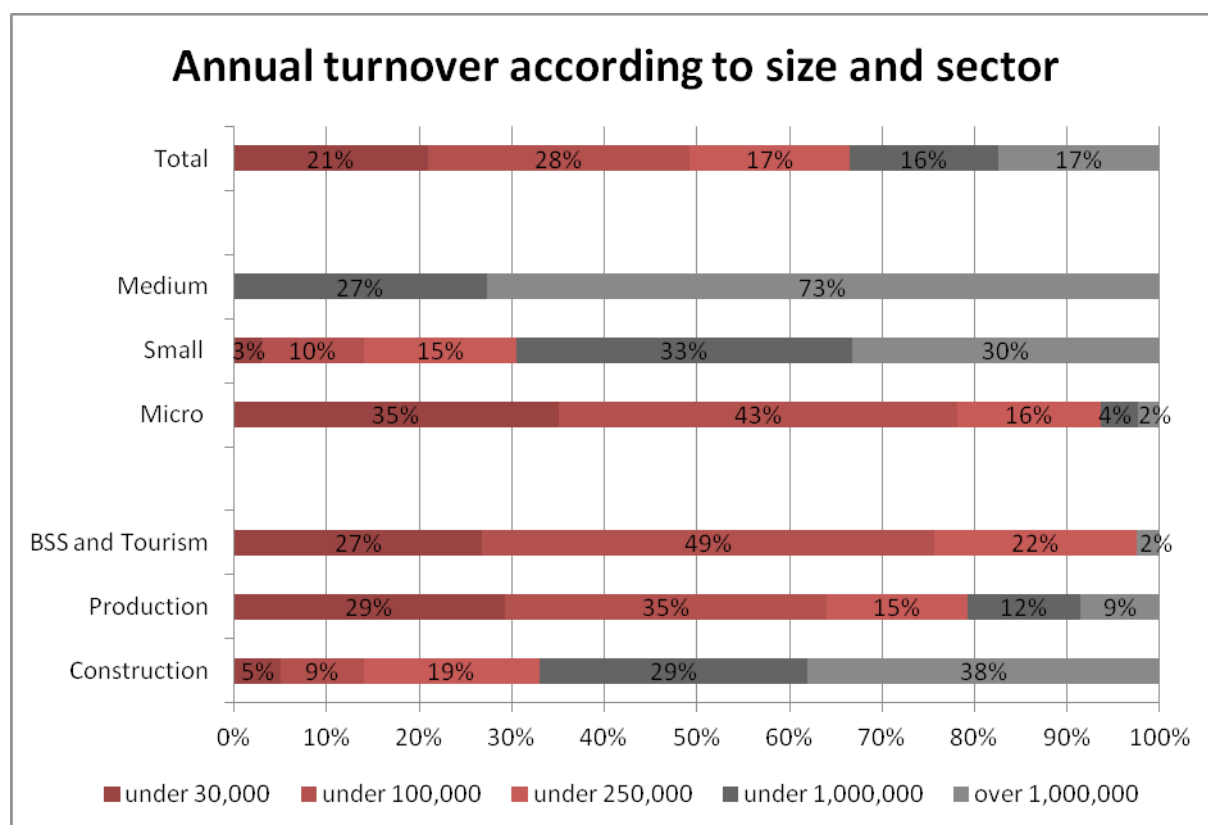
3.1.4 Annual turnover

The majority (66%) of the interviewed SMEs have an annual turnover of less than EUR250,000. As chart 3 shows there is a high correlation between company size and annual turnover.

Micro-sized companies in the sample mostly have annual turnovers of less than EUR100,000. Small companies on the other hand achieve higher turnovers with 66% reaching turnover of over EUR250,000. This data shows that roughly half of the surveyed SMEs are not in a favorable position to finance their business growth and expansion, given the loan criteria, which are prevailing in the Kosovo banking sector.

In terms of sector, the production sector companies and BSS and Tourism companies mostly reach low turnovers of less than EUR250,000 (98% of the surveyed BSS and Tourism companies and 70% of the surveyed production companies). Due to its size and the growth experienced in the war's aftermath, the construction sector is leading in terms of turnovers with 29% of the interviewed companies from this sector achieving turnovers of over EUR250,000 and 38% reaching turnovers of over EUR1,000,000.

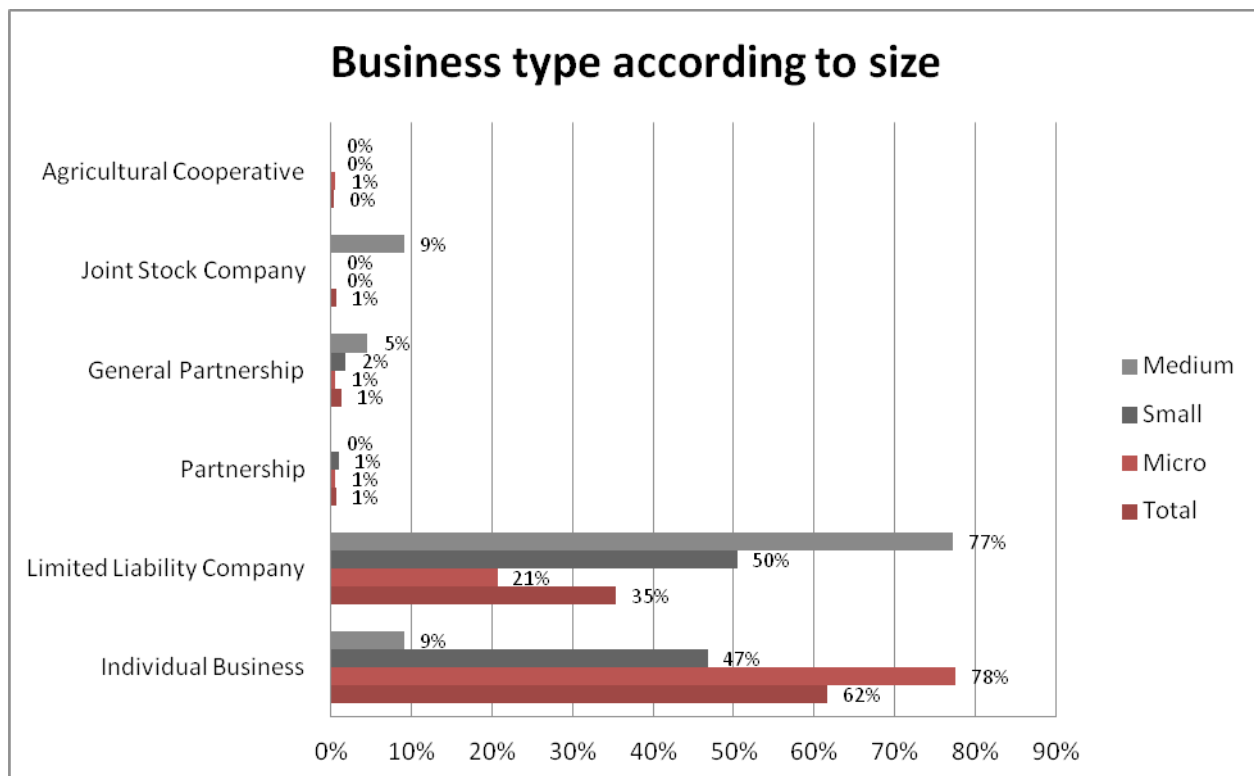
Chart 3. Annual turnover according to size and sector



3.1.5 Legal status

The structure of business legal types for the interviewed SMEs follows the overall pattern of registered businesses on Kosovo level. Hence, the vast majority of SMEs surveyed are either individual business (61.6%) or limited liability companies (35.4%), which are also mostly owned by a single person. Individual business is the most prominent form of registration for small companies while there is a shift towards Limited Liability companies with the increase of company size.

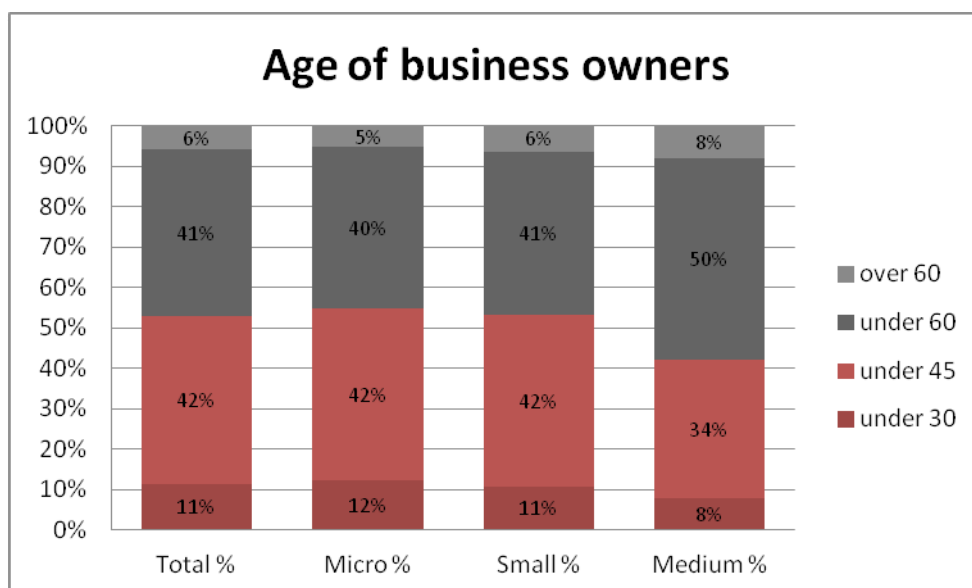
Chart 4. SME legal status



3.1.6 Age of business runners

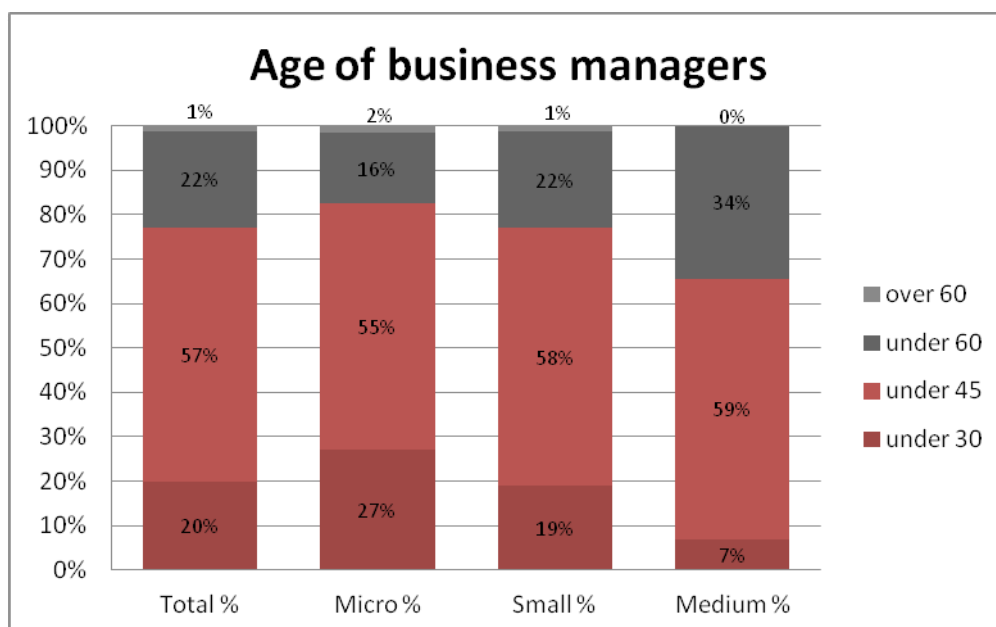
As illustrated in Chart 5, the majority of interviewed SME owners (88.7%) are over 30 years old, hence the chart shows that younger generations (under 30) are a minority group as business owners in the selected sectors. This consequently represents the economic situation since the end of the war, the period in which due to insufficient economic growth and lack of incentives few young entrepreneurs engaged in business activity.

Chart 5. Age of SME owner(s)



However, in comparison with above, there is a considerable shift towards younger people in demographic structure of business managers in the SMEs surveyed. As shown in the graph below, the presence of young people outnumbers significantly older generations in such positions.

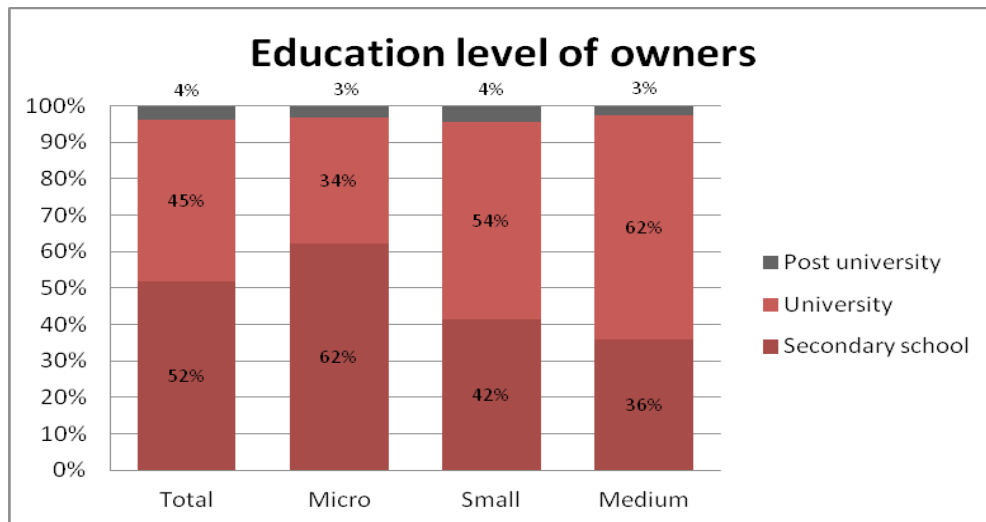
Chart 6. Age of SME managers



3.1.7 Education level of SME owners and managers

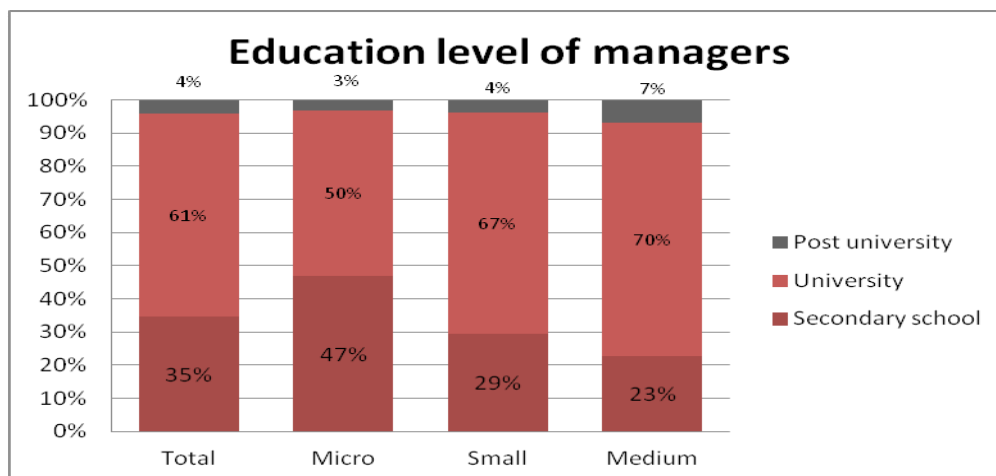
The data shows that the majority of the surveyed SME owners (52%) have a secondary school education level. Over 44% of owners hold a university degree and just around 3.6% a post-university degree.

Chart 7. Owner(s) education level



The survey also reveals that the managers of the interviewed SMEs are better educated. Around 65% hold a university or post university degree, while only 34 % have a secondary school education. The higher number of managers with higher education levels does not necessary indicate that those particular SMEs have better chances to succeed in their business, due to the local business culture, where owners tend to interfere in everyday operations and overrule the educated managers.⁸

Chart 8. Management education level

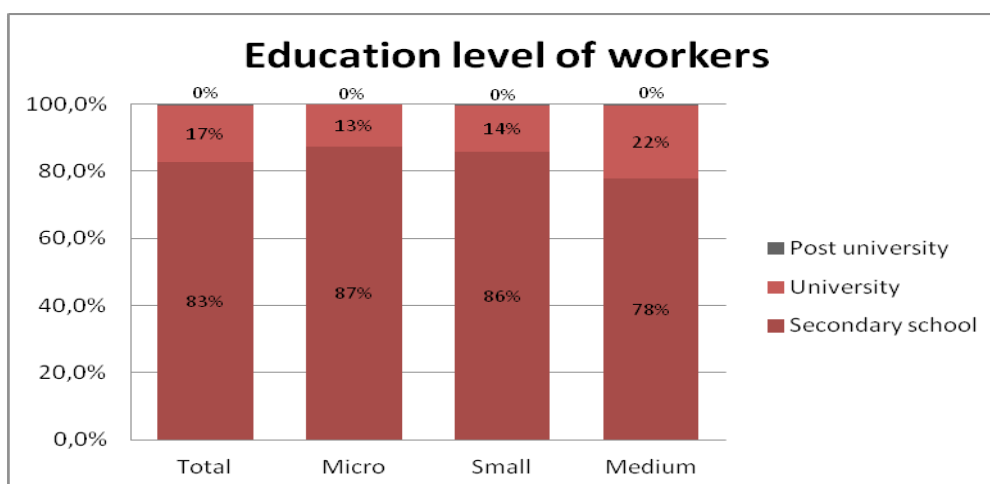


8 From the interview with EURED in Prishtina - internal difficulties of SMEs: "business culture as internal hindrance"

3.1.8 Workers education level

The most worrisome situation regarding the education levels in the surveyed SMEs, is found on SME employee level, who are actually the main engine of company operations. Nearly in all three categories, figures show the same challenge with about 80% of employees having finished only the secondary school. This data unfolds a hindering factor for a sustainable SME development, especially when considering the importance of qualified human resources for growth and expansion, in particular in relation to exports and FDIs.

Chart 9. Workers education level

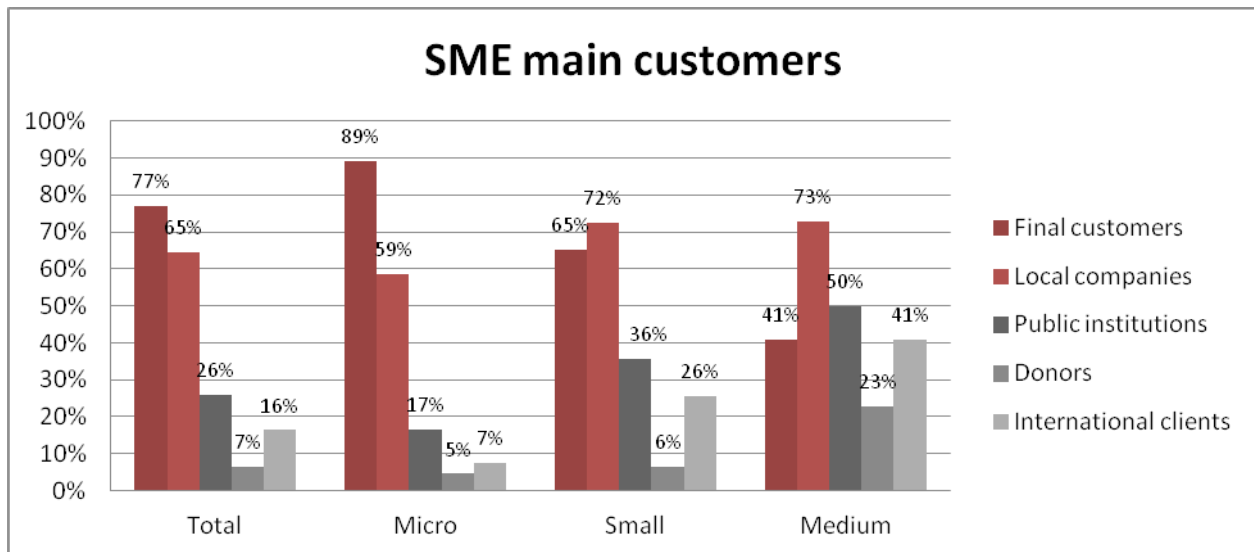


3.1.9 SME main customers

Main customers of SMEs surveyed are final users followed by local companies and public institutions. Donors on the other hand are customers for 6.6% of the interviewed SMEs and international clients for 16.4% of them, respectively.

In terms of main customers according to the company size, as the chart 10 shows, micro enterprises from the sample rely to a great extent on final customers. For small and medium enterprises there is a shift towards local companies and public institution in their customer structure. Medium enterprises lead in offering their products/services to donors and public institutions, which is explained by their size as they can meet the sought criteria to enter such cooperation. In terms of international customers, medium enterprises are also leading with 40.9% as opposite to micro and small enterprises that have a lower portion of international customers in their customer portfolio.

Chart 10. SME main customers



3.2 SME history

3.2.1 Previous growth rates of SMEs

SMEs studied in the sample have performed well in the past years. Data shows that on average, in the period between 2011 and 2013 these SMEs have grown annually by 15.6% in terms of employment, 25.8% in terms of sales, and 17.4% in terms of profit.

As illustrated in table 5, interviewed SMEs have experienced a significant growth in spite of all hindering factors (described in sections below).

Table 5. Past employment, sales and profit growth of SMEs

		2012	2013	2014
Employment	Total	15%	15%	17%
	Micro	14%	13%	16%
	Small	15%	17%	20%
	Medium	19%	18%	18%
	Production	16%	17%	18%
	Construction	13%	14%	18%
	BSS and Tourism	17%	13%	12%
Sales	Total	23%	26%	28%
	Micro	21%	25%	28%
	Small	26%	27%	29%
	Medium	29%	25%	27%
	Production	24%	24%	25%
	Construction	23%	27%	32%
	BSS and Tourism	24%	26%	24%
Profit	Total	16%	17%	19%
	Micro	15%	17%	19%
	Small	16%	17%	20%
	Medium	24%	17%	20%
	Production	17%	16%	19%
	Construction	15%	17%	20%
	BSS and Tourism	16%	19%	16%

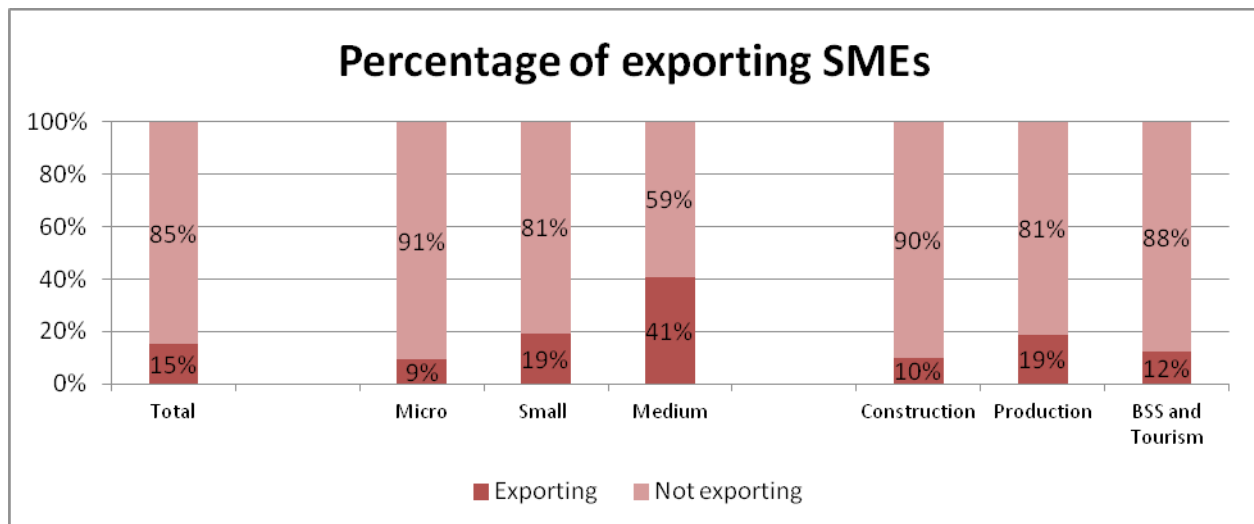
The highest growth in terms of employment has been experienced in the production sector, where surveyed SMEs have reported to have grown on average ca. 17% in the last three years, according to the data of the survey. The most prosperous development in terms of sales figures is seen in the construction sector with average sales growth standing at 27% annually.

3.2.2 Exporting SMEs

The growth of the surveyed SMEs is mainly fuelled by local demand, whereas only about 15% of them are exporting their products/services abroad. This explains also the large trade deficit in Kosovo's trade balance. As Chart 11 shows, the engagement of SMEs from the sample in exports is strongly dependent on the company size. While medium enterprises demonstrate a rather different, positive situation, with over 40% already active in exports, they represent less than 10% of the total surveyed companies.

Sector-wise, the production sector has the highest share of exporting companies at 19%. This is understandable considering that wooden, metal and plastic products are among the main exporting goods. BSS and Tourism sector (with 12% share of exporting companies which are mostly ICT companies) and construction sector (with 10% share of exporting companies) also have a fairly good share of exporters.

Chart 11. Exporting SMEs

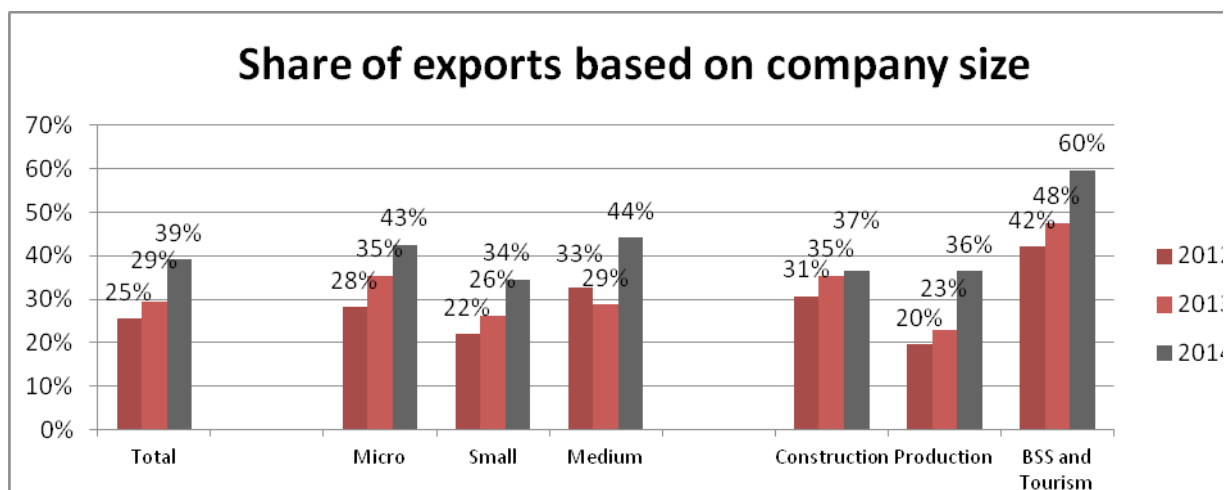


Export shares during the last three years differ only slightly between the company sizes. Data shows that small exporting enterprises in the sample have the lowest share of exports in their overall sale figures. Yet, there are clear trends in increasing the share of exporting levels in all three groups of companies. Over the last three years, on average (for surveyed SMEs that are engaged in exports), the share of exports from total sales has increased annually by 6.5% to reach 39% of total sales in 2014.

In terms of sectors represented in the sample, the highest share of exports in the overall sales figures is held by the BSS and Tourism sector mainly due to exporting ICT companies. In 2014, these companies have reported to achieve 60% of the total sales from exports, compared to exporting construction and production companies in the sample, which have attained 37% and 36% of their total sales through exports.

The predominant type of exported products and services are wood and metal processing products. But, some construction component materials, as well ICT services, especially in programming and web-design branches, are catching up at quick pace.

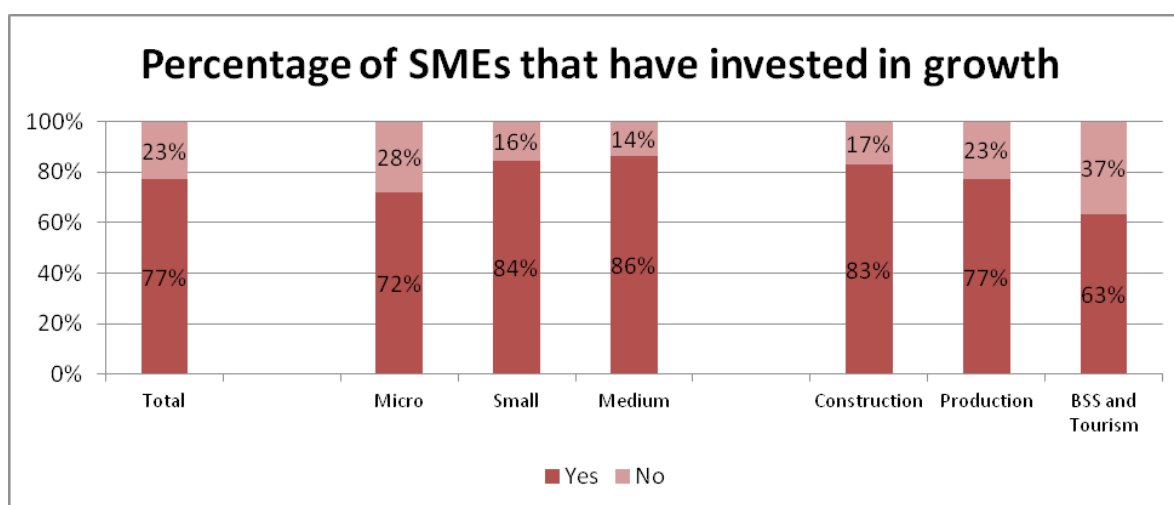
Chart 12. Percentage of SMEs previous exports



3.2.3 Previous company investments in growth

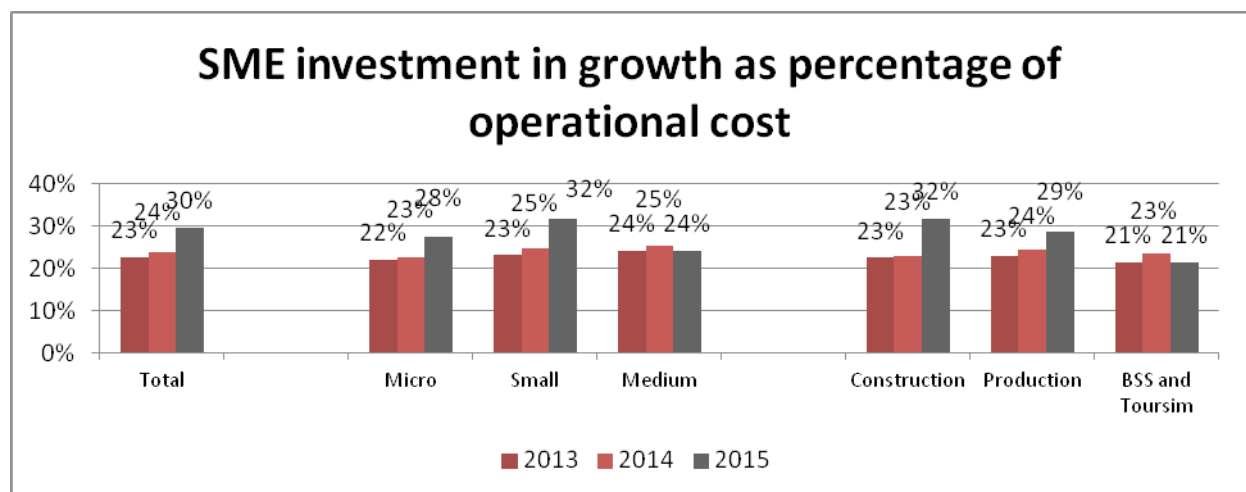
The results show that the majority of the interviewed SMEs (77%) have invested in business expansion in the past. This figure is the lowest in the case of micro enterprises at 71% and largest in the case of medium enterprises, where 86% percent of interviewees stated that they have invested in business expansion during the past three years. The construction sector turns out to be the leading sector (83%) with companies investing in growth (apparently as a result of the lasting real estate boom). This group is followed by production, and BSS and tourism, where 77% and 63% of the interviewed companies respectively have invested in growth in the past.

Chart 13. Percentage of companies who invested previously in growth



In the last three years the interviewed SMEs have invested on average ca. 25% of their total operational costs in business expansion. Furthermore, these SMEs have been able to continuously raise their investments portion in comparison to operational cost. This is in particular the case for surveyed micro and small enterprises, which in the last three years have increased the investment share annually by 2.7% or 4.3% respectively. This again illustrates the serious ambitions of the interviewed SMEs and their commitment to growth and expansion, since allocation of such a portion of total costs towards investments means there is a clear will among them to further develop and consolidate their position in the market. Again, it is the construction sector with the highest average share of investment from total operational cost (on average 26% during the last three years), whereas lowest share of investment (22%) is notable in the BSS and tourism sector, mainly influenced by ICT companies and commercial lawyers, who have already consolidated their businesses and use the existing resources to increase their productivity.

Chart 14. Share of previous investments



The main areas where the surveyed SMEs have invested in the past are presented in table 6. These SMEs have mainly invested in production technology (65%), creation of real estate (51%) and employment opportunities (50%).

Table 6. Main investment areas

	Production technology	Employment	Staff training	Real estate	Penetration into new markets	Other
Total	66%	50%	20%	51%	19%	1%
Micro	61%	44%	14%	46%	13%	1%
Small	73%	58%	27%	56%	26%	1%
Medium	64%	64%	27%	68%	36%	0%
Construction	72%	51%	17%	49%	18%	0%
Production	72%	51%	19%	53%	24%	0%
BSS and Tourism	24%	49%	29%	49%	5%	5%

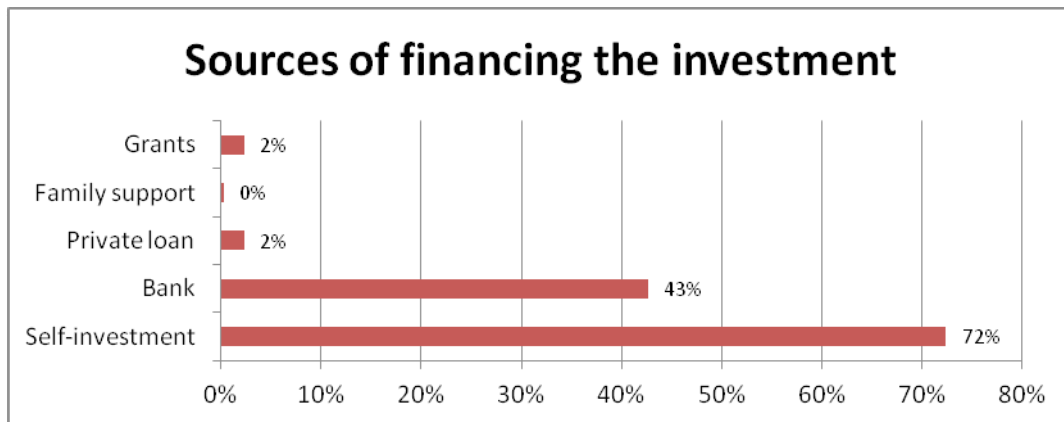
A more detailed observation of the survey results show that the micro and small enterprises have mainly invested in the first two areas: a) in technology, to enhance their production capacities, and b) in employment, in terms of adding human resources that would operate that technology.

The situation in surveyed bigger size companies is slightly different where in addition to investments in the first-ranked areas they have also shared part of their investment portfolio to penetrate new markets in both neighboring countries as well as the EU. Construction and production sector companies have mainly invested in the past in production technology, real estate, employment and exports. Companies in the BSS and tourism sector have reported lower investments in production technology since technology is considered to be mainly a one-time-investment due to nature of their business. In this group of surveyed companies investments in real estate and employment creation were more common.

In the analysis of how the interviewed SMEs have financed such previous investments, the figures are to a great extent influenced by the micro and small enterprises, which represent over 80% of the sample; therefore the percentage of self-investment (72.46%) overtakes the banks (42.6%) as source of financing. This holds true for each of the sector represented in the survey.

These results just reiterate what is already elaborated above, with respect to the financial capacity of companies to afford a bank loan. Hence, the majority of interviewed micro and small enterprises consider it is easier to cover the investment costs through their own resources.

Chart 15. Investment financing sources



The average interest rate that interviewed SMEs have paid for a bank loan in the past is 9.7%. Due to their better financial position, medium enterprises have obtained a more favorable interest rate on their loans. The interest rate obtained by medium enterprises hovered at 8.14%, which was 2% lower than the interest rate obtained by micro enterprises.⁹ In terms of sectors, the lowest interest rate of 8.7% has been reported by the BSS and tourism sector, while the highest interest rate of 10% has been paid by the interviewed SMEs in the production sector.

Grants, on the other hand, have been reported as an insignificant source of finance as only 1.64% of the surveyed SMEs have obtained a grant from donors and only 1.3% from the government respectively. The data also shows that the main beneficiaries of grants were micro and small enterprises. Out of 9 companies that have reported to receive grants, 8 were active in production and 1 in construction. None of the SMEs interviewed from the BSS and tourism sector has reported to receive a grant in the past.

3.3 Intentions for growth

This is the core section of the research, focused to understand the ambitions of the interviewed SMEs for the future, as well as their real plans for growth and expansion. For the sake of reporting accuracy, the positive responses of many SMEs whether they have a written plan or not, should be taken with considerable reservations as proper planning methods are not yet a norm in Kosovo's private sector.

9 As resulted from the survey conducted for the needs of this study.

3.3.1 Plans to increase company's market (production, expansion)

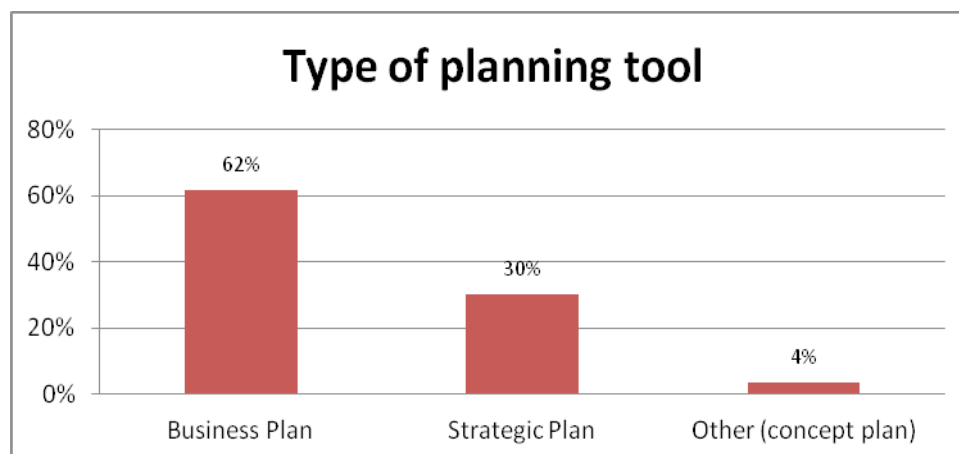
When asked if they plan to increase the company's market (in terms of production and/or expansion), 87% of interviewed SMEs reported that they are planning to do so. Table 7 illustrates that in terms of sector, the highest commitment to growth is found in the production sector (91%) in contrast to the BSS and tourism sector where 71% of the interviewed companies have reported to have expansion plans.

Table 7. Readiness of SMEs for growth

	Yes	No
Total	87%	13%
Micro	86%	14%
Small	87%	13%
Medium	91%	9%
Construction	86%	14%
Production	91%	9%
BSS and Tourism	71%	29%

Obviously, the vast majority of interviewed companies have intentions for growth and expansion. In addition, over 90% of interviewed SMEs declared that they use an appropriate planning tool, such as business or strategic plan (see Chart 16). This result needs to be taken with a grain of salt, since in reality companies run their businesses on ad-hoc basis, a fact about the business culture in Kosovo that is still dominant in the private sector in general and in the production sector in particular¹⁰.

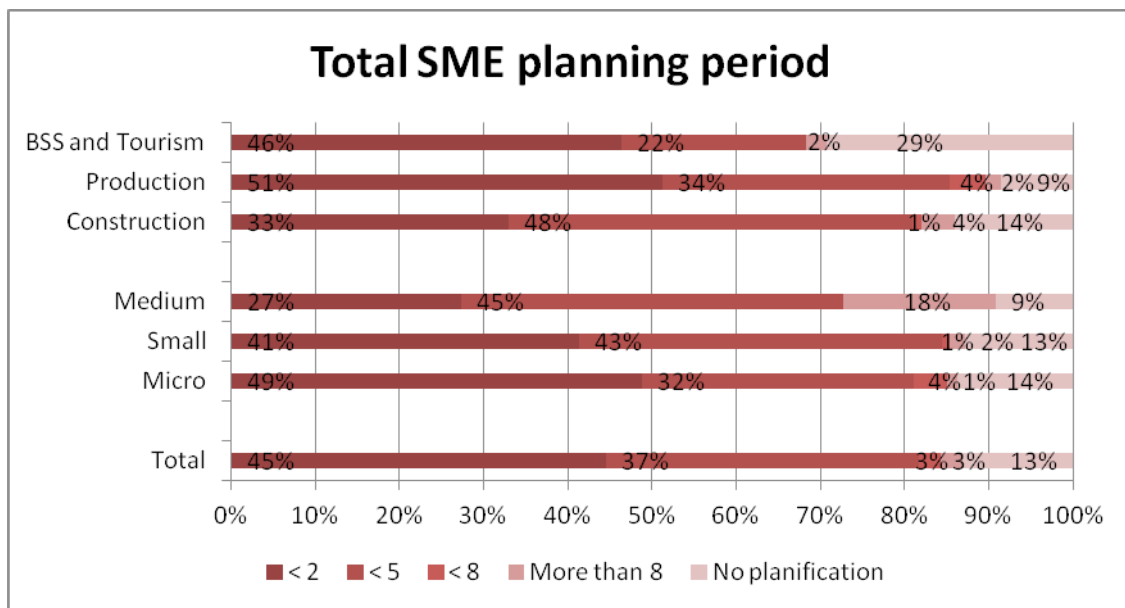
Chart 16. Planning tools used by the SMEs



¹⁰ The project team understood this fact through the feedback obtained from enumerators, who failed to get details of the business plans and alike during the interviews with company owners/managers

In terms of planning period, the majority of interviewed SMEs (over 80%) plan for 5 years or less. To note is the correlation between the length of planning period and company size, as medium enterprises have reported to also plan for periods of over 8 years. In terms of sectors, BSS and Tourism sector has a very high prevalence of no planning (29%). On the other hand, most of the interviewed companies from the construction (86%) and production (91%) sector have reported to use planning tools, while the average planning period was 5 years or less.

Chart 17. SME planning period



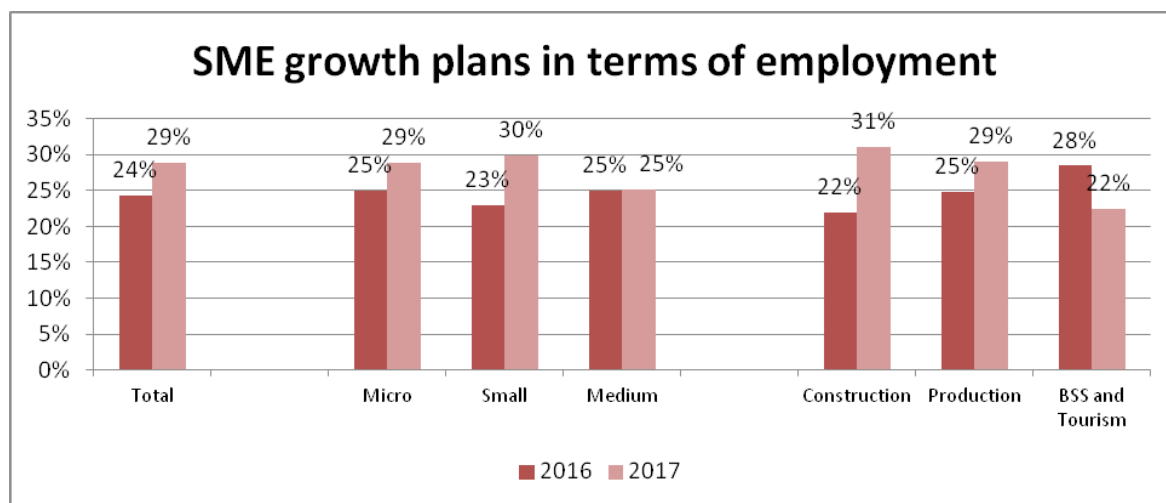
3.3.2 Planned growth

The survey data reveals that interviewed SMEs expect highly positive growth in the next two years.

The interviewed SMEs have reported that they expect to grow by 24% in terms of employment in 2016 and by almost 29% in 2017. While the expected employment growth in interviewed micro and small enterprises shows a yearly increase, medium enterprises are more pessimistic in terms of expected employment growth in 2017.

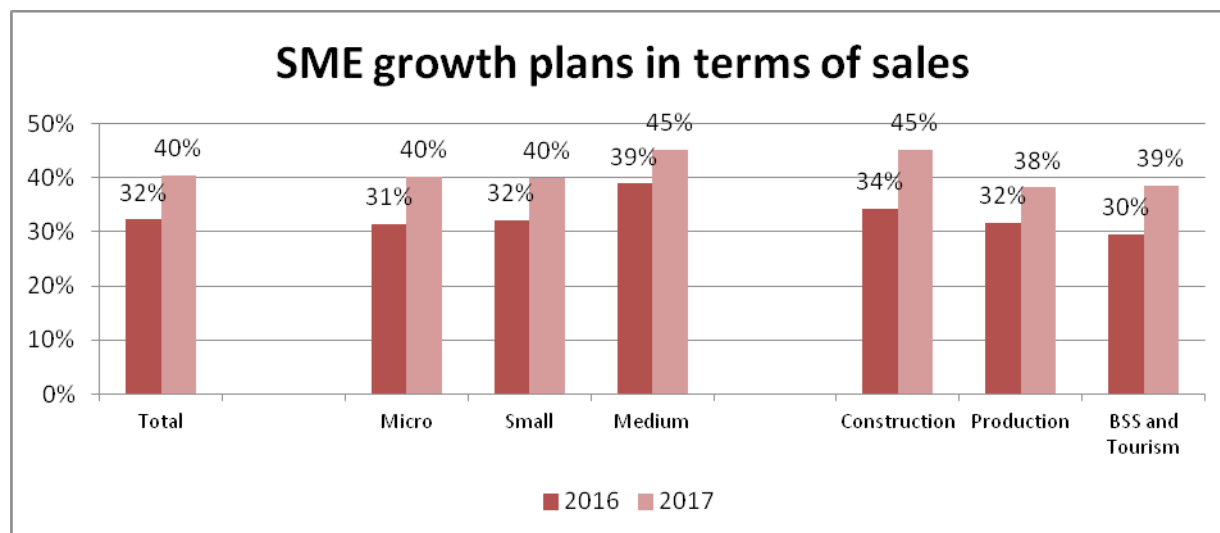
In terms of sector, there is a clear tendency from the interviewed companies in the construction and production sectors to increase their staff in the coming years. This does not hold true for companies from the BSS and tourism sector that appear to expect to reduce their growth in terms of employment.

Chart 18. Planned employment growth for the next two years



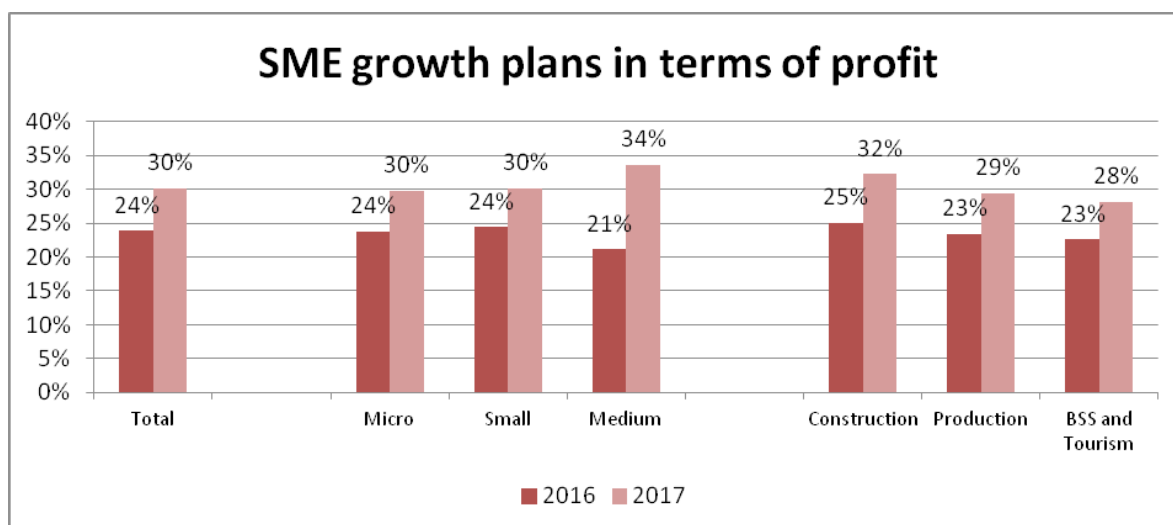
Also in terms of sales growth, the interviewed SMEs are expecting a very positive trend. The interviewed SMEs expect that their sales will grow by 32% in 2016 and by 40% in 2017. The highest sales growth is expected at the medium enterprise level with 38% in 2016 and 45% in 2017 respectively. The similar situation appear in terms of sectors too, where highest sales growth is expected in the construction sector (35% in 2016 and 45% in 2017) followed by the production sector (32% in 2016 and 38% in 2017) and the BSS and tourism sector (30% in 2016 and 39% in 2017).

Chart 19. Planned sales growth for the next two years



In conjunction with the sales growth the interviewed SMEs (both in terms of size and sector) are also expecting positive development in their profits in the next two years. As Chart 20 shows, on average, the interviewed SMEs are expecting to increase their profit by 24% in 2016 and 30% in 2017 respectively.

Chart 20. Planned profit growth for the next two years



The interviewed SMEs with growth intentions plan to finance their growth mostly through self-investment (87%). This source of finance is followed by a bank loan (58%)¹¹ and grants (18%) that they foresee will be secured in equal share between the government and donors. The production sector is particularly relying on grants as 21% of the interviewed companies from this sector have reported expectations for receiving grants to finance their planned investments. The last two options (private loan and family support) present rather an irrelevant source, which can be considered a positive shift, compared to how the financing of growth was traditionally done in Kosovo.

Table 8. Planned investment financing sources

	Self-Investment	Bank Loan	Private Loan	Family support	Grant
Total	87%	58%	4%	3%	19%
Micro	85%	51%	3%	5%	19%
Small	91%	64%	5%	0%	18%
Medium	90%	80%	0%	0%	20%
Construction	92%	71%	1%	0%	15%
Production	85%	52%	5%	4%	21%
BSS and Tourism	83%	52%	3%	3%	17%

In line with the structure of financial sources that surveyed SMEs have used in the past to finance their growth, self-investment overtakes the banks as source of finance for the planned investment. This is particularly the case in the micro and small enterprise segment of the sample. At the level of medium

¹¹ The average expected interest rate for the bank loan is around 7.5%, with medium enterprises expecting to have the lowest interest rate of 6.25% and micro enterprises the highest interest rate of 8.07%

enterprises that proportion shifts in favor of bank loans.

Not all surveyed SMEs have shown readiness to invest in business growth and/or expansion. In total 40 (13%) of interviewed SMEs have reported no plans to expand or grow. Out of these 40 SMEs, 14 (14%) were from the construction sector, 14 (8%) from the production sector and 12 (29%) from BSS and tourism sector. They have been further asked to explain the reasons behind this thinking. Table 9 reveals that the main reason for these SMEs not to invest in business expansion and growth are the lack of market demand (for 55%) and unfavorable business environment (for 45%), followed by difficult access to finance (for 15%) and other reasons (for 12.5%). A breakdown of answers according to company size shows that micro enterprises find it particularly difficult to obtain debt finance.

Table 9. Reasons to not plan any investment for the future

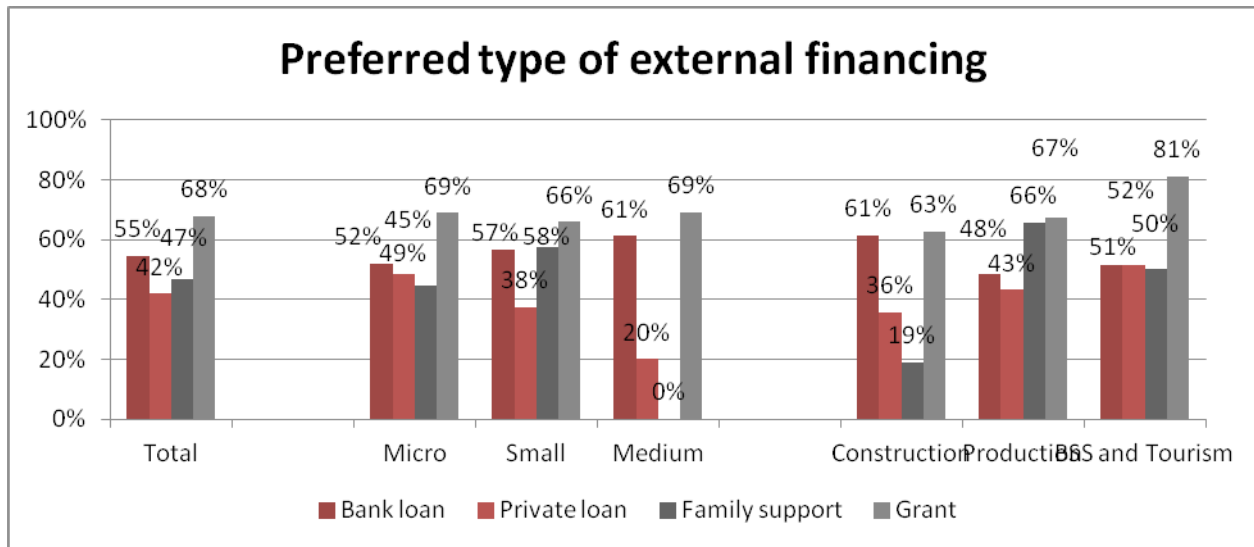
	Unfavorable business environment	Lack of demand	Cannot obtain financing	Other
Total	55%	45%	15%	13%
Micro	50%	58%	21%	13%
Small	64%	29%	7%	7%
Medium	50%	0%	0%	50%
Construction	64%	29%	29%	7%
Production	57%	43%	14%	21%
BSS and Tourism	42%	67%	0%	8%

3.3.3 Preferred type of external financing

Apart from concrete growth and expansion plans and their financing, the interviewed SMEs have been asked to reveal their preferred types of external financing. As Chart 21 shows, the most preferred external finance source would be grants (68%). The next most preferred source is the bank loan with 55%, followed by family support with 47% and private loans with 42%.

While grants have been indicated as the most preferred type of external finance in all three sectors in the sample, BSS and tourism sector in particular have scored high in this respect with 81% of interviewed companies identifying grants as the most preferred financial source. Furthermore, there is a noticeable difference in the next most preferred source of financing between the represented sectors, with bank loans on the lead (61%) for the construction sector, family support for the production sector (66%) and private loan (52%) for the BSS and tourism sector.

Chart 21. Preferred type of external financing



There is also a significant difference in preferred financial sources between the surveyed micro/small and medium enterprises, where the latest category is more inclined (since they are financially capable) to look for bigger portion of external sources through bank and less through private loans.

Regarding the level of preferred interest rate, interviewed SMEs would prefer to obtain debt finance at an average interest rate of 4.9%, whereas medium enterprises' preference lies at 5.2% and micro enterprises' preference at 4.7%. The lowest interest rate is preferred by the construction sector with 4.6% and the highest by the BSS and tourism sector with 5.1%.

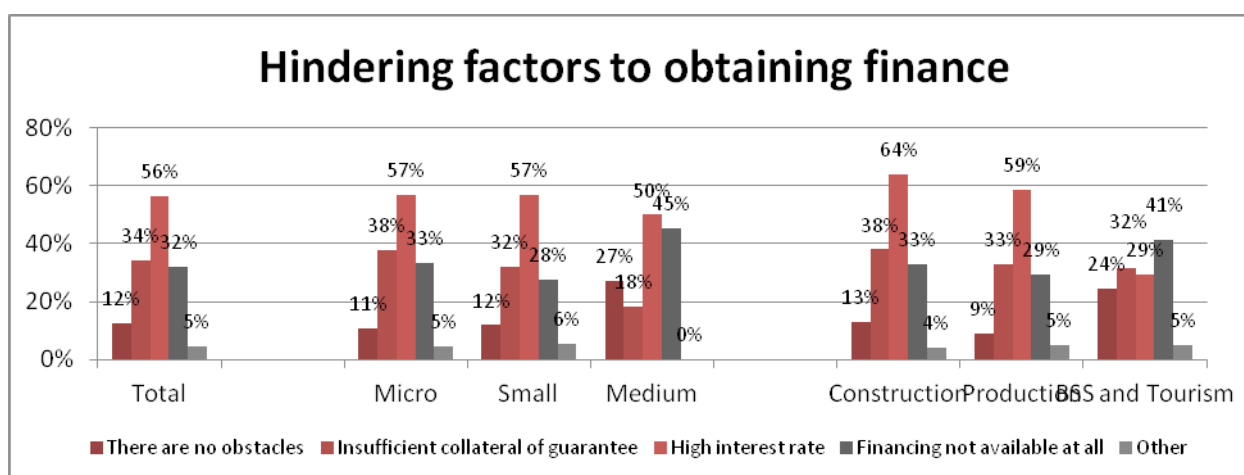
In terms of grants, 79% of interviewed SMEs have stated that grants should be provided by the government, while 63% have preferred to obtain grants from donors.

3.3.4 Limiting factor(s) to get the external financing

As Chart 22 shows, three main hindering factors for interviewed SMEs to get external finance are high interest rates (56%), insufficient collateral (34%) and lack of financing sources (32%). For most of micro and small enterprises in the sample, interest rates together with collateral represent the biggest obstacles to obtaining external finance. While medium enterprises also mention the interest rates as a hindering factor, they are less worried about the prevailing collateral requirements. Almost half of medium enterprises see also the lack of financial sources as a hindering factor because currently large loans are difficult to obtained in Kosovo.

In terms of sectors, the main hindering factors follow the overall pattern. There is only one difference coming from the BSS and tourism sector where "high interest rate" has been indicated by only 29% as an hindering factor, compared to 41% for "total lack of financing", indicating that limited access to finance is the greatest hindering factor for this group.

Chart 22. Investment hindering factors



3.3.5 SMEs investment planned areas

The structure of planned investments of interviewed companies represents nearly a replication of investments reported in the past for both the SME size and sector. Production technology and (consequently) employment are the main areas where interviewed SMEs plan to invest in the future. These two areas are followed by investments in real estate (land/buildings) and in penetrating new markets. Investments in personnel training represent the smallest share of the total planned investments, which is worrisome as the the quality of internal resources is being neglected and not given the necessary attention.

Table 10. Investments planned areas

	Production technology	Employment	Staff training	Real estate	New markets	Other
Total	83%	71%	44%	50%	47%	1%
Micro	80%	71%	41%	44%	46%	0%
Small	88%	70%	47%	56%	45%	2%
Medium	82%	77%	45%	59%	59%	5%
Construction	87%	71%	39%	58%	46%	1%
Production	93%	71%	41%	43%	48%	1%
BSS and Tourism	32%	71%	63%	56%	44%	0%

3.3.6 Risks envisaged to this investment

As illustrated in Table 11 there is a significant diversity in risks predicted by different company sizes from the sample.

Three main risk factors for future investments of the surveyed SMEs are seen in unfair competition, worsening economic situation and political instability. Tax administration and courts on the other hand have been mentioned by a small portion of surveyed SMEs and therefore represent minor risk factors. As mentioned above, differences can be observed based on company size. Micro enterprises in the sample consider worsened economic situation (73%) and unfair competition (70.7%) as their biggest risks (with main contributors being here the construction and production sectors), while these risk factors are significantly lower for the medium (45.5% and 54.5% respectively) and small enterprises at 43.7% and 46% respectively. Corruption is considered as the second largest risk factor, in particular for surveyed micro enterprises (55.17%), with a lower prevalence at small (34%) and medium enterprises level (22.7%). In terms of sectors, corruption has been mentioned as a risk by 61% of surveyed construction companies, 54% of surveyed production companies and by 39% of surveyed BSS and tourism companies. The third risk factor, i.e. political instability, follows a different distribution pattern among company sizes in the sample. It has been mentioned by 54% of interviewed micro and by 50% of interviewed medium enterprises as a risk factor, whilst it has a relatively lower prevalence at small enterprises level in the sample (35.5%). Finally, there is a remarkable difference regarding the effects of dysfunctional courts, which concerns micro (22.4%) and small enterprises (13.8%), while this appears to be not a big issue for the medium enterprises. Lastly, since the percentage of exporting SMEs in the sample is rather small, the last two risk categories (volatile international economy and Euro currency crisis) resulted not to be highly relevant, because volatile international economy was rated as risk factor by 4.6% of interviewed SMEs and euro currency crisis by 2.6% respectively. A high prevalence of the above mentioned risks is given in particularly in the BSS and tourism sector in the sample, were out of total number of companies 15% have indicated volatile international economy as an investment risk and 10% the euro crisis.

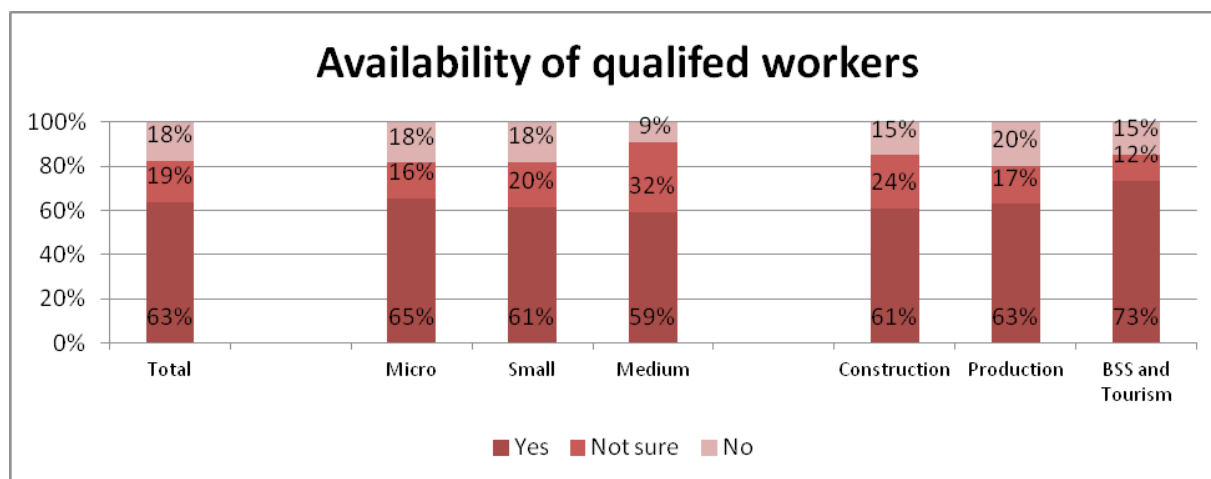
Table 11. Investment main risk factors

	Unfair competition	Worsening economic situation	Political instability	Corruption	Inefficient tax administration	Dysfunctional courts	Volatile international economy	Euro crisis
All	71%	70%	54%	54%	14%	22%	5%	3%
Micro	71%	73%	54%	55%	16%	22%	6%	3%
Small	46%	44%	34%	34%	7%	14%	2%	2%
Medium	64%	55%	45%	50%	23%	23%	0%	0%
Construction	75%	72%	60%	61%	14%	35%	3%	3%
Production	74%	70%	51%	54%	16%	14%	3%	1%
BSS and Tourism	49%	71%	49%	39%	7%	24%	15%	10%

3.3.7 Availability of qualified workers

Most of interviewed SMEs (63%) consider that there are sufficiently qualified workers available in the market. On the other hand, over a third of interviewed SMEs (34%) are either not sure or assume that there are not sufficiently qualified workers available in the market. Similar results are observed also when the sectors in the sample are analyzed, as shown in the chart below.

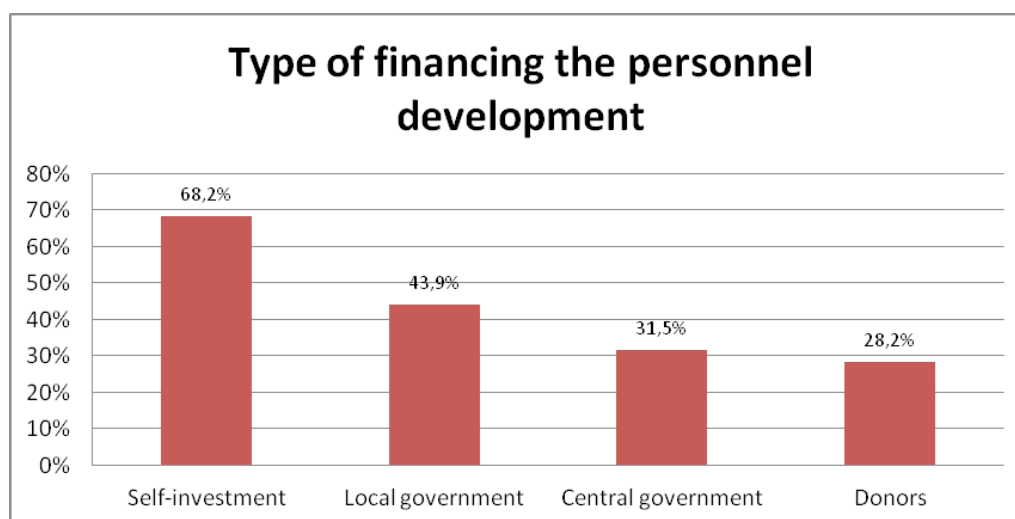
Chart 23. Availability of qualified workers



3.3.8 Staff/personnel development plans

As illustrated in the chart 24, interviewed SMEs expect, in parallel to self-investment, to finance their investments for staff/personnel development through governmental and donors grants. This is a result of both lack of companies' own business culture for staff development as well as of SMEs' awareness that government and donors are already active in this field and are providing trainings or funds.

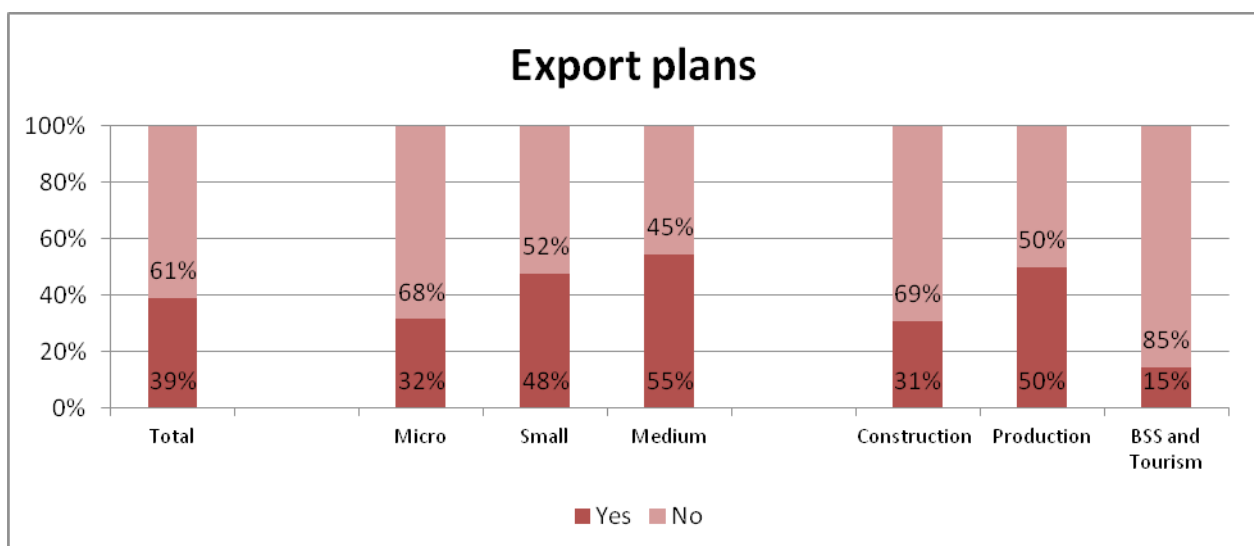
Chart 24. SMEs staff/personnel development plans



3.3.9 Export plans

One inspiring insight of the survey is the will of the surveyed SMEs to penetrate with their products/services both regional markets and EU countries. As shown in the chart below, the larger the companies in size in the sample the bigger the will to export. The term “will” is used deliberately here because the majority of interviewed companies do not possess any concrete plan about how to embark on exporting (despite their claims to possess business plans or alike). Nevertheless, this result inter alia just reiterates the previous findings by IMF that the Kosovo companies’ intentions are to increase the exporting of their goods for 10% during each coming year. In terms of sectors, 50% of the surveyed companies have reported to have export plans. Furthermore this is also the case for 31% of the surveyed construction companies and 15% of the surveyed BSS and tourism companies. It should be noted that the result of BSS and tourism sector is highly affected by presence of lawyers and tourism companies in this group, because the export plans of ICT enterprises are higher.

Chart 25. SMEs plan for exporting of their products/services



In terms of export destinations, Switzerland (20%) and Germany (19%) are seen as most prospective exporting markets, which imply that Kosovo companies are ambitious in making their products/services good enough for the standard requirements of these countries. On the other hand, the neighboring countries such as Albania (12%) and Macedonia (11%) are the second main export destinations.

Chart 26. Export destination countries/regions



3.3.10 Current biggest challenge(s) for SMEs

After obtaining all abovementioned results regarding the intentions for growth and expansion of surveyed SMEs, the project team was interested to understand what are the current main obstacles and/or challenges the SMEs in the sample face in their everyday business and towards implementing growth and expansion plans. For this purpose the interviewees were given the following options to score as the main obstacles: competition, finding customers, access to finance, cost of production or labor, availability of skilled staff or experienced managers and state regulations.

The biggest perceived challenges for the surveyed SMEs differ in several aspects according to the company size, i.e. the micro enterprises have bigger difficulties in finding customers (44%) as well as in obtaining external finance for investments (46%) whereas small enterprises, for example, have more problems with state regulations (32%). Another relevant perception difference is the availability of skilled staff or experienced managers. In this regard, small enterprises in the sample appear to have the biggest concerns (22%) compared to micro (5%) and medium ones (0%).

There is also a difference in perceived challenges based on the sectors represented in the sample. For the surveyed construction companies, the biggest challenges are competition, access to finance followed by state regulations and finding customers. The first three challenges also apply to the surveyed companies from the production sector. An additional challenge in this sector is also the cost of production and labor.

Table 12. SMEs' current problems

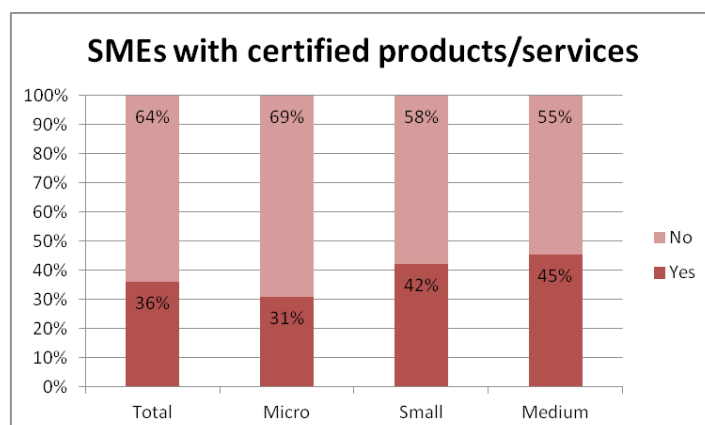
	Finding customers	Competition	Access to finance	Cost of production or labor	Availability of skilled staff or experienced managers	State regulations	Other
Total	36%	63%	46%	25%	10%	24%	6%
Micro	44%	67%	46%	22%	5%	18%	6%
Small	27%	58%	47%	30%	22%	32%	5%
Medium	23%	55%	36%	18%	0%	27%	9%
Construction	31%	68%	55%	27%	13%	31%	3%
Production	41%	64%	41%	26%	9%	21%	5%
BSS and Tourism	32%	46%	41%	15%	12%	15%	12%

3.3.11 International quality standards

With the aim of understanding the real potential of surveyed SMEs for exporting, the companies in the sample were asked about their knowledge of international quality standards. It must be noted that the majority of the interviewed companies answered positively (61.6%), however almost none of them had broader information about what concretely those standards mean and therefore what needs to be done in order to obtain them.

As expected, the majority of the micro enterprises (69%) do not have their products/services certified (see Chart 27). While the next two bigger categories stand somewhat better, the number of those without proper certification dominates.

Chart 27. SMEs possessing certificates for products/services



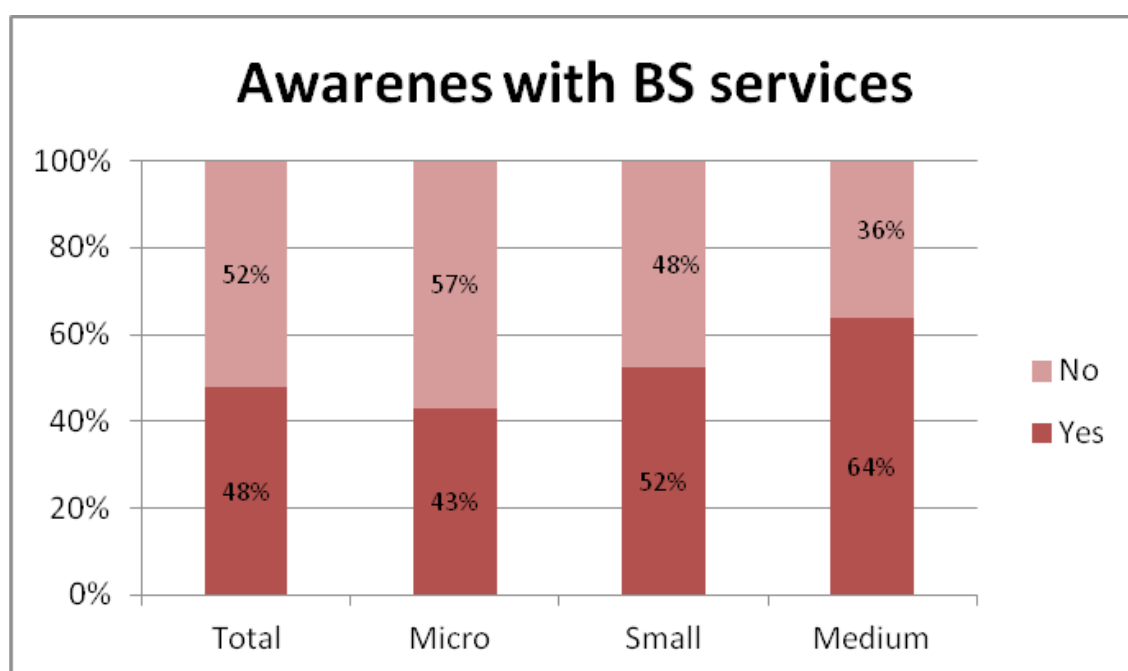
Still, there is a clear ambition by most of interviewed SMEs (75%), which until now do not have their products/services certified, to undergo the respective procedures and obtain such certifications in the near future. This service is now easier to obtain in Kosovo since the Business Alliance of Kosovo (BAC) was just recently authorized to provide such certifications for companies in Kosovo.¹²

3.4 Awareness about business supporting services and their availability

The last section of this survey reveals the extent to which the surveyed SMEs are aware of the available business support services, which are offered by the central and local authorities, or donors.

As illustrated in Chart 28, 47% of the surveyed SMEs declare that they are aware of available business support services. There is a correlation between business size and awareness about business support services as micro enterprises appear to be less informed than medium ones.

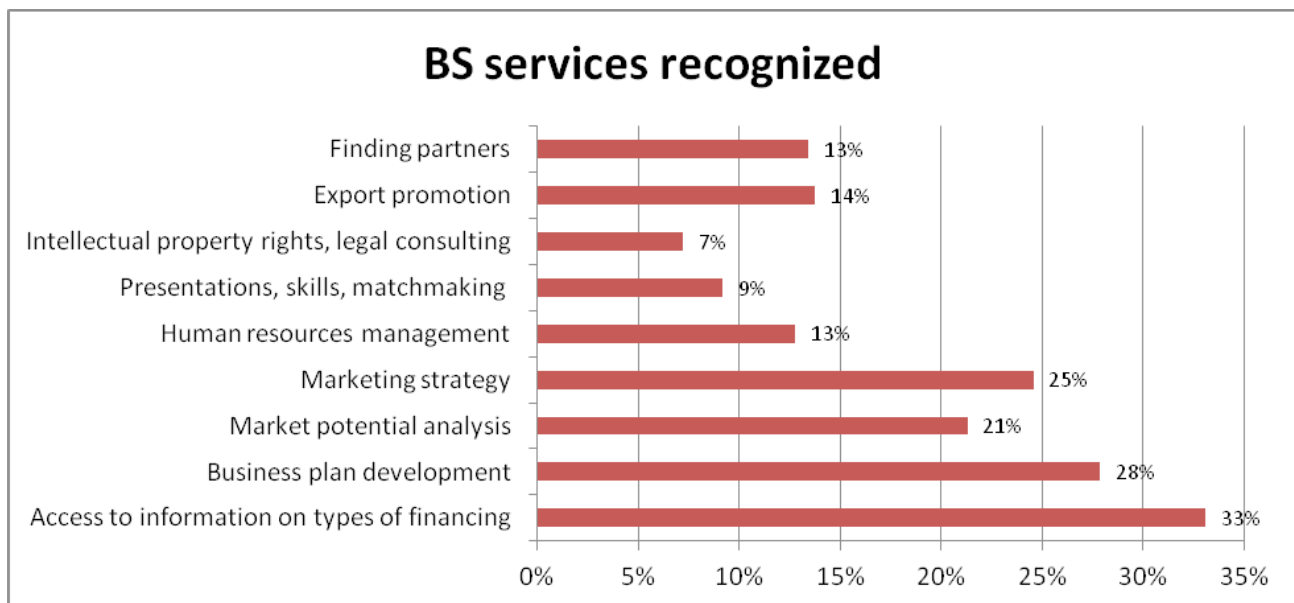
Chart 28. Percentage of SMEs aware of BS services



¹² <http://kallxo.com/kosova-me-iso-standardre>; 4 December 2015

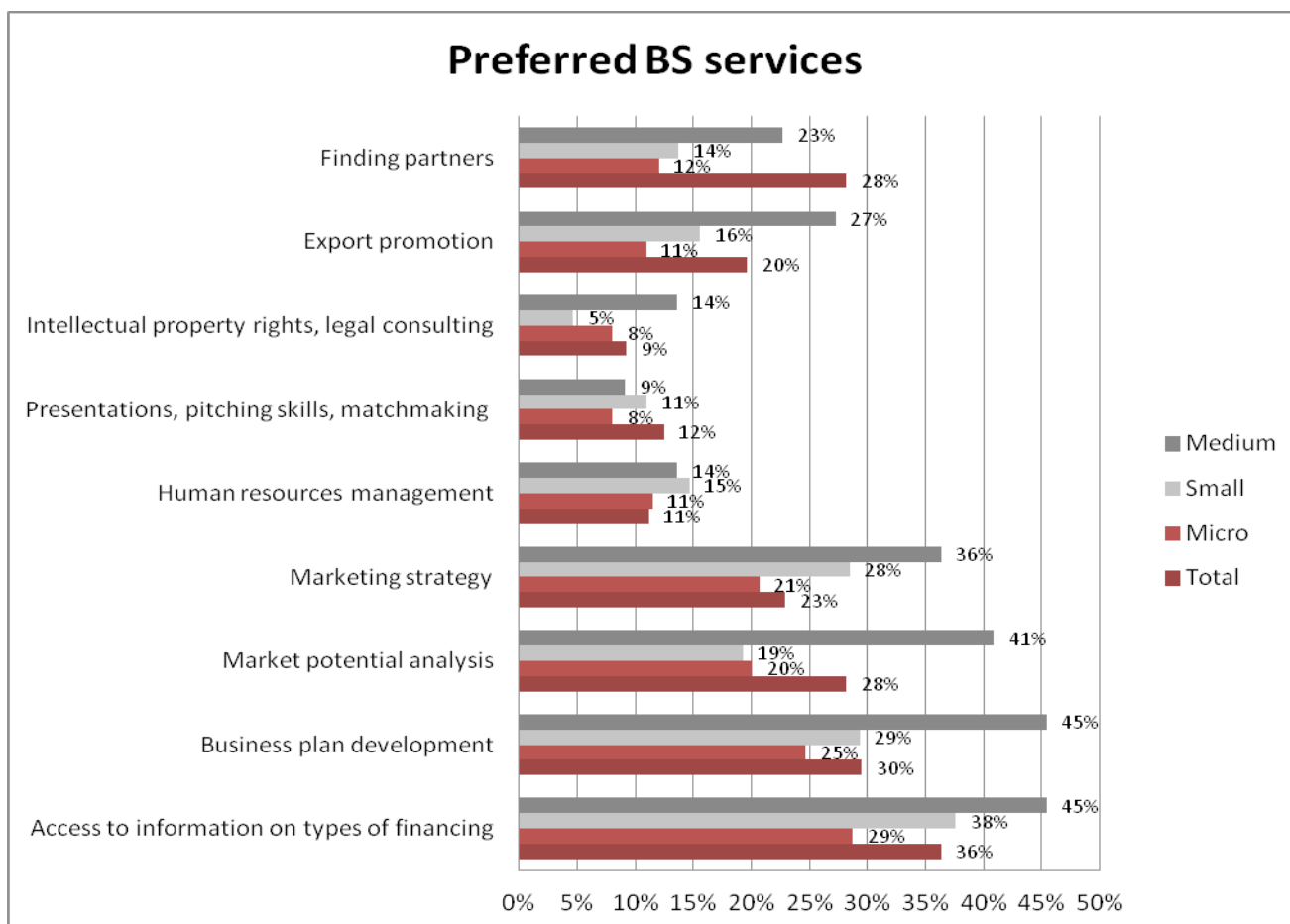
The main business supporting services that the surveyed SMEs have heard of (primarily those within micro and small enterprises segment) are access to information on types of financing (33%), and technical support for the business development such as business plans (28%), marketing strategy (25%) and market potential analysis (21.31%). Medium enterprises in the sample, on the other hand, gave higher proportional score to BSS services such as export promotion, finding partners or intellectual property rights.

Chart 29. Type of business support services recognized



The surveyed SMEs who have not heard or received any business support revealed that their preferred types of supporting services are as listed in the following chart, which illustrates the preferences of each company size category represented in the sample. As to the preferred business support services, the interviewed SMEs in total have primarily emphasized the need for access to information on types of financing (36.49%), followed by support for business plan development (29.5%) and almost equally (around 28% each) for the assistance needed in finding partners and market potential analyses.

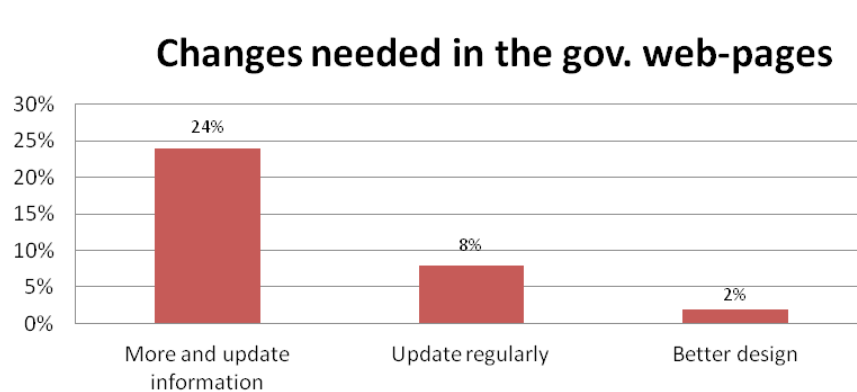
Chart 30. SMEs preferred type of business supporting services



3.4.1 SMEs use a governmental web-page

Only 30% of interviewed SMEs have reported to use a governmental web-page to acquaint information. As Chart 31 shows, the interviewed SMEs have stated that they would welcome if governmental web pages would be more updated and contain more information.

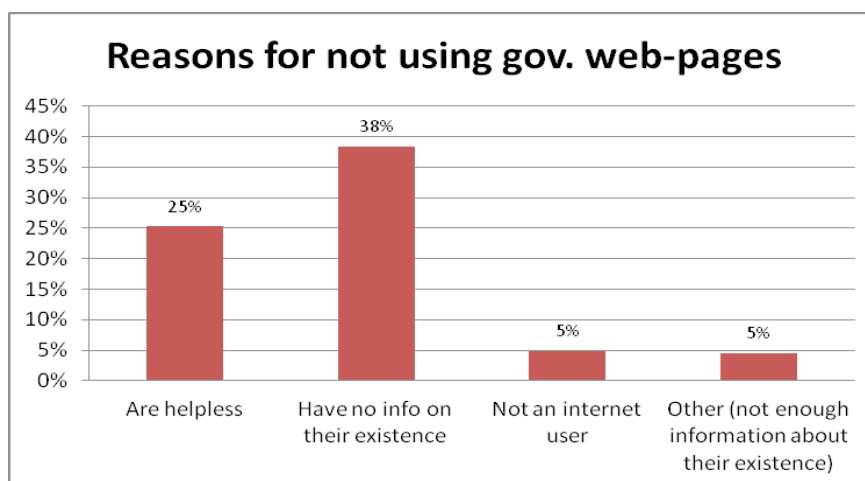
Chart 31. Changes needed in the governmental web-pages



3.4.2 Reasons SMEs do not use governmental web-pages

The two striking results are that a great portion of the interviewed SMEs (38%) are not aware that informational governmental websites even exist, and this primarily stands for the micro and small enterprises in the sample. The next reason (25%) why these SMEs do not use such websites is because they consider them as helpless in terms of the quantity and quality information.

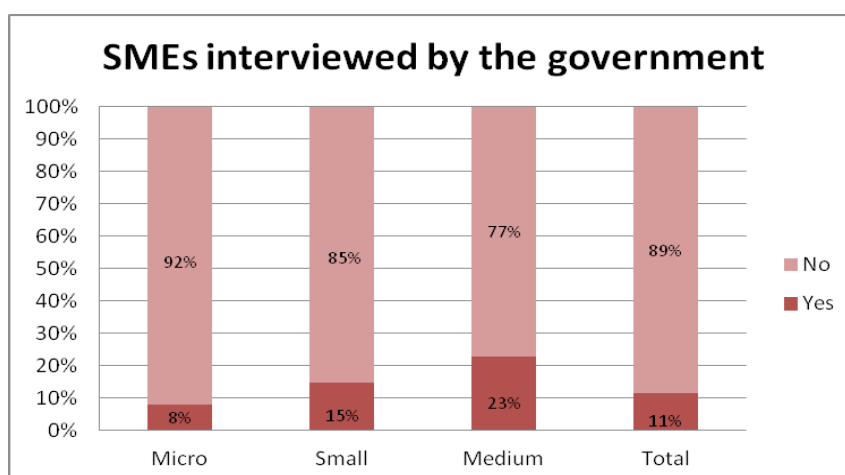
Chart 32. Reasons why SMEs do not use governmental web-pages



3.4.3 SMEs interviewed by the side of government

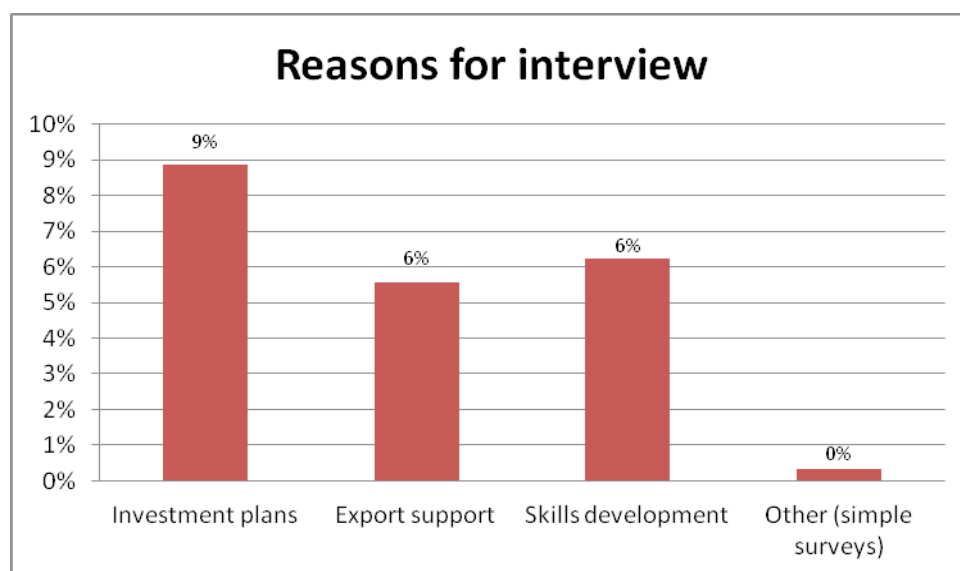
To confirm the existence of a sort of alienation rapport between the government and private sector (SMEs), almost 90% of interviewed companies said to have not been ever interviewed by any governmental body. The situation appears slightly better with the medium enterprises in the sample, with about 22% reporting to have been already interviewed by a governmental body.

Chart 33. SMEs interviewed by a government side



The majority of SMEs interviewed in the past by the government were asked about their investment plans (higher index among smaller companies), plans for export (higher index among bigger companies) and about the need of skilled employees.

Chart 34. Reasons of interviews by the government

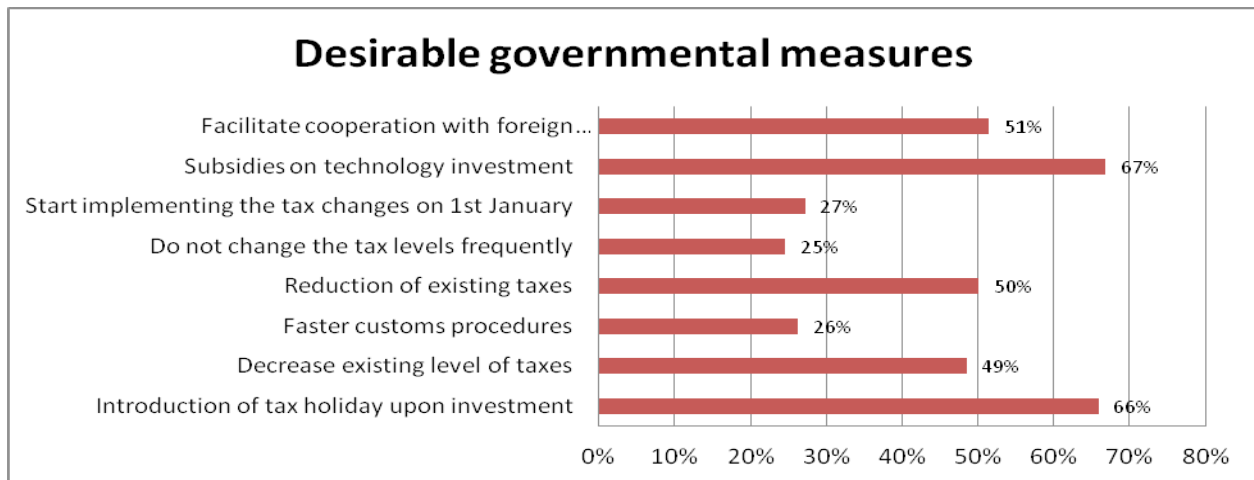


3.4.4 Other necessary governmental measures

In addition to the insights received above, the project team wanted to understand what other supporting measures the interviewed SMEs would prefer from the authorities. As illustrated in the chart below, the 'wish list' is topped by the need for subsidies for investment (67%), which is mainly coming from the micro and small enterprise segment, followed by the need for tax breaks (66%), an instrument which is currently being discussed by the government¹³. The next preference (coming mainly from small and medium enterprise segment) is related to the support in establishing cooperation with foreign partners (51.5%), while the need to mitigate the burden of taxes follows the list of the main preferred governmental measures.

13 <http://www.telegrafi.com/ekonomi/financa/ne-kete-tre-mujor-hyjne-ne-fuqi-pushimet-tatimore.html>

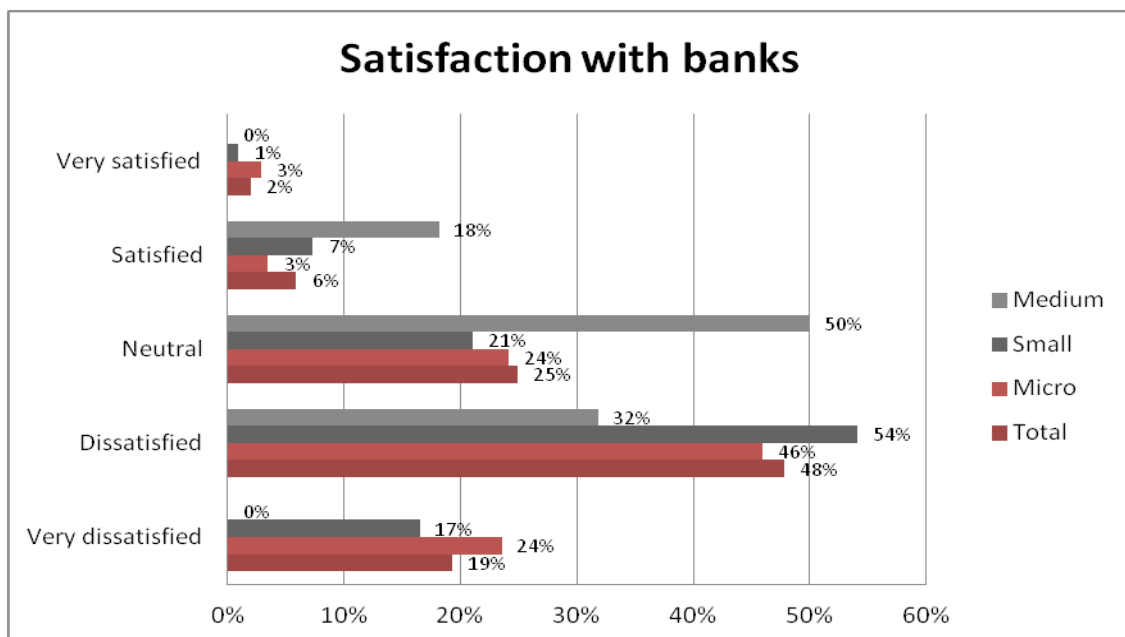
Chart 35. Other desirable governmental measures



3.4.5 Satisfaction with banks

The overall perception obtained in this section does not surprise, since the general dissatisfaction of Kosovars and in particular companies towards the banks and their offers is broadly acknowledged by several studies conducted previously. Nonetheless, one interesting result to observe here is the difference between the bigger and smaller companies in the sample in terms of satisfaction levels, with the latter ones being understandably much more dissatisfied, since they face difficulties in their efforts to meet bank loan criteria, especially if these companies also happen to be relatively new in the market, as for the larger and more consolidated companies this is an easier endeavor.

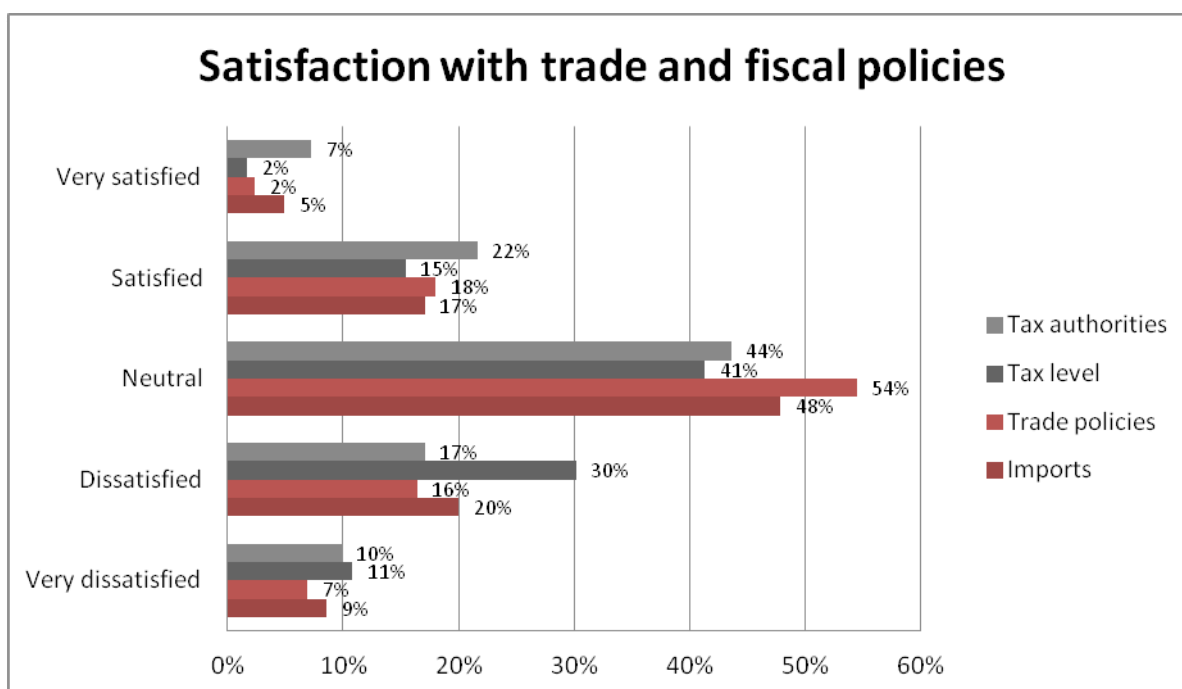
Chart 36. SMEs level of satisfaction with banks



3.4.6 Impact of governmental policies on SMEs business

Regarding the perception of respondents towards governmental trade and fiscal policies, the majority of interviewed SMEs have reported to have a neutral level of satisfaction, with irrelevant differences between the size categories. Overall this is a good sign in comparison with previous studies, since this shows some increase in trust towards institutions, although the percentage of those who are satisfied or very satisfied still remains low.

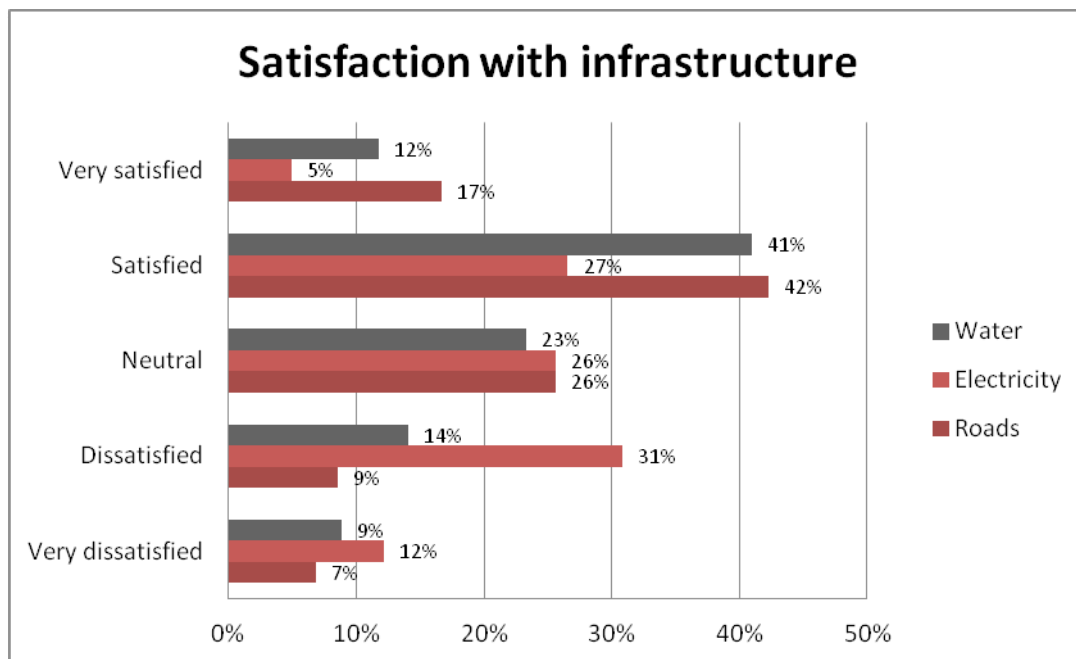
Chart 37. Level of satisfaction with trade and fiscal policies



3.4.7 Satisfaction level with infrastructure

Finally, the last question of this survey was dedicated to evaluate the satisfaction of interviewed SMEs with the available infrastructure. As Chart 38 reveals, the infrastructure situation in Kosovo has considerably improved, since e.g. the satisfactory level of both road and water infrastructure scored rather high. But, on the other hand, this is not the case with the electricity, where satisfaction levels are much lower (only around 30% of interviewed SMEs have declared that they are satisfied with the electricity supply).

Chart 38. Level of satisfaction with current infrastructure



3.5 Summary of interviews with stakeholders

In order to obtain comprehensive results from the SME survey, for the purpose of this study the project team has also considered as highly valuable the insights received from the main stakeholders, where eight of them (both local and international) have answered a number of same questions with respect to the context of this research. Below is the list of interviewed stakeholders and a summary of their answers and opinions.

List of interviewed stakeholders:

- EU – EURED office in Prishtina (European Union Regional Economic Development Scheme)
- Helvetas - EYE (HELVETAS Swiss Intercooperation and the Empowering Youth Employment Project)
- MTI – Trade Department (Ministry of Trade and Industry)
- KIESA (Kosovo Investment and Enterprise Support Agency)
- MoF (Ministry of Finance)
- Kosovo Chamber of Commerce
- Kosovo Association of Construction Companies
- Kosovo Association of Wood Processing Companies

All interviewed stakeholders noted that there was an interest and will of companies to expand their business in the future. Yet, they see a lack of capacities within firms and limited opportunities in the market as main hindering factors for SME sector expansion and growth. Furthermore, while on a rhetorical level companies may express the desire to grow, they do not have plans or strategies or necessary internal resources required to underpin such growth. This can be illustrated by the number of applications received when funding is available, which is a sign that the companies are seeking opportunities to grow. On the other hand, many of applicants fail to meet technical requirements, a signal that their absorbing capacities are still low.¹⁴

Exporting and penetration into external markets are ultimate goals for Kosovo SMEs as revealed by stakeholders. Yet, there are a set of quality requirements (especially for exporting to EU countries) to meet in order to be competitive in regional and EU markets. Such requirements are considered to be a serious challenge and obstacle, and a national body for quality control is seen as an imperative to enable the quality certification process. Another disadvantage of domestic producers is that in most cases they import semi-finalized products, finalize them here, and export them afterwards as final products, since Kosovo has a limited industry of processing raw materials. It would be more cost-efficient if the whole processing were done in Kosovo, from the raw materials to the final product. Furthermore, improving the image of the country and of products made in Kosovo was noted as an important objective to accelerate growth of exports.

Another hindering factor for the development of Kosovo SMEs is seen in their absorption capacity for external help. Limited own resources make access to grants difficult for most SMEs. Purchase of consulting services is seen as a great help in this regard with consulting companies being involved in the whole process, from application to final reporting. In terms of support areas, Kosovo SMEs mainly prefer support in purchasing and buying production technology, but very rarely seek support in soft areas i.e. management and strategic planning. Stakeholders also think that the funds available for developing the SME sector are very limited and should increase to enable an accelerated and sustainable development of the SME sector.

It is the perception of stakeholders that Kosovo SMEs are very much interested in establishing co-investment relations (cooperation) with foreign companies. While few of them have already managed to do so, local companies are facing difficulties in maintaining this cooperation. A major obstacle for businesses is meeting EU quality standards since the foreign companies are normally interested to cooperate with partners that are able to meet those standards.

In terms of available support services, stakeholders¹⁵ acknowledge the enormous support coming from European countries, which provide both direct and indirect support to the private sector in Kosovo, where direct support is provided through grants and soft loans (also for start-ups), whereas the indirect support is mainly channeled through the Kosovo government. In addition, public institutions them-

14 See interview with Arta Musa, Project Officer – Economic Development, European Union Office in Kosovo, conducted on 17th December 2015.

15 See interview with Safet Gerxhaliu, Head of Kosovo Chamber of Commerce, conducted on 16 December 2015

selves (such as MoF and MTI) have also been supporting businesses by creating a favorable environment through suitable policies and laws.¹⁶

The interviewed stakeholders think that Kosovo SMEs are highly interested in external support to achieve own expansion goals. Here the SMEs are mainly seeking for grants or other financial support measures. Some of the stakeholders have however pointed out the negative effect that grants can have on the SME sector in the future, making it unable to plan growth and expansion based on debt finance. Lowering taxes is another required reform, which stakeholders think can enable an accelerated growth of the SME sector.¹⁷

In terms of banking sector offer for SMEs, almost all stakeholders agree that this offer is not favorable for the SME sector as the interest rates are very high. The MF representatives considered that 'banks also are businesses' and as such they are interested to increase their profit and this is the reason why their offers are not in the favor of businesses.

The main challenges of SMEs in Kosovo in terms of growth and expansion are seen in following areas:

- **Internal difficulties of SMEs:**

1. Business culture (owner wants to do everything in the company)
2. Lack of strategic management and lack of capabilities
3. Lack of investment plans, business plans

- **External difficulties (caused by outside factors):**

1. Unfavorable business environment
2. Unfair competition
3. Lack of government policies to facilitate potential investments towards certain sectors
4. Corruption
5. Informal business
6. Fiscal evasion
7. Lack of export incentives
8. Lack of support programs to facilitate export
9. Lack of networking events for businesses of specific sector

¹⁶ See interview with Sytrime Dervisholli, Head of Trade Department, conducted on 14th December 2015

¹⁷ See interview with Semra Tyrbedari, Acting Head of Macro Economy Department, MoF, conducted on 15th December 2016

➤ 4. Executive summary

SMEs represent today a crucial factor in Kosovo's economic development, specifically by creating new jobs and helping mitigate the current trade imbalance.

Kosovo is the last European country to have entered the transition process to a free market economy, and the country is currently facing several structural problems, like high unemployment rates, insufficient GDP growth, high trade imbalance, insufficient rule of law, etc. The emerging SME sector has been acknowledged as a locomotive that if fueled efficiently can help solve the existing problems.

An effective and efficient SME policymaking has to rely on profound data that reveal the existing bottlenecks for SME development and help to identify the enabling factors that need to be promoted. Aimed at contributing to this goal, the study has focused on four aspects of the SME sector in Kosovo:

- Its structure in terms of age, turnover, owner and management demography, education and clientele
- SME sector's past performance and exporting efforts
- SME future plans for growth, means required to enable that growth and factors hindering it
- Availability of support services and SME preferences in terms of support services to be introduced

To gather the required data the project team has surveyed 305 SMEs across Kosovo and has conducted 8 interviews with main stakeholders of the SME sector such as EU-EURED office in Kosovo, GIZ, Ministry of Trade and Industry and Kosovo Chamber of Commerce.

Kosovo has a very young SME sector (80% of interviewed SMEs have been funded after the conflict in 1999). The structure of SME owners in terms of age shows that the majority of interviewed SMEs are owned by older generations (above 45) who predominantly have secondary school education. The low percentage of educated youth as entrepreneurs indicates a lack of creativity and innovation in Kosovo's private sector. However, the comparatively beneficial age structure of managers of the interviewed SMEs (77% under 45) and their advanced educational levels (65% with university of post university degree) offer some spell of hope that SMEs will strive for internal reforms mainly influenced by these young educated people in management positions.

The most worrisome situation regarding the education levels in interviewed SMEs is given in terms of employees, who are considered as the main engine of company operations. Nearly in all three company categories represented in the sample, figures show the same challenging situation, where around 80% of employees have finished only the secondary school.

SMEs in the sample have performed well in the past years. For the period 2011-2013 these SMEs have

grown annually by 15.6% in terms of employment, 25.8% in terms of sales, and 17.4% in terms of profit.

Due to relatively small local economy and limited export possibilities, the majority of interviewed SMEs (66%) have reported to achieve annual turnovers of less than EUR250,000 (micro enterprises in the sample achieved even less with their current annual turnovers standing below the figure of EUR100,000). Low turnover levels certainly limit the possibilities of interviewed SMEs to obtain external finances for their investment and growth purposes. Yet, the vast majority (77%) of interviewed SMEs declared to have invested on average 25% of their total cost in growth in the past years. The main areas of investment were technology, employment and training. At the medium enterprise level in the sample there was also a high prevalence of investments in real estate and penetration in new markets. Interviewed SMEs have mostly used their own funds to finance this growth (a finding mainly influenced by the big number of micro and small enterprises interviewed). The second financing source was banks, while the average interest rate paid for bank loans was 9.7%. Grants on the other hand have been used only by 3% of interviewed SMEs.

Importantly, the majority (around 87%) of interviewed SMEs have growth plans for the future, albeit mainly for a rather short period of time (2-5 years). These SMEs' 'will' is questionable due to the fact that surveying enumerators could not find existence of real planning instruments among SMEs, despite of their statements that they possess such planning tools or intend to elaborate them in the near future.

Interviewed SMEs are very optimistic about their future performance. They expect to grow in the next two years in terms of employment, sales and profit at double digits. As in the past the main investment areas will be production technology and employment. In addition, in the future the interviewed SMEs intend to invest more in real estate (49%) and penetration in new markets (46%). SMEs in the sample will finance their future investment mainly through own resources (87%) and bank loans (58%). In comparison to the past (only 3% stated to have received grants), 18% of the interviewed SMEs plan to have their investment partly or totally covered by grants.

Over 60% of the interviewed SMEs willing to invest in growth and expansion would prefer grants/subsidies as external financing source. According to EURED office, this indicates a potential risk for SME development as SMEs might slow down their investment while waiting for financial support in form of grants from donors and/or government. Interviewed SMEs have ranked bank loans as the second most preferred source of external finance. The preferred interest rate for interviewed SMEs would be ca. 5%.

The main perceived risk factors for SME investments are worsening economic situation, corruption, political instability and unfair competition.

One of the promising insights of this study considers the future plans of interviewed SMEs to start exporting or to increase the existing share of their exported products/services. In total, 39% of interviewed SMEs plan to export in the future with main exporting destinations Germany and Switzerland. This imposes fulfillment of strict quality standards and with 66% of SMEs in the sample declaring to have Quality

Standards introduced, it seems that the SME sector (represented in the sample) has build a solid basis to achieve its exporting goals.

There is a relatively low awareness of interviewed SMEs for available business support services in Kosovo. Only 47% of the interviewed SMEs have declared to know about business support services while the most known business support services are information on access to finance and consulting support in development of business plans and strategies. While interviewed SMEs are interested to have the same business support services in the future, they would welcome the introduction of additional services like support in finding foreign partners, support in placing their product/services in foreign markets, provision of subsidies for investments and introduction of tax holidays. Finally, interviewed SMEs would welcome the development of more efficient information platforms that would enable a better interaction between private sector and the government.

READINESS OF KOSOVO SMEs TO INVEST IN GROWTH AND EXPANSION



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