



**KOSME**  
Kosovo SME Promotion Programme

Provision of Capacity Development to Ministry of Trade and Industry  
Financed by Austrian Development Cooperation and Swiss Development Cooperation  
Co-financed by Ministry of Trade and Industry, Republic of Kosovo  
Implemented by ECIKS/KMU Forschung Austria

## *Report on SMEs in Kosovo 2014*

**December 2014**



*with funding from*

 **Austrian**  
**Development Cooperation**



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

**Swiss Agency for Development  
and Cooperation SDC**

*co-financed by:*



*Ministry of Trade  
and Industry*



**KOSME**  
Kosovo SME Promotion Programme

Provision of Capacity Development to Ministry of Trade and Industry (MTI/SMESA)  
Financed by Austrian Development Cooperation and Swiss Development Cooperation  
Co-financed by Ministry of Trade and Industry, Republic of Kosovo  
Implemented by ECIKS/KMU Forschung Austria

# Report on SMEs in Kosovo 2014


---

*KOSME Sub-activity 1.3a*

Author: Thomas Oberholzner, Austrian Institute for SME Research

December 2014

with funding from

 **Austrian**  
**Development Cooperation**



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

**Swiss Agency for Development  
and Cooperation SDC**

co-financed by




Ministry of Trade  
and Industry



## Content

1.	Context and Purpose of the Report .....	1
2.	Methodology Used .....	2
3.	Structure and Development of the Enterprise Sector.....	4
3.1	Overview.....	4
3.2	Sectors.....	5
3.3	Regions .....	8
4.	Indicators on Business Demography .....	12
4.1	Start-ups and closures .....	12
4.2	Survival and development of start-ups .....	14
4.3	Sources of job creation.....	15
5.	Further Key Features of SMEs and Entrepreneurs .....	16
5.1	Legal forms .....	16
5.2	Age of businesses .....	17
5.3	Female entrepreneurs and workers.....	18
5.4	Age of entrepreneurs .....	19
5.5	Membership in business associations and networks.....	20
6.	Economic situation and strategies of SMEs .....	22
7.	Financing of Investments .....	26
8.	International business activities of SMEs.....	29
8.1	Exporting .....	29
8.2	Importing.....	32
9.	SMEs and the Labour Market.....	34
10.	The Use of Consultants and Trainers by SMEs .....	36
11.	Use of and Need for Support Programmes and Policies .....	38
12.	Policy Conclusions .....	41

with funding from

 **Austrian**  
**Development Cooperation**



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

**Swiss Agency for Development  
and Cooperation SDC**

co-financed by



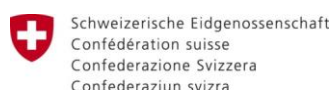
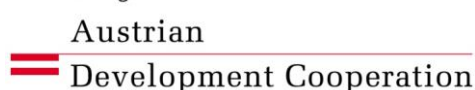
Ministry of Trade  
and Industry



## Charts

Chart 1	<i>Development of private sector enterprises, 2010-2013, by size categories, %-change</i> .....	5
Chart 2	<i>Percentage share of the different size categories in each sector's total employment, in 2013</i> 7	
Chart 3	<i>Development of private sector enterprises, 2010-2013, by sector, %-change</i> .....	8
Chart 4	<i>Sector profiles of Prishtina vs other regions: Percentage share of sectors in each region's total employment, in 2013</i> .....	10
Chart 5	<i>Development of private sector enterprises, 2010-2013, by regions, %-change</i> .....	11
Chart 6	<i>Number of start-ups and closures of businesses, 2011-2013</i> .....	12
Chart 7	<i>Incidence (%) of legal forms among SMEs, by size categories</i> .....	16
Chart 8	<i>Age distribution (%) of SMEs, by sector</i> .....	17
Chart 9	<i>Share (%) of businesses owned by women, by sectors, size categories and regions</i> .....	18
Chart 10	<i>Share of women (%) in total staff of SMEs</i> .....	19
Chart 11	<i>Age structure of business owners (distribution over age brackets)</i> .....	20
Chart 12	<i>Share (%) of businesses being member of business association or network, by sectors, size categories and regions</i> .....	21
Chart 13	<i>Share (%) of SMEs with growing, constant and declining revenues 2012-2013, by sectors</i> 22	
Chart 14	<i>Share (%) of businesses „struggling to survive“ and “considering closing down“, by size categories</i>	23
Chart 15	<i>Share (%) of businesses having growth ambitions, by size categories, regions, and gender</i> 24	
Chart 16	<i>Share (%) of businesses which had a need for financing an investment over the last two years, by sectors, size categories, and gender</i> .....	26
Chart 17	<i>Reasons for not using a bank loan to finance an investment (% of SMEs)</i> .....	28
Chart 18	<i>Share (%) of SMEs with growing, constant and declining revenues 2012-2013: exporting vs non-exporting SMEs</i> .....	30
Chart 19	<i>Share (%) of businesses importing goods or services from abroad, by sectors, size categories and regions</i> .....	32
Chart 20	<i>Reasons for purchasing from foreign instead of Kosovar suppliers (percentage of importers stating the reason)</i> .....	33
Chart 21	<i>Share (%) of SMEs facing major problems with respect to personnel, by size categories.</i>	34
Chart 22	<i>Share (%) of businesses observing a lack of foreign language skills with their employees</i>	35
Chart 23	<i>Major problems/constraints for doing business (percentage of SMEs)</i> .....	40

with funding from



Swiss Agency for Development and Cooperation SDC

co-financed by







## Tables

Table 1	<i>Distribution of the sample over sectors</i> .....	2
Table 2	<i>Distribution of the sample over size categories</i> .....	3
Table 3	<i>Distribution of the sample over regions</i> .....	3
Table 4	<i>Number of private sector enterprises and persons employed, by size categories, in 2013</i> ....	4
Table 5	<i>Number of private sector enterprises and persons employed, by sector, in 2013</i> .....	6
Table 6	<i>Number of private sector enterprises and persons employed, by regions, in 2013</i> .....	9
Table 7	<i>Number of start-ups (entries) and closures (exits) of businesses in 2013, by sector</i> .....	13
Table 8	<i>Survival rates of start-ups (entries) of 2011, by sector</i> .....	14
Table 9	<i>Jobs created and lost in the private enterprise sector from 2012 to 2013</i> .....	15
Table 10	<i>Strategic orientation of SMEs: Share (%) of businesses focussing on low costs vs improving quality, by sectors</i> .....	25
Table 11	<i>Incidence (%) of methods/sources used by SMEs for financing investments, by size category</i>	27
Table 12	<i>Share (%) of businesses with direct exports, indirect exports, and considering exporting, by sectors and size categories</i> .....	29
Table 13	<i>Share (%) of businesses facing or perceiving difficulties and obstacles to exporting</i> .....	31
Table 14	<i>Share (%) of businesses having used services of professional consultants or trainers over the last two years, by consulting subjects</i> .....	36
Table 15	<i>Share (%) of SMEs which used support schemes of the local/national government or of foreign donors</i> .....	38
Table 16	<i>Share (%) of SMEs which would find the following support schemes particularly helpful</i>	39

with funding from

 **Austrian**  
**Development Cooperation**

 Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

**Swiss Agency for Development  
and Cooperation SDC**

co-financed by



Ministry of Trade  
and Industry




## 1. Context and Purpose of the Report

Small and medium-sized enterprises (SMEs) form the main part of Kosovo's private sector economy and account for approx. 80% of employment in the market economy. Notwithstanding its importance, however, the country's SME sector as well as the wider business environment shows some significant weaknesses which prevent this sector from developing its full potential in terms of employment, productivity and value added.

Against this background, strengthening and developing the SME sector is therefore a policy priority of the Kosovo government. This is reflected, in particular, in the government's 'Private Sector Development Strategy 2013-2017' as well as in the 'SME Development Strategy 2012-2016' which aims to create a SME-friendly business environment, promote an entrepreneurial culture, and raise the (international) competitiveness of SMEs. The government has also established a dedicated institution, the Kosovo Investment and Enterprise Support Agency (KIESA) operating under the Ministry of Trade and Industry (MTI), which next to promoting foreign investments is responsible for supporting policies and programmes for micro, small and medium enterprises.

Effective, evidence-based policy-making for SMEs requires a sound and continuous assessment and monitoring of the SME sector. To this end, KIESA's predecessor agency SMESA and the MTI previously conducted surveys among SMEs in Kosovo and also produced statistical overviews based on the business register. The present study is not only a continuation of these previous research and monitoring exercises, but seeks to further enhance the relevance and quality of the investigation of the SME sector by integrating formerly separate analyses, using other data sources, and carrying out new types of data analysis. In this way the study shall contribute to better understanding the SME sector, advancing SME policy making and, ultimately, the development of the SME sector.

with funding from

 Austrian  
Development Cooperation



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

Swiss Agency for Development  
and Cooperation SDC

co-financed by





## 2. Methodology Used

In terms of methodology and data sources the present study of the SME sector is based on two main pillars:

### Analysis of micro data of the Kosovo Tax Administration (ATK)

To investigate the overall structure and development of the SME sector as well as various aspects of business demography we are using anonymized micro data of all enterprises registered with the tax authority within the period 2010 – 2013 (i.e. including those which have ceased to exist after 2010). ATK was kind enough to make these data available for the study and provided information such as the municipality of location, the type of activity (sector) and the annual average number of employees for each registered business.

It shall be noted that, for the purpose of this study, ATK data is being preferred over data from the Business Registration Agency ARBK as experiences from previous research have shown that the ARBK register contains too many actually inactive firms. In any case, data from official registers do certainly only cover the formal economy but not the informal economy.

### Interview survey among SMEs

An interview survey among SMEs has been conducted to obtain further information on the features, strategies, perceived constraints and support needs of businesses. The sample for the survey has been designed in a way to take account of the heterogeneity of the SME sector and to provide reliable results for the main sectors, different size categories and the different regions of Kosovo. More specifically, the total sample of 743 interviewed businesses has been divided up as shown in the following tables:

**Table 1** *Distribution of the sample over sectors*

Sectors	Number of businesses interviewed
Retailing & wholesale	116
Manufacturing	114
Construction	114
Transport	99
Hotels & restaurants	103
Personal services	103
Business services	94
<b>Total</b>	<b>743</b>

with funding from



co-financed by



**Table 2** *Distribution of the sample over size categories*

Size categories	Number of businesses interviewed
Only 1 person employed (self-employed)	119
2-9 persons employed	395
10-249 persons employed	229
<b>Total</b>	<b>743</b>

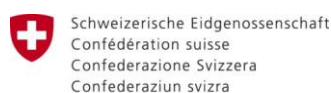
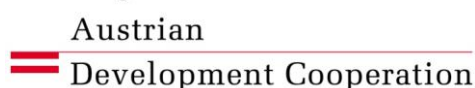
**Table 3** *Distribution of the sample over regions*

Regions	Number of businesses interviewed
Prishtina	127
Prizren	104
Peja	102
Gjilan	104
Mitrovica	103
Gjakova	103
Ferizaj	100
<b>Total</b>	<b>743</b>

For the various sub-groups, businesses were randomly drawn from ATK’s register. Interviews were done face-to-face with owners or managers by UBO Consulting. The willingness of businesses to participate in the survey was very satisfactory; the refusal rate was only about 30% of contacted firms.

The outlined distribution of the sample is not proportional to the actual distribution of the entire business population. Therefore, re-weighting is being applied in the analysis of the data in order to attain correct results, which account for the actual structure of the business population.

with funding from



Swiss Agency for Development and Cooperation SDC

co-financed by







### 3. Structure and Development of the Enterprise Sector

#### 3.1 Overview

According to the ATK register, there were approx. 46,000 enterprises in the private sector<sup>1</sup> in 2013. These enterprises employed approx. 190,000 people. Table 4 shows that so-called ‘*solo entrepreneurs*’ accounted for about 56% (or 26,000) of all businesses and almost 14% of employment. *Micro enterprises with 2-9 persons* employed constitute the most important size category in terms of employment as they account for almost one third of jobs in private sector businesses. The employment shares of the other three size categories shown in Table 4 - i.e. *small companies* with 10-49, *medium-sized* ones with 50-249, and *large* ones with 250 or more workers – are quite similar and vary between about 16% and 19%. The SME sector overall, which is all those enterprises with up to 249 persons employed, are comprising together more than 80% of employment, while the share of large firms is less than 20%.

**Table 4** Number of private sector enterprises and persons employed, by size categories, in 2013

	Enterprises		Persons employed	
	Number	Share	Number	Share
1 person employed	25,938	56.3%	25,938	13.7%
2-9 persons employed	17,797	38.7%	60,422	31.9%
10-49 persons employed	1,940	4.2%	35,546	18.7%
50-249 persons employed	310	0.7%	31,094	16.4%
250+ persons employed	47	0.1%	36,623	19.3%
<b>Total</b>	<b>46,032</b>	<b>100.0%</b>	<b>189,623</b>	<b>100.0%</b>

Source: own calculation based of ATK register

In the period 2010-2013, private sector enterprises developed very dynamically when looking at the ATK statistics. As shown in Chart 1, the total number of private sector enterprises increased by 26% (or 8.1% annually) and the number of persons employed grew by 22% (i.e. 6.8% annually). The strongest growth occurred in the micro (2-9 employed) and in the small (10-49) enterprise categories where both the number of firms and employment expanded by around 30% between 2010 and 2013. These business segments thus have gained in importance over the last few years. In the medium and large size categories growth was clearly below average.

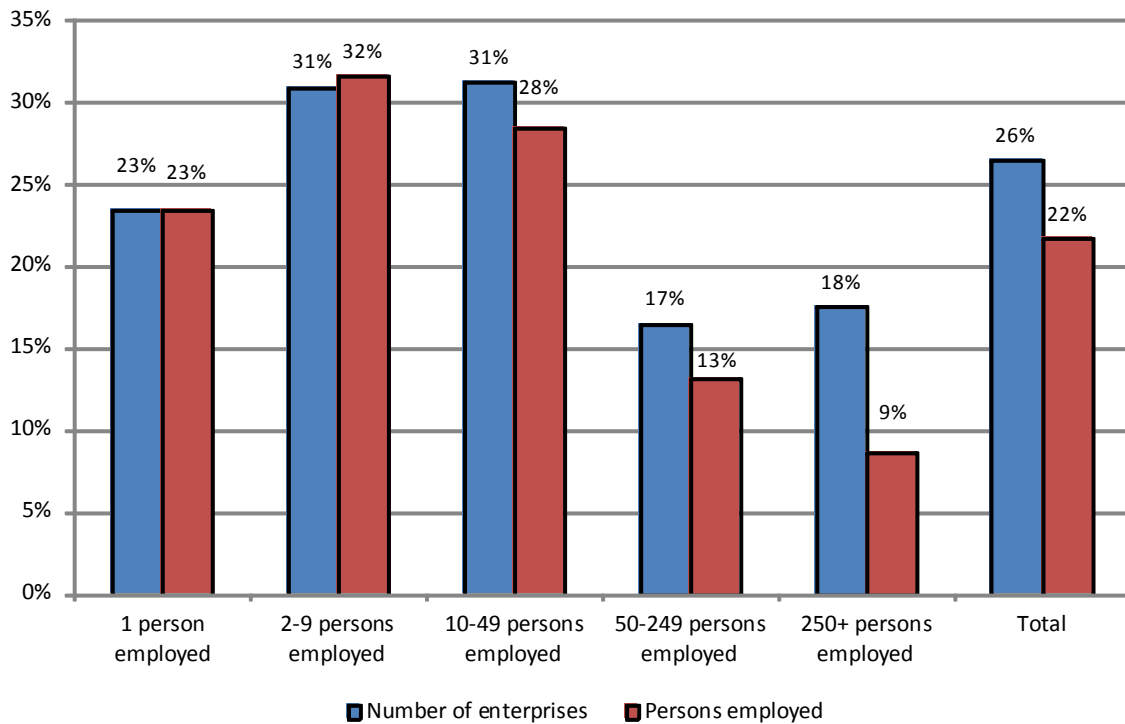
<sup>1</sup> This excludes public administration, extraterritorial organisations etc.

with funding from

co-financed by



**Chart 1** *Development of private sector enterprises, 2010-2013, by size categories, %-change*



Source: own calculation based of ATK register

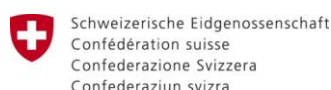
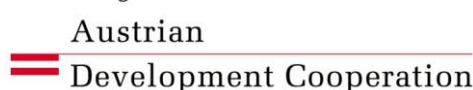
### 3.2 Sectors

A sector analysis provides more detailed insights into the private business landscape of Kosovo: Overall, *retail and wholesale trade* constitute by far the dominant sector, accounting for almost 43% of enterprises and 33% of employment (see Table 5). *Manufacturing* comes second with more than 16% of jobs and more than 10% of companies, while *business services*<sup>2</sup> are of almost similar significance. *Construction* is also among the four sectors with an employment share of more than 10%. Finally, *accommodation & food services* (hotels, restaurants and similar), the *transport* industry, and *personal services*<sup>3</sup> each have a proportion of around 6% of persons employed in the private enterprise sector.

<sup>2</sup> Business services include in particular financial and insurance services, various professional and technical services, information and communication services, and real estate services.

<sup>3</sup> Personal services include repair services, cleaning services, body care, arts and entertainment, sports etc.

with funding from



Swiss Agency for Development and Cooperation SDC

co-financed by





**Table 5** *Number of private sector enterprises and persons employed, by sector, in 2013*

	Enterprises		Persons employed	
	Number	Share	Number	Share
Manufacturing	4,825	10.5%	30,810	16.2%
Construction	3,289	7.1%	20,682	10.9%
Wholesale and retail trade	19,672	42.7%	61,790	32.6%
Transporting and storage	2,602	5.7%	10,513	5.5%
Accommodation & food service	3,499	7.6%	10,356	5.5%
Business services	4,716	10.2%	25,109	13.2%
Personal services	4,376	9.5%	12,558	6.6%
Other sectors <sup>4</sup>	3,053	6.6%	17,805	9.4%
<b>Total</b>	<b>46,032</b>	<b>100.0%</b>	<b>189,623</b>	<b>100.0%</b>

Source: own calculation based of ATK register

The various sectors differ with respect to the (typical) size of firms. Chart 2 depicts, for each of the sectors, how important the different size categories are in terms of the sector’s employment. Most striking is the high significance of micro enterprises with 2-9 persons employed in *accommodation and food services*, where businesses of that size stand for 66.8% of the sector’s jobs, as well as in *retailing and wholesale* (41.1% of total sector employment). This very much contributes to making the 2-9 workers category the strongest employer within the private enterprise sector overall as was pointed out in section 2.1 above. In *transport* and *business services* large enterprises with more than 250 persons employed have quite significant employment shares of more than 30%. In business services this mainly relates to corporations in the financial industry. However, in both business and transport services there are at the same time a very large number of ‘solo entrepreneurs’. A high presence of ‘solo entrepreneurs’ can also be found in *personal services*. By contrast, in *manufacturing* and *construction* self-employed people working on their own play a relatively smaller role as they account for less than 10% of these sectors’ total employment numbers<sup>5</sup>. Construction is featuring a comparatively strong segment of small enterprises (10-49 persons employed).

<sup>4</sup> E.g. mining; agriculture; health and social services; educational services; water supply, sewerage and waste management

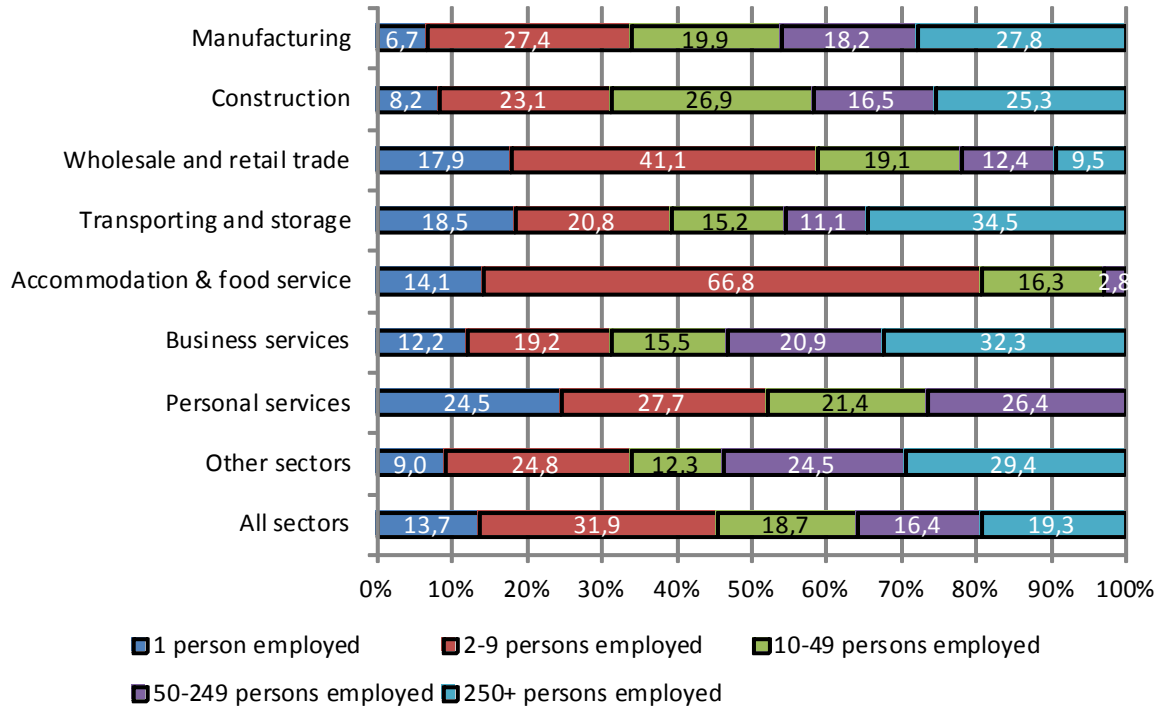
<sup>5</sup> It shall be noted, however, that even in manufacturing solo-entrepreneurs still represent approx. 43% of all enterprises.

with funding from

co-financed by



**Chart 2** *Percentage share of the different size categories in each sector's total employment, in 2013*



Source: own calculation based of ATK register

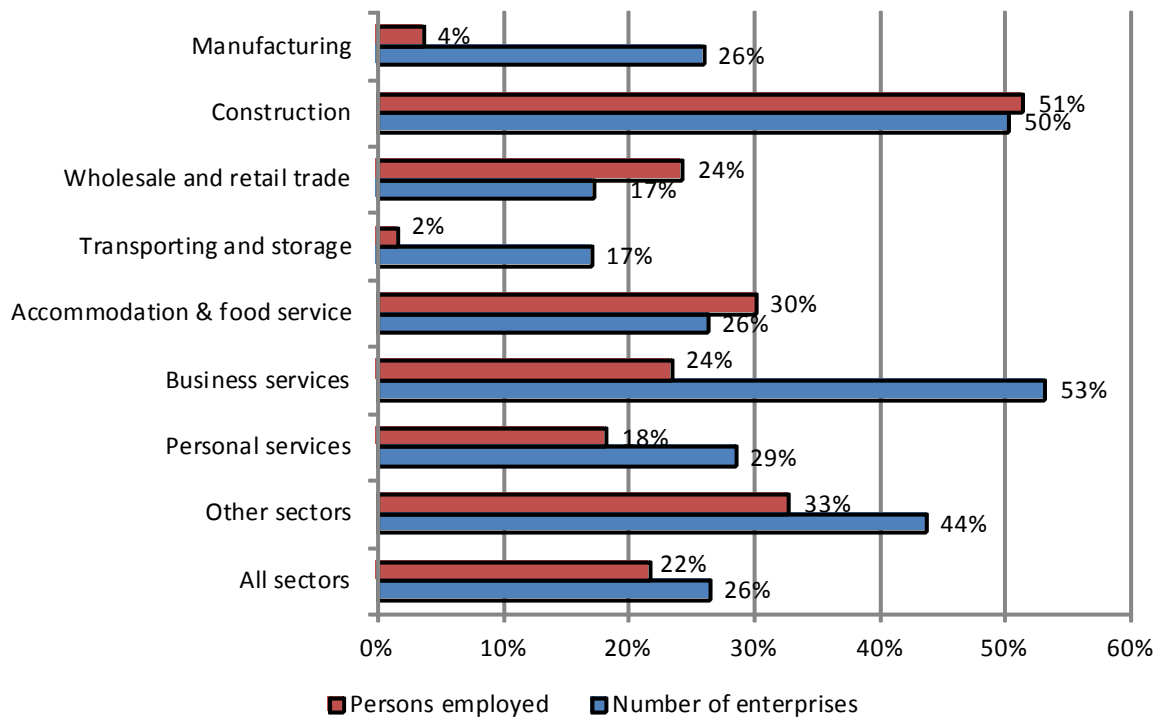
In section 2.1 above it was shown that private sector enterprises overall developed very dynamically between 2010 and 2013. Although the individual sectors performed differently, none of the main sectors experienced a decline as far as number of enterprises and employment are concerned (see Chart 3). The *construction sector* expanded most as both the number of businesses and persons employed increased by around 50% in the 3-year period. The boom concerned micro enterprises as well as large companies in particular. In the *business services* sector there was a similar growth in number of enterprises (+53%), but the number of jobs grew by 'only' 24%. This is due to the fact that the growth occurred mainly in industries dominated by solo-entrepreneurs and micro enterprises such as ICT services, professional services or real estate services, while the large financial corporations more or less stagnated. In *personal services* it was also mainly the micro enterprise segment (2-9 people) which exhibited an increase of business numbers and jobs. The *transport* sector saw a considerable growth in the smaller size segments (2-9 and 10-49 persons employed), but in terms of employment this was largely offset by a significant decline of jobs in large companies, resulting in a net increase of only 2%. A similar phenomenon occurred in *manufacturing*: Good growth in micro and small companies came along with a loss of employment in a few large enterprises, implying an overall plus of just 4%. Finally, the largest sector in Kosovo, *retail and*

with funding from



wholesale trade, was characterised by a comparatively moderate increase of solo-entrepreneurs but a remarkable rise of jobs in the small, medium and large size categories.

**Chart 3** Development of private sector enterprises, 2010-2013, by sector, %-change

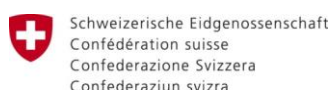
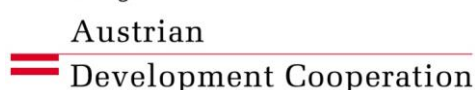


Source: own calculation based of ATK register

### 3.3 Regions

Kosovo’s private enterprise sector is very much concentrated in the Prishtina region. As is shown in Table 6, approx. 35% of the country’s businesses and more than 50% of people employed are located in and around the capital. The shares of the other six regions varies between about 8% (Mitrovica) and 15% (Prizren) of all businesses and between about 7% (Gjakova) and almost 12% (Prizren) of employment. The employment share of the Prishtina region is by far greater than its percentage of the number of enterprises, while the opposite holds for the other regions. This is due to the fact that many large companies have their premises or headquarters in the capital region, whereas there are only very few large corporations, or even none at all, in the other regions.

with funding from



Swiss Agency for Development and Cooperation SDC

co-financed by





**Table 6** *Number of private sector enterprises and persons employed, by regions, in 2013*

	Enterprises		Persons employed	
	Number	Share	Number	Share
Ferizaj Region	5,411	11.8%	15,709	8.3%
Gjakova Region	4,597	10.0%	12,753	6.7%
Gjilan Region	4,917	10.7%	14,130	7.5%
Mitrovica Region	3,743	8.1%	13,509	7.1%
Peja Region	4,191	9.1%	16,135	8.5%
Prishtina Region	16,181	35.2%	95,666	50.5%
Prizren Region	6,992	15.2%	21,721	11.5%
<b>Total</b>	<b>46,032</b>	<b>100.0%</b>	<b>189,623</b>	<b>100.0%</b>

Source: own calculation based of ATK register

The *business services* sector is even more concentrated on the Prishtina region: 55% of this sector’s enterprises and 77% of the sector’s jobs are located in the area of Prishtina. By contrast, the *manufacturing* sector is comparatively evenly distributed over Kosovo’s regions; here the share of the capital region is ‘only’ 27% of businesses and 41% of employment.

These different location patterns of sectors also mean that Prishtina and the other regions feature different sector structures or profiles. Chart 4 shows that *business services* account for approx. 20% of total employment in the Prishtina region and therefore have a much higher importance there than they have in the other regions of Kosovo, where business services account for only about 6% of employment on average. Conversely, *manufacturing* and *retailing/wholesaling* have a clearly higher weight outside the Prishtina region. So beyond Prishtina almost 40% of private sector jobs are in – and reliant on - the trade industries. The relative importance/weight of most of the other sectors is not so different between Prishtina and the other regions.

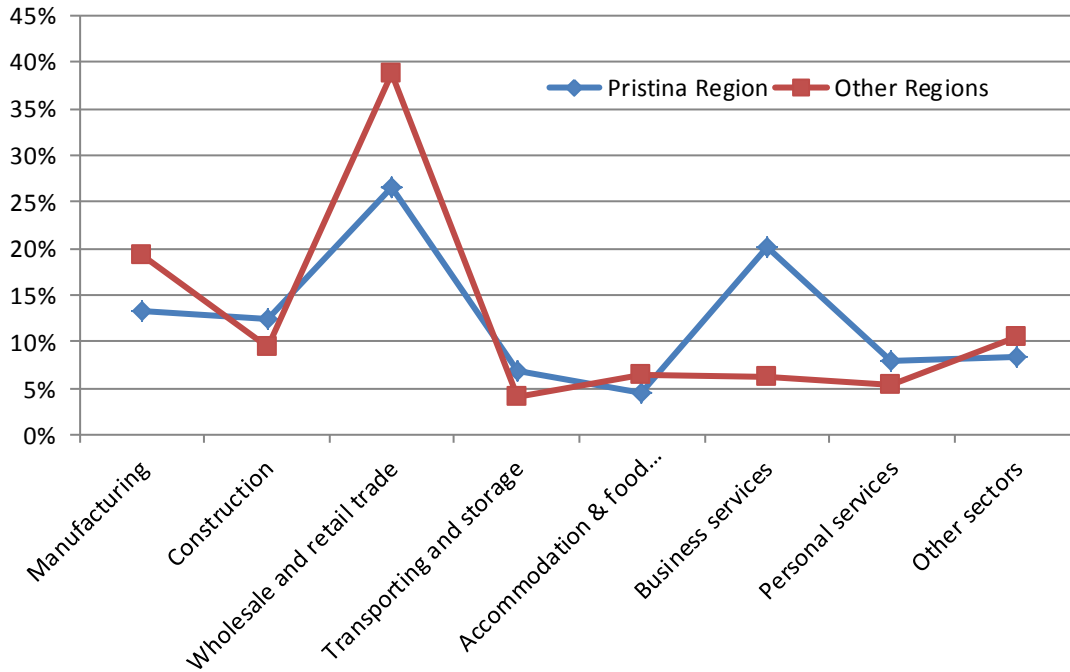
with funding from

co-financed by





**Chart 4 Sector profiles of Prishtina vs other regions: Percentage share of sectors in each region's total employment, in 2013**



Source: own calculation based of ATK register

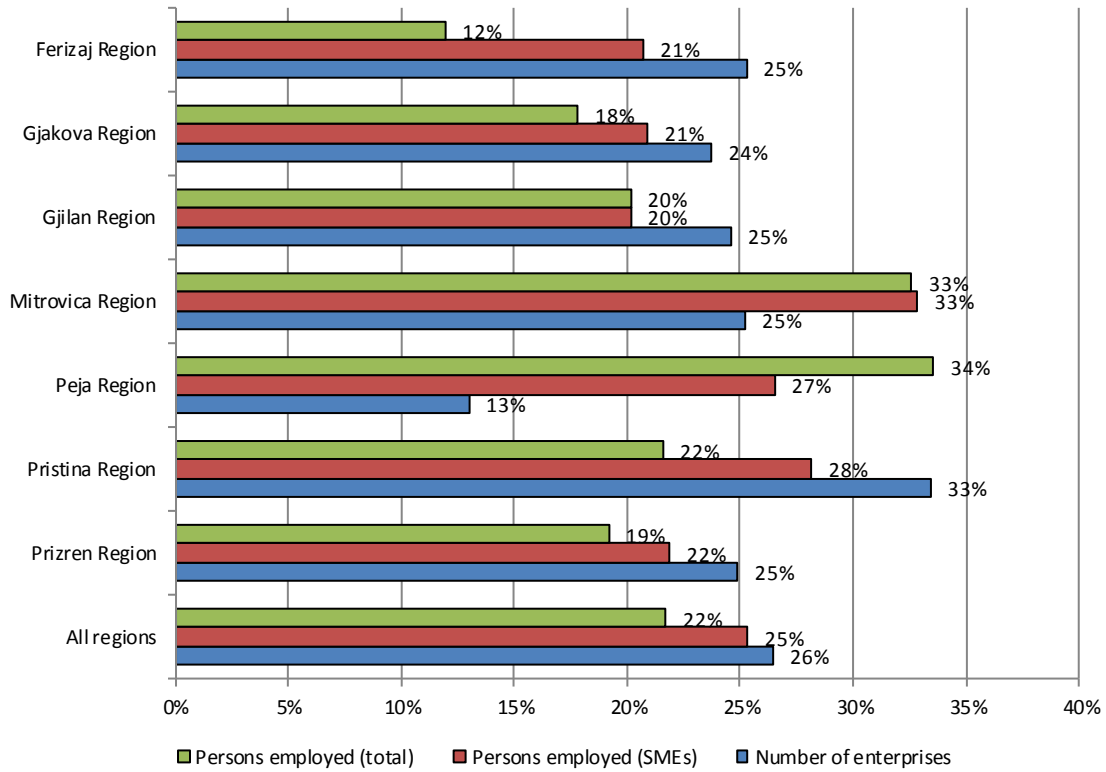
Chart 5 depicts the development of private sector enterprises in each of the seven regions in the period 2010-2013. Overall, there was a more dynamic growth in the smaller size categories (see section 2.1), but the business populations in the individual regions still show some distinctions with respect to their development. In *Ferizaj*, SME growth (number of firms and employment) was just slightly below the country average, but because of significant job losses in large manufacturing companies total employment development was the lowest of all regions. *Gjakova*, *Gjilan* and *Prizren* performed quite similar and somewhat below the country average in both the SME and large firm segments. The *Prishtina* region was more dynamic as many new and small businesses in various sectors were the drivers of strong employment growth in SMEs and overall. The region also benefited most from the construction boom mentioned in section 2.2. In the regions of *Mitrovica* and *Peja* existing larger companies in manufacturing and retailing respectively played a more important role for achieving the high employment increment.

with funding from

co-financed by

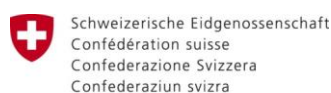
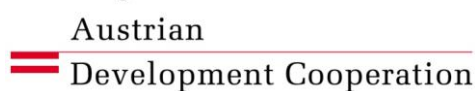


**Chart 5** *Development of private sector enterprises, 2010-2013, by regions, %-change*



Source: own calculation based of ATK register

with funding from



Swiss Agency for Development and Cooperation SDC

co-financed by





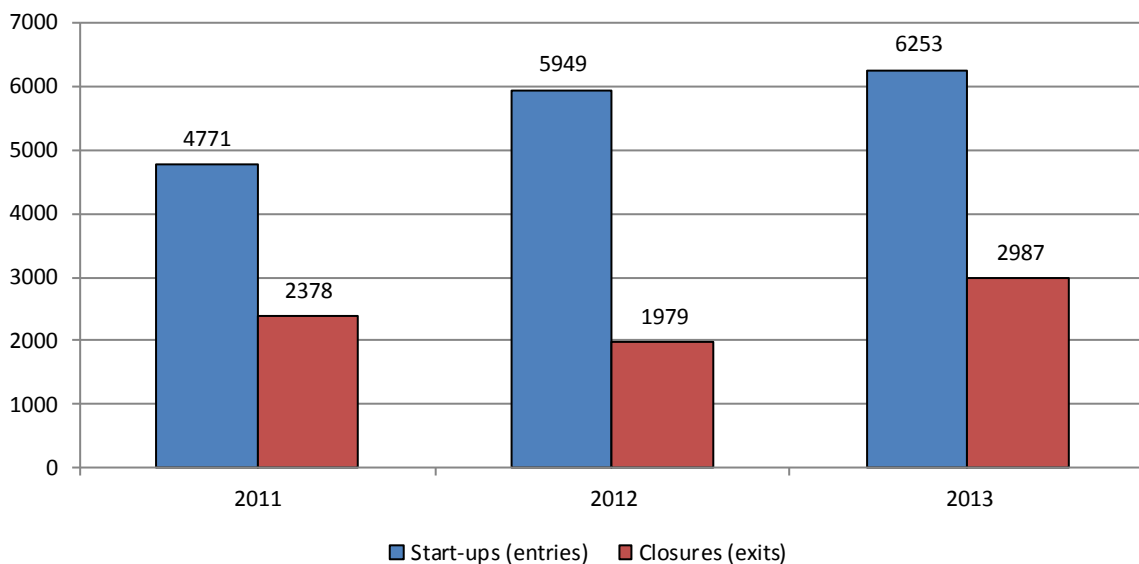


## 4. Indicators on Business Demography

### 4.1 Start-ups and closures


The ATK data can also be used to investigate the number of start-ups and business closures or, more technically speaking, new entries into and exits from the register of businesses. From the data presented in Chapter 1 it was clear that start-up numbers certainly need to be high and this is confirmed in Chart 6. Over the last few years new entries were even increasing and reached about 6,250 in 2013. However, the Chart also shows that there are still a considerable number of market exits each year, too. In 2013, there were almost 3,000 closures which equal approx. 7% of the total business population of the preceding year. So, in 2013 the net increase in businesses was about 3,270 and the turnover or ‘churning’ was around 2,990 firms.


**Chart 6** Number of start-ups and closures of businesses, 2011-2013



Source: own calculation based of ATK register

with funding from

 **Austrian**  
**Development Cooperation**

 Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

**Swiss Agency for Development  
and Cooperation SDC**

co-financed by





Start-up activity in 2013 was highest in the *construction* sector and in *business services*, where entry rates<sup>6</sup> were about 19% (see Table 7). At the same time both sectors had comparatively low exit rates. This explains why the number of enterprises increased strongly in these sectors as was shown in Chapter 1. In *accommodation & food services* start up activity is also clearly above average, but exits are very high as well, which points to a considerable turnover in the sector's business population. *Manufacturing* and *personal services* feature average entry and exit rates. Finally, the lowest start-up rate (11.1%) is found in *wholesale and retail trade*. Start-ups (entries) are usually very small in their first year. Approx. 78% of all new businesses in 2013 were self-employed working on their own without any additional employees. Another 15% started off with two or three employed people.<sup>7</sup>

**Table 7** Number of start-ups (entries) and closures (exits) of businesses in 2013, by sector

	Start-ups/entries		Closures/exits	
	Number	Rate*	Number	Rate*
Manufacturing	620	13.1%	276	6.2%
Construction	589	19.1%	175	6.1%
Wholesale and retail trade	2,057	11.1%	1,277	6.8%
Transporting and storage	357	13.9%	235	9.5%
Accommodation & food service	575	17.6%	329	10.1%
Business services	946	18.7%	247	6.1%
Personal services	602	14.4%	319	7.8%
Other sectors	507	17.4%	129	4.8%
<b>Total</b>	<b>6,253</b>	<b>13.9%</b>	<b>2,987</b>	<b>7.0%</b>

\* Rate = percentage of the sector's total business population in preceding year

Source: own calculation based of ATK register

<sup>6</sup> Number of entries as a percentage of the total business population in the preceding year.

<sup>7</sup> There are also very few larger entries in the ATK register. However, new (formal) entries might in some cases result from reorganisations or restructurings of existing firms.

with funding from

co-financed by



## 4.2 Survival and development of start-ups

Table 8 looks at how the start-ups (entries) of 2011 developed over the following two years until 2013. Overall, approx. 93% survived the first year and about 85% survived until 2013; so 15% closed operations within two years after starting off. The highest 2-year survival rates can be found in construction, manufacturing and personal services (more than 87%). By contrast, start-ups in the accommodation & food service and the transport sectors show the lowest likelihood of survival (less than 80%).

Table 8 also shows how many of the 2011 start-ups (entries) have grown in terms of persons employed by 2013. Three sectors stand out in this respect: Manufacturing, accommodation & food service, and construction where growth probability for start-ups varies between 27% and 30%. In transport services (less than 10%) and personal services (less than 15%) only relatively few new businesses are increasing employment within two years.


**Table 8 Survival rates of start-ups (entries) of 2011, by sector**

	<b>New entries in 2011</b>	<b>% that survived until 2012</b>	<b>% that survived until 2013</b>	<b>% that survived until 2013 and has grown*</b>
Manufacturing	478	92.5%	87.4%	30.3%
Construction	385	94.3%	89.1%	26.8%
Wholesale and retail trade	1,931	94.6%	85.9%	20.4%
Transporting and storage	315	87.6%	79.4%	9.5%
Accommodation & food service	391	92.3%	79.0%	27.6%
Business services	550	92.4%	84.5%	20.0%
Personal services	433	95.6%	87.1%	14.8%
Other sectors	288	92.0%	87.5%	22.9%
<b>Total</b>	<b>4,771</b>	<b>93.4%</b>	<b>85.3%</b>	<b>21.4%</b>

\* number of persons employed in 2013 is higher than in start year 2011

Source: own calculation based of ATK register

with funding from

 **Austrian**  
**Development Cooperation**



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

Swiss Agency for Development  
and Cooperation SDC

co-financed by





### 4.3 Sources of job creation

A final analysis in this chapter relates to the sources of job growth within the private enterprise sector. More specifically we look into the main components determining the (positive) change of total employment from 2012 to 2013. Each of the main components is given in the rows of Table 9. First, almost 3,000 business closures between 2012 and 2013 meant a loss of slightly more than 5,000 associated jobs. On the other hand, almost 13,600 new jobs were created by about 6,250 newly established businesses. All businesses which have continued between 2012 and 2013 can be grouped into shrinking, constant, and growing ones as far as their employment numbers are concerned. While constant enterprises represent the largest group (more than 29,000), they certainly did not have a negative or positive impact on the number of jobs. Most new jobs (more than 17,000) have been created by the approx. 6,400 growing SMEs. Although shrinking SMEs have lost almost 12,000 jobs, the net contribution of existing SMEs to job growth is still clearly positive. The balance of large firms, however, is negative as a loss of more than 5,000 in shrinking companies could by far not be compensated by the growing large firms.

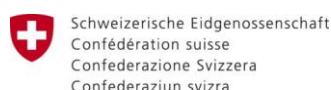
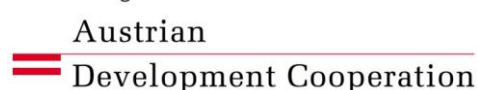
**Table 9 Jobs created and lost in the private enterprise sector from 2012 to 2013**

	No. of firms concerned	Persons employed 2012	Persons employed 2013	Jobs created / lost
Business closures (exits)	2,987	5,068	0	-5,068
Start-ups (entries)	6,253	0	13,576	13,576
Shrinking SMEs	4,166	37,737	25,842	-11,895
Shrinking large firms	21	25,766	20,534	-5,232
Constant businesses	29,173	55,032	55,032	0
Growing SMEs	6,399	46,098	63,421	17,323
Growing large firms	20	9,935	11,218	1,283
<b>Total</b>		<b>179,636</b>	<b>189,623</b>	<b>9,987</b>

Source: own calculation based of ATK register

The analysis has shown that approx. 15% of businesses had experienced a growth of jobs between 2012 and 2013. However, a more detailed investigation of these 15% of companies reveals that job growth is an even more concentrated phenomenon, because the Top 500 firms, which represent slightly more than 1% of all businesses in 2012, contributed more than 50% of all new jobs in the private enterprise sector. However, it should finally be noted that the relative importance of the different components of growth also depends on the length of the period observed.

with funding from



Swiss Agency for Development and Cooperation SDC

co-financed by





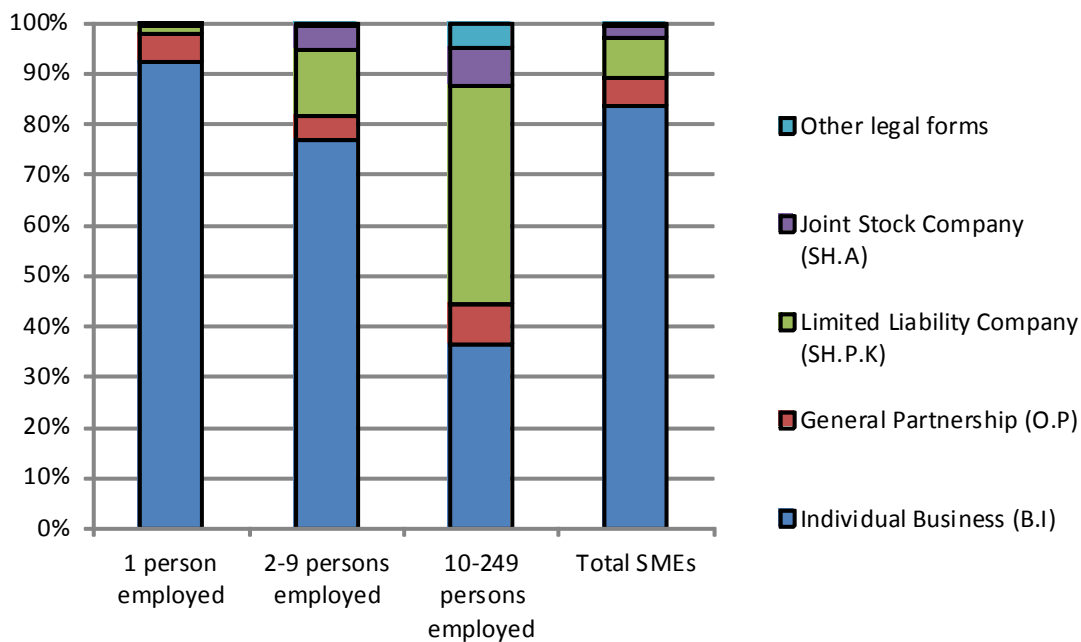
## 5. Further Key Features of SMEs and Entrepreneurs

### 5.1 Legal forms

The interview survey conducted for this study informs about a number of additional key features of the SME sector in Kosovo. Chart 7 shows that ‘Individual Business (B.I)’ is by far the dominant legal form especially among solo-entrepreneurs and other micro businesses 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-sized enterprises (10-249 persons employed) are more often organised as a Limited Liability Company (SH.P.K) though. In this category, 43% are using the SH.P.K form.

About 10% of those organised as an ‘Individual Business (B.I)’ are presently planning to change their legal form into a Limited Liability Company (SH.P.K). This concerns mainly businesses in the size category from 2 to 9 persons employed in various sectors.

**Chart 7 Incidence (%) of legal forms among SMEs, by size categories**



Source: KOSME SME Survey 2014

with funding from

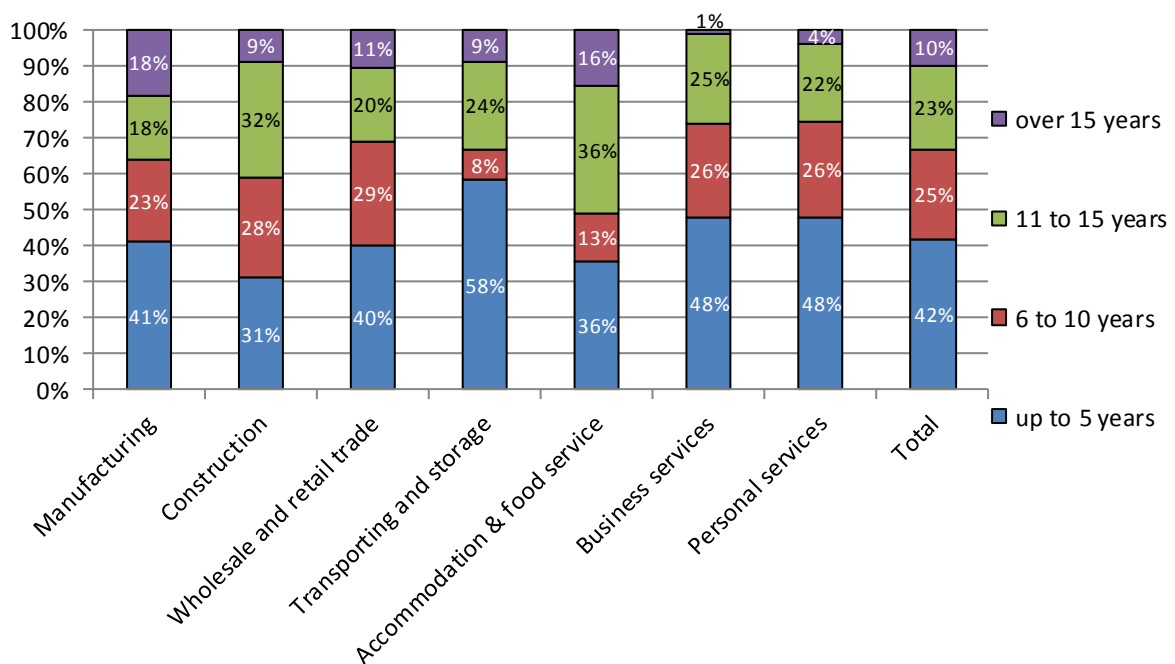
co-financed by



## 5.2 Age of businesses

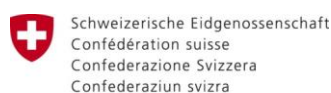
Kosovo's SMEs are very young on average as an increasing number of businesses have been established over the last few years (see section 5.1 above). More than 40% of SMEs are up to 5 years old, while just 10% have been existing for more than 15 years (see Chart 8). The highest shares of young firms can be found in the transport, personal services, and business services sectors. SMEs in accommodation and food services as well as in construction are comparatively 'old' and there are many companies in the 11 to 15 years age bracket.

**Chart 8** Age distribution (%) of SMEs, by sector



Source: KOSME SME Survey 2014

with funding from



Swiss Agency for Development and Cooperation SDC

co-financed by

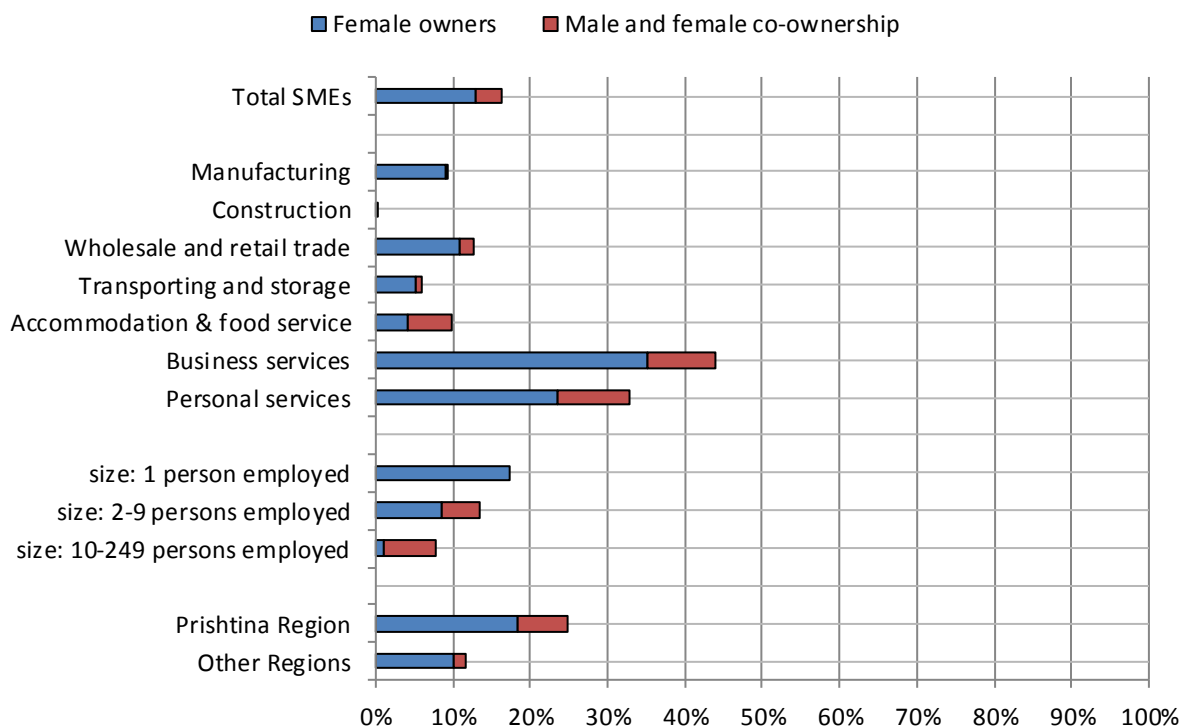




### 5.3 Female entrepreneurs and workers

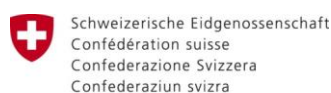
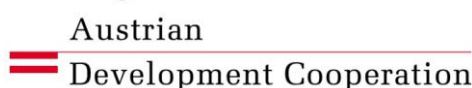
In Kosovo, women are still hardly active as entrepreneurs – at least in formal terms. Businesses owned by women are rare. Chart 9 informs that, overall, only 13% of SMEs are owned by women and another 3% are co-owned by women. So the remaining 84% of SMEs are owned by men. The incidence of female entrepreneurship is however much higher in personal and business services where 23% and 35% of enterprises respectively are controlled by women. In the other sectors, the share of women is much lower; in construction in particular there are virtually no women-owned businesses at all. Furthermore, business women are mainly active as solo-entrepreneurs, while in larger size categories women become even rarer. Finally, there are relatively more female entrepreneurs in the Prishtina Region (18% plus 6% co-ownerships) than in the other Regions (10% plus 2% co-ownerships on average). Women-led companies are - by average - also slightly younger than men-led ones, which means that self-employment constitutes a more recent career option for women.

**Chart 9** *Share (%) of businesses owned by women, by sectors, size categories and regions*



Source: KOSME SME Survey 2014

with funding from



Swiss Agency for Development and Cooperation SDC

co-financed by

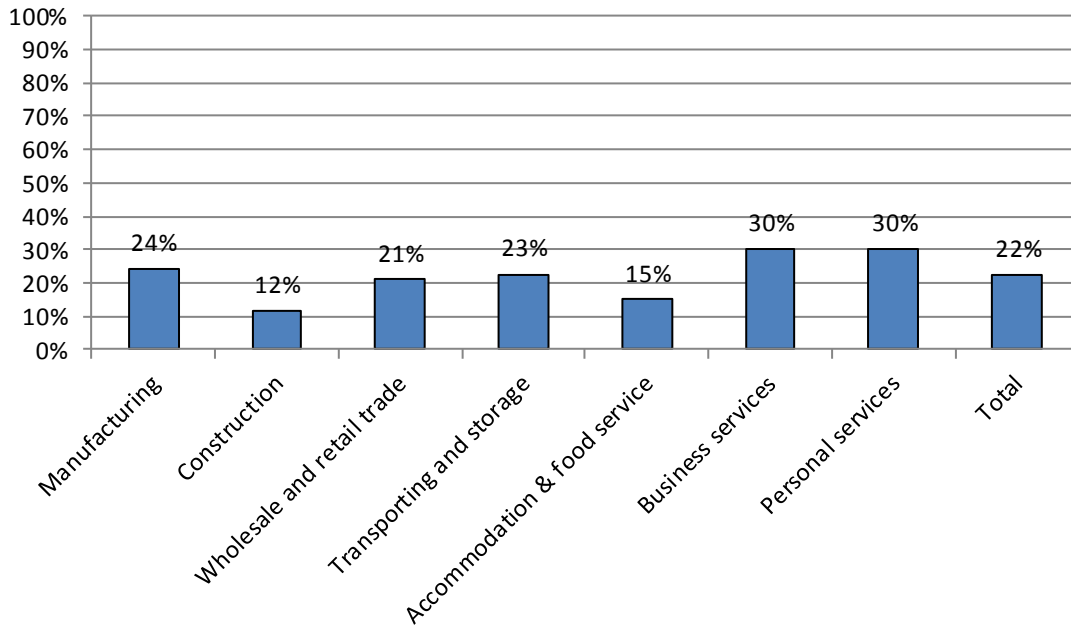






Women are somewhat better represented among the total workforce of SMEs than among entrepreneurs or owners. Nevertheless they constitute a minority of 22% in this respect, too (see Chart 10). Again the smallest share of female workers is being found in the construction sector (12%), while in personal and business services 30% of staff is women. However, enterprises owned by women usually also employ more women than men.

**Chart 10 Share of women (%) in total staff of SMEs**



Source: KOSME SME Survey 2014

## 5.4 Age of entrepreneurs

The community of business owners in Kosovo is quite young. Half of them are under 40 years of age as Chart 11 shows. A remarkable share of 18% is even just in their twenties and there is only a small share of 5% who are over 60 years old. So while the average age (median) of all entrepreneurs is 40 years, business owners in the transport, personal services and business services sectors are even younger (median age is around 35 years). By contrast, entrepreneurs in the construction sector are comparatively old with an average of 44 years and a share of 30% being over 50 years old. The age structures in the other sectors by and large correspond to the overall average. In terms of regional differences, it turns out that business owners in the Prishtina Region are somewhat younger as their median age is 36 years.

Although not directly asked for in the survey, it can be estimated from the data obtained that people were on average about 30 years of age when they started their businesses.

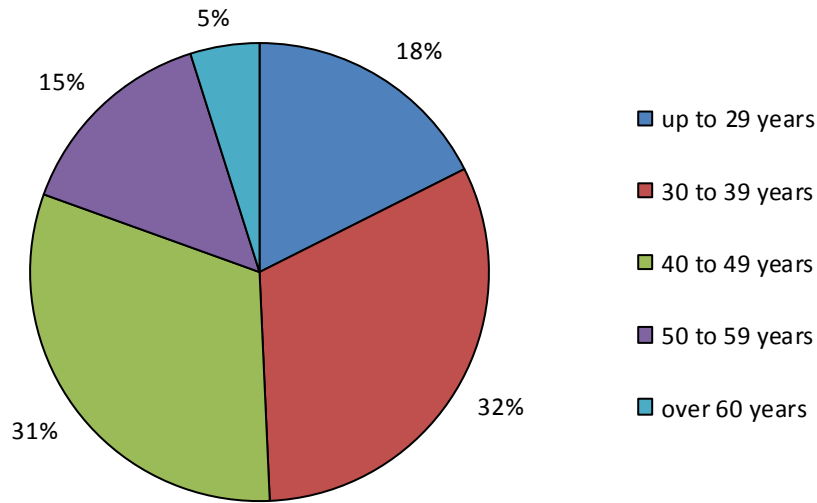
with funding from

co-financed by





**Chart 11** Age structure of business owners (distribution over age brackets)




Source: KOSME SME Survey 2014

## 5.5 Membership in business associations and networks

Overall, 11% of the SMEs in Kosovo are part of some business association or business network and the KCC is by far the most important association in this respect. However, Chart 12 shows that the importance of associations and networks differs between sectors, size categories and regions. Among small and medium-sized companies (10 to 249 persons employed), almost 60% have joined an association or network, while this is true for only 6% of solo-entrepreneurs. When looking at sectors, it is business services where associations/networks have the highest prevalence (23% of businesses), while in accommodation and food service industries network formation is least significant. Business associations are also much more common among SMEs in the Prishtina Region, where the diffusion rate is 20%, than in other regions (diffusion rate of 7% on average).

with funding from

 **Austrian**  
**Development Cooperation**



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

**Swiss Agency for Development  
and Cooperation SDC**

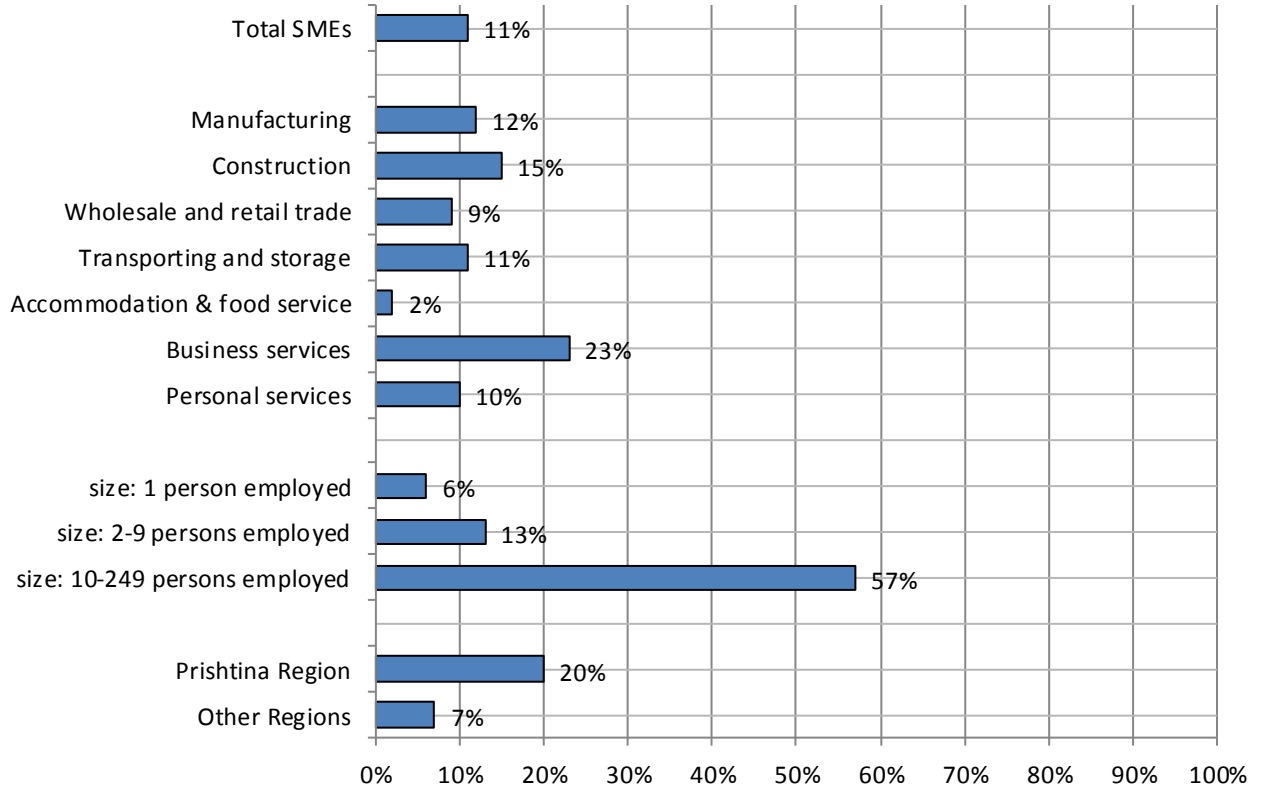
co-financed by



Ministry of Trade  
and Industry

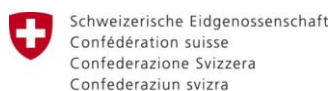
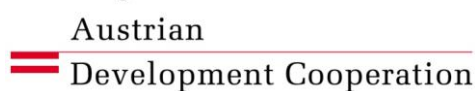


**Chart 12** *Share (%) of businesses being member of business association or network, by sectors, size categories and regions*



Source: KOSME SME Survey 2014

with funding from



Swiss Agency for Development and Cooperation SDC

co-financed by

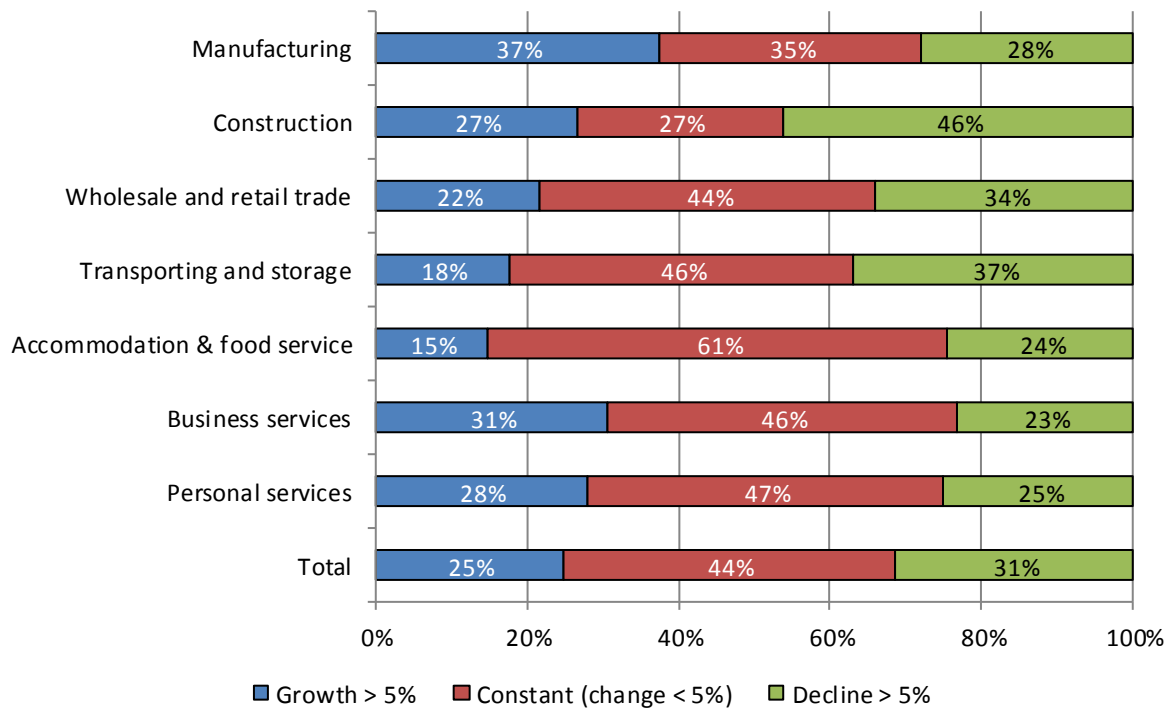




## 6. Economic situation and strategies of SMEs

Despite of the remarkable growth of the SME sector in general over the last few years, many businesses are in a difficult economic situation. In 2013, more enterprises (31%) had experienced a decline of revenues than a revenue growth (25%), as is depicted in Chart 13. Especially in the transporting and construction sectors many businesses reported a negative development of revenues. In construction, the strong inflow of new entrants on the market obviously has resulted in increased competition. In manufacturing and business services, the numbers of companies with growing revenues are comparatively high (37% and 31% respectively). In the accommodation & food services industry there is a particularly high share (more than 60%) of companies with stagnating revenues. Besides sector differences, there are also regional differences: SMEs in the Prishtina Region fared somewhat better as 'only' 24% experienced a decrease in revenues, while for the other regions the average was 35%.

**Chart 13** *Share (%) of SMEs with growing, constant and declining revenues 2012-2013, by sectors*



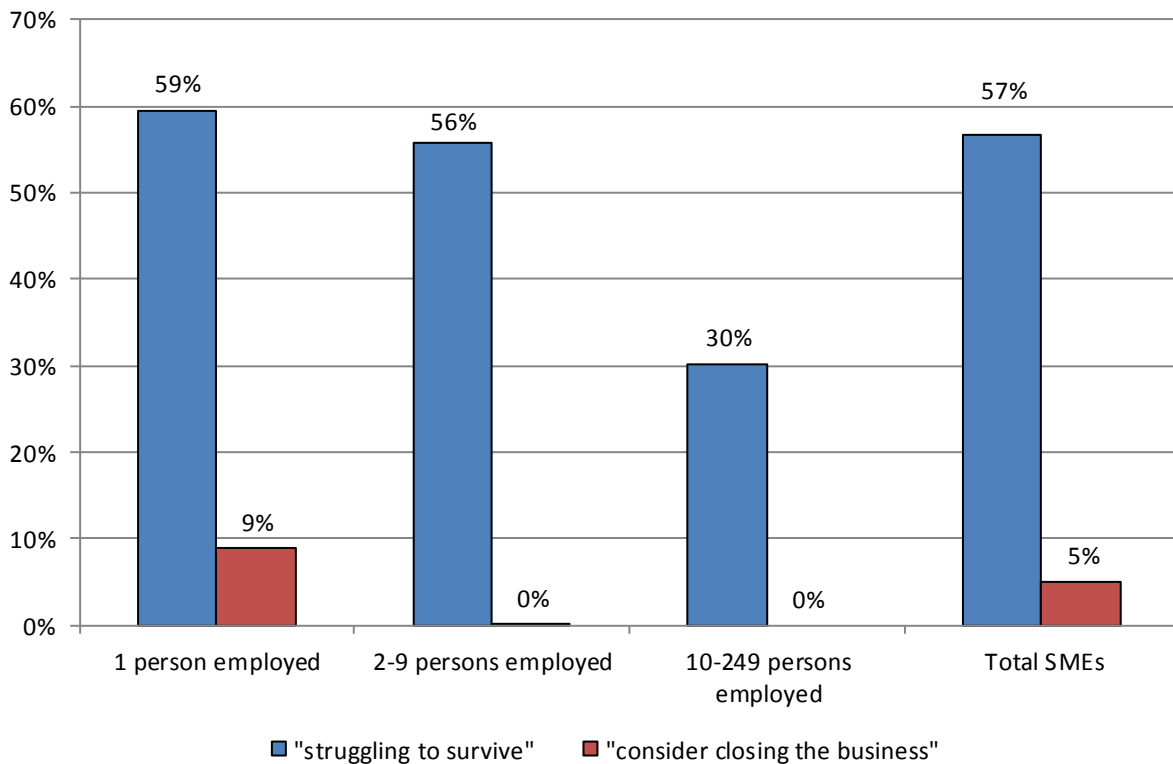
Source: KOSME SME Survey 2014

with funding from



Some other indicators included in the survey and presented in Chart 14 also confirm that many SMEs are economically fragile and vulnerable. So, almost 60% of solo-entrepreneurs and micro enterprises describe their situation as “struggling to survive”. For small and medium-sized enterprises (10-249 employees) this is the case for only 30%. Almost 10% of solo-entrepreneurs were even considering closing down their business. Interestingly, the option of closing down had been stated even more often by female entrepreneurs, i.e. by 16% of women owners.

**Chart 14** *Share (%) of businesses „struggling to survive“ and “considering closing down”, by size categories*



Source: KOSME SME Survey 2014

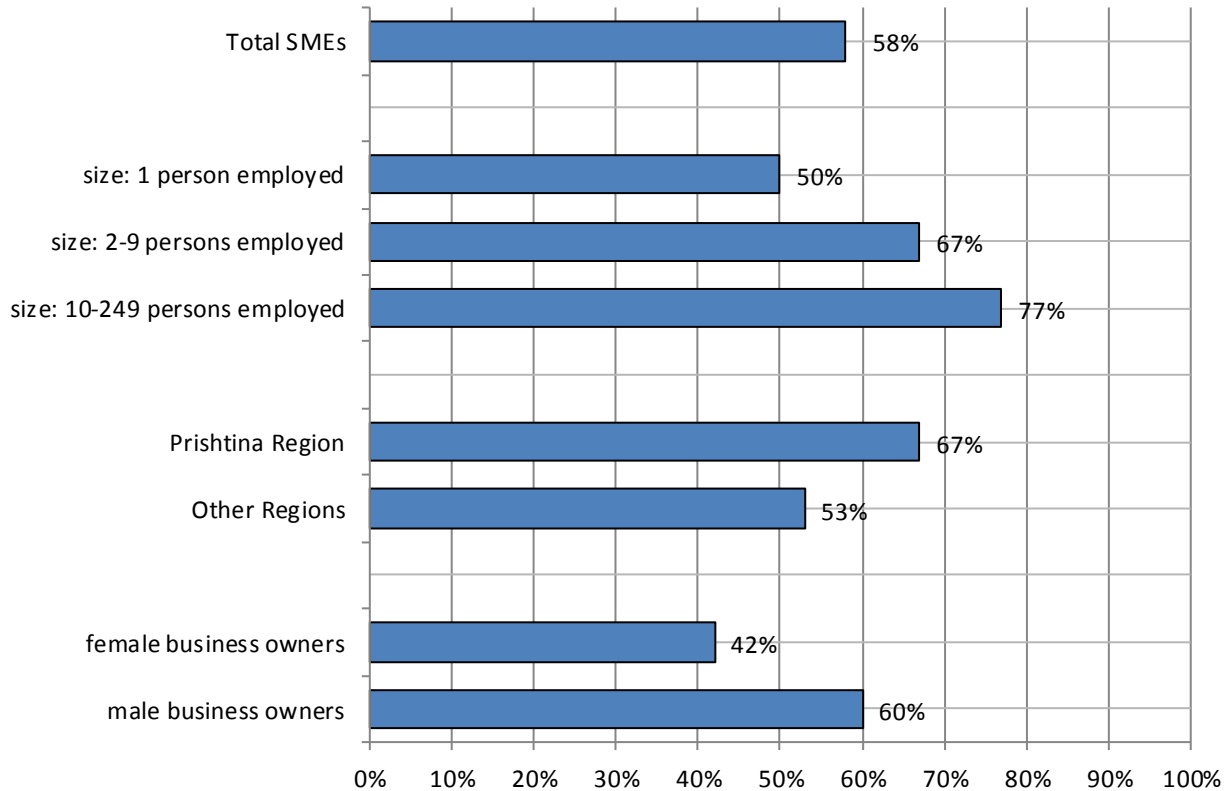
A rather small proportion (25%) of SMEs have achieved a revenue growth in 2013, however it is almost 60% of SME owners who actually do have an ambition to grow (see Chart 15). The prevalence of growth ambitions increases with firm size: While every second solo-entrepreneur aims to expand his/her business, this applies for almost 80% of small and medium sized enterprises (10+ persons employed). Also, in the Prishtina Region SME owners are more likely to follow a growth goal than their counterparts in other regions (67% vs 53%). Finally, again there is a significant difference between men and women, too. As the Chart shows the explicit plan or wish to grow the business is rarer among female entrepreneurs than among male ones.

with funding from

co-financed by



**Chart 15** *Share (%) of businesses having growth ambitions, by size categories, regions, and gender*



Source: KOSME SME Survey 2014

In general, businesses can pursue different strategies to achieve a competitive advantage and be successful on the market. Usually one can distinguish between strategies aiming at low costs and prices and strategies aiming at high/superior quality of products and services (including innovation). Table 10 shows that, in general, the ambition to improve quality is more widespread among SMEs in Kosovo than the cost-focussed strategy. Approx. 40% are placing the emphasis on quality while about one quarter gives priority to low costs and prices<sup>8</sup>. However, there are some remarkable differences between the sectors. For example, quality approaches are most prevalent in business services, while it is seldom aimed for low costs and prices in that sector. Also in personal services and in the accommodation & food service industry – e.g. hotels or restaurants – low cost strategies are comparatively less important. By contrast, emphasising on low costs (and prices) is quite frequent in the construction, transport and retailing sectors. Somewhat surprisingly perhaps, quality-orientation is rather low in the manufacturing sector.

<sup>8</sup> The remaining SMEs may pursue other strategies such as promoting image and branding or may not have an explicit strategy at all.

with funding from

co-financed by

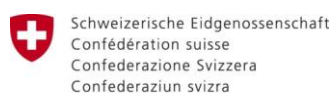
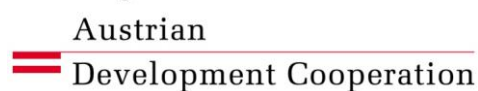


**Table 10** *Strategic orientation of SMEs: Share (%) of businesses focussing on low costs vs improving quality, by sectors*

	<b>% of businesses focussing on low costs</b>	<b>% of businesses focussing on improving quality</b>
Manufacturing	21%	35%
Construction	42%	43%
Wholesale and retail trade	33%	40%
Transporting and storage	35%	41%
Accommodation & food service	17%	43%
Business services	6%	51%
Personal services	13%	43%
<b>Total</b>	<b>26%</b>	<b>41%</b>

Source: KOSME SME Survey 2014

with funding from



Swiss Agency for Development and Cooperation SDC

co-financed by

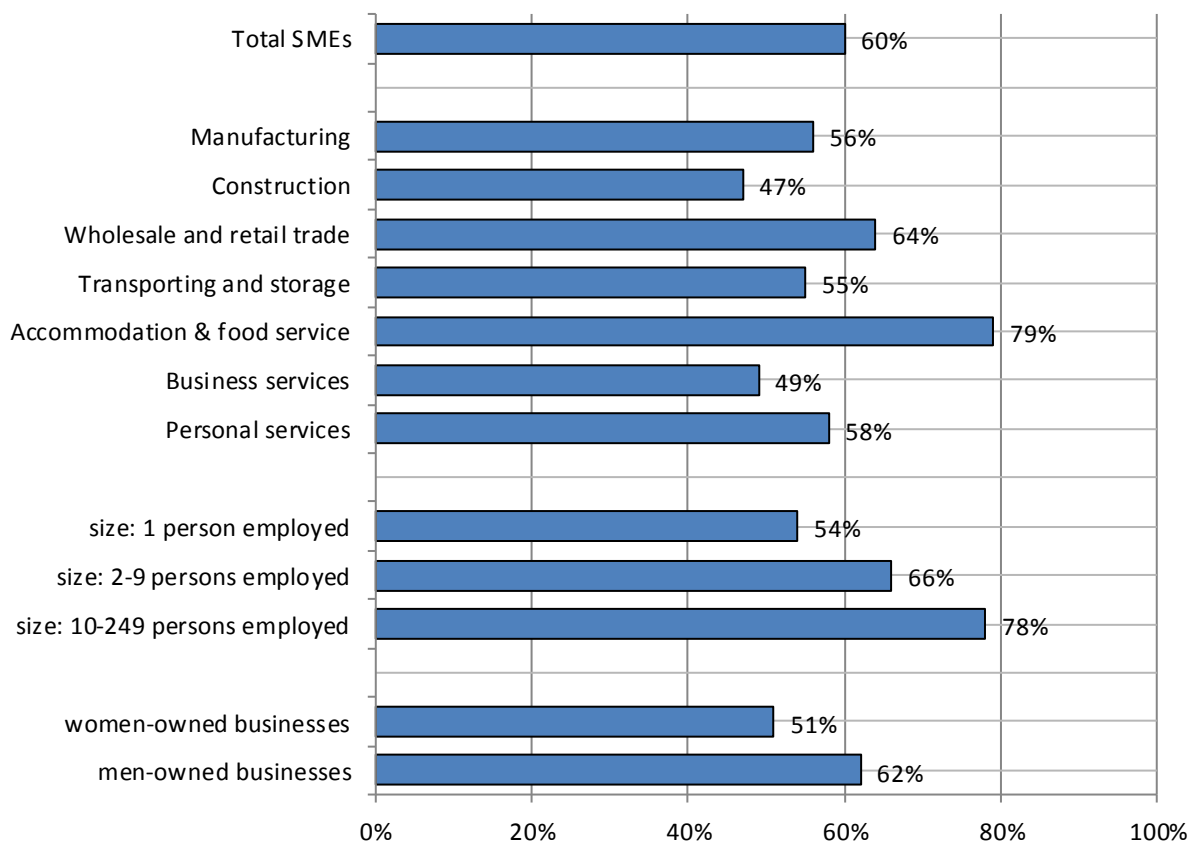




## 7. Financing of Investments

In the survey, SMEs were asked whether they had a need for financing an investment over the last two years. In this context, investments do not only include long-term fixed assets like equipment or property plant, but could also relate to short-term working assets, e.g. raw materials, or even significant immaterial investments. Overall, 60% of the SMEs indicated that they had a need for financing over the last years (see Chart 16). When looking at sector differences, a financing need is most frequent in the accommodation & food service industry (almost 80% of businesses) and the wholesale and retail trades are slightly above average, too. In the latter sector, there is a frequent need for financing short-term working assets such as goods for resale. In the construction and business services sectors less than 50% of SMEs had a financing need within last two years.<sup>9</sup>

**Chart 16** *Share (%) of businesses which had a need for financing an investment over the last two years, by sectors, size categories, and gender*



Source: KOSME SME Survey 2014

<sup>9</sup> It should be noted that the survey was not designed to capture the specific issue of financing start-ups as only existing/established businesses have been surveyed.

with funding from

co-financed by





Apart from sector differences, the need for financing apparently increases with firm size for obvious reasons. The Chart furthermore shows that businesses owned by women have a less frequent need for financing than men-owned enterprises (51% vs 62%). A large part of the difference can however be attributed to the fact that female entrepreneurs are much concentrated in the smallest size category and in the business and personal services sectors.

Table 11 shows which sources of finance had been used by those SMEs that had a financing need in the last two years<sup>10</sup>. The use of methods differs by size category rather than by sector. Overall, the owners' private savings had been used by 46% and a bank loan by 41% of SMEs investing. These sources therefore constitute the most important funding methods for SMEs in Kosovo. While there is not much of a difference in the use of sources between solo-entrepreneurs and micro enterprises with up to 9 persons employed, small and medium-sized companies (10 or more persons employed) show a different pattern of funding methods. Here the owners' savings become less important (29% of cases) and the use of bank loans increases to 49% as the Table shows. Most importantly however, enterprises in the small and medium size category are able to finance a significant part of their investments from the business's cash flow. They are therefore somewhat less dependent on external funds.

**Table 11** *Incidence (%) of methods/sources used by SMEs for financing investments, by size category*

	Percentage of businesses using the method			
	1 person employed	2-9 persons employed	10-249 persons employed	Total SMEs
Owner's private savings	47%	47%	29%	46%
Money of family members or friends	7%	8%	4%	7%
Money of a business partner	5%	2%	2%	4%
Cash flow of business	3%	8%	24%	6%
Bank credit/loan	43%	38%	49%	41%
Supplier/trade credit	0%	1%	2%	0%
Leasing	0%	0%	3%	0%

Percentages may add up to more than 100% as more than one source may be used for a single investment.

Source: KOSME SME Survey 2014

<sup>10</sup> Although asked for in the survey, there were hardly any unsuccessful searches for finance reported by SMEs.

with funding from

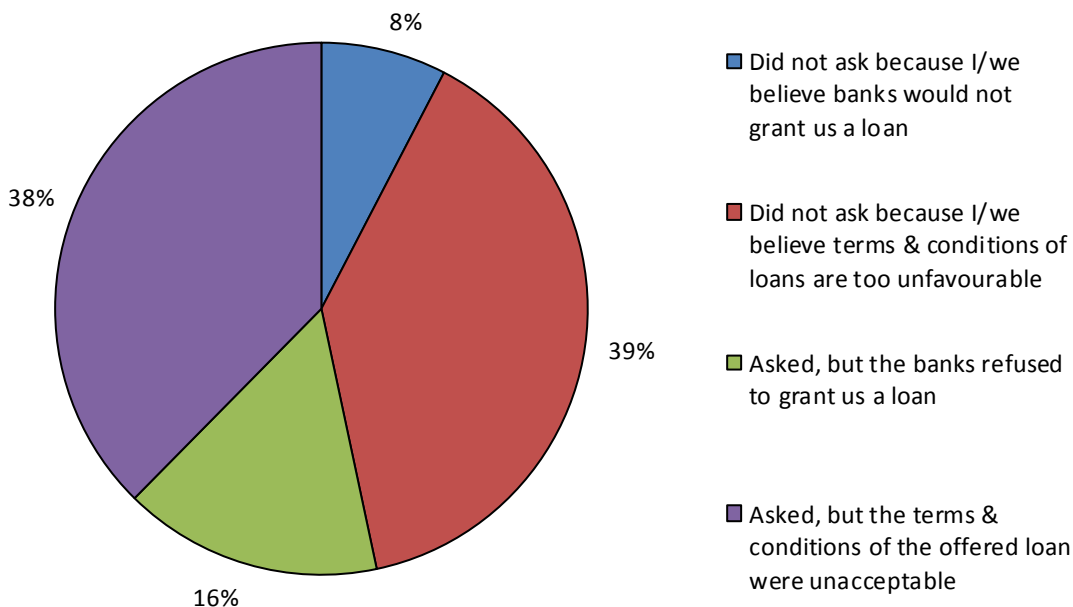




There are some sector specificities as far as the use of bank loans is concerned: In the business services sector, bank loans are used by only 24% of enterprises, while in the manufacturing, construction, and transport sectors loans have an incidence of approx. 50%. This is certainly related to higher amounts of funding needed and to investments often being made in long-term fixed assets. It shall finally be noted that the funding patterns do not differ much between women-owned and men-owned SMEs.

Those SMEs which did *not* use a bank loan for financing their investments have been asked about the reasons in order to better understand how well the businesses' needs and the loans offered fit. Chart 17 shows that 47% did not ask for a loan, mainly because they believed that the terms and conditions (in particular the interest rate) would be too unfavourable. Slightly more than 50% asked for a loan, but again found the offered terms and conditions to be unacceptable. In only 16% of the cases it was the banks that refused to grant a loan, according to the interviewed SMEs. So, from the perspective of enterprises the main problem with bank financing is related to costly and unfavourable loans and to a lesser degree to credit refusals or the banks' reluctance to provide finance.

**Chart 17** *Reasons for not using a bank loan to finance an investment (% of SMEs)*



Source: KOSME SME Survey 2014

with funding from



## 8. International business activities of SMEs

### 8.1 Exporting

The share of exporting SMEs is small: Overall, 5% report to have direct sales to customers located abroad and another 1% are exporting indirectly through an intermediate trader in Kosovo (see Table 12). However, at the time of the survey there were an additional 8% working on or considering export plans (but with no actual exports yet). As the Table shows, the incidence of exports is much higher in small and medium-sized companies (10-249 persons employed) than in micro enterprises<sup>11</sup>. Sector differences are less pronounced, however, export propensity is slightly higher in manufacturing and wholesale and retail trade. Regarding those considering exporting it is interesting to see that there are significant ambitions also among micro enterprises and in particular among wholesaling and retailing businesses.

**Table 12** *Share (%) of businesses with direct exports, indirect exports, and considering exporting, by sectors and size categories*


	Direct export sales	Indirect export sales through intermediate trader	Attempting or considering exporting*	Total export inclination
<b>Total</b>	<b>5%</b>	<b>1%</b>	<b>8%</b>	<b>14%</b>
<b>By sectors</b>				
Manufacturing	7%	3%	8%	18%
Construction	1%	0%	5%	6%
Wholesale and retail trade	7%	0%	13%	20%
Transporting and storage	5%	1%	4%	10%
Accommodation & food service	0%	0%	3%	3%
Business services	6%	0%	1%	7%
Personal services	1%	2%	1%	4%
<b>By size categories</b>				
1 person employed	2%	0%	8%	10%
2-9 persons employed	7%	1%	9%	17%
10-249 persons employed	22%	2%	9%	33%


\* but no actual exports yet

Source: KOSME SME Survey 2014

<sup>11</sup> However, in absolute terms the size category of 2-9 persons employed account for more than 50% of all exporters since 7% of this category's enterprises is more than 22% of all enterprises in the 10-249 category.

with funding from

 **Austrian**  
**Development Cooperation**

 Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

Swiss Agency for Development  
and Cooperation SDC

co-financed by



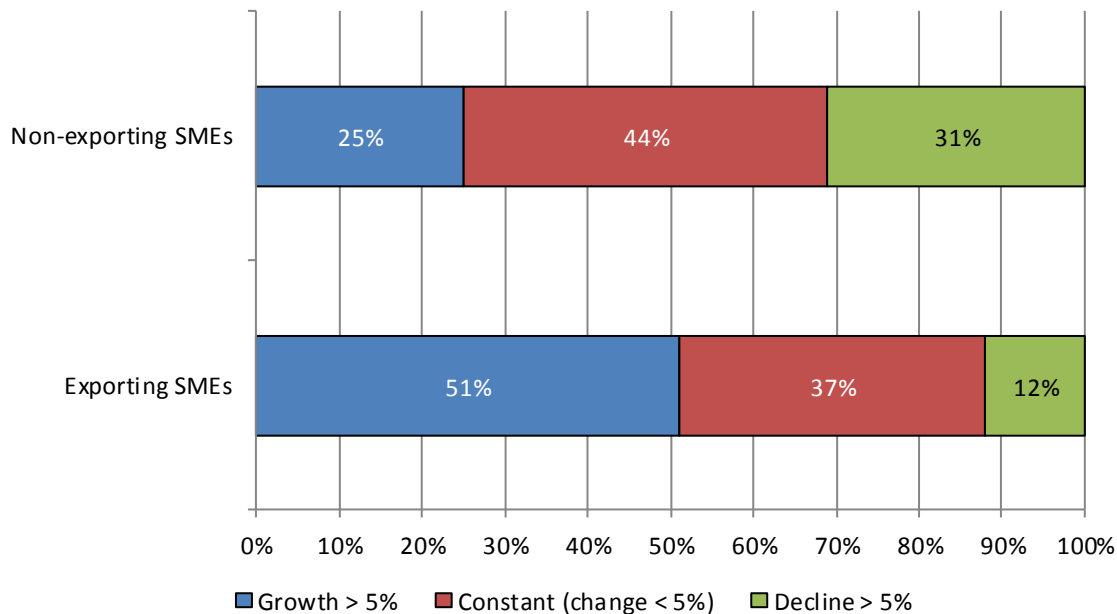


There is no difference between exporters and non-exporters with respect to the age of the enterprise. However, the age of the business owner appears to have an impact on the probability of exporting: On average, owners of exporting SMEs are younger than owners of non-exporters.

The share of export sales in the exporters' total sales varies strongly. While some enterprises generate just some 10% of their turnover from exports, others have an export rate of 100%. On average the ratio is 26%. The most important target countries for exporting SMEs include Albania, the Republic of Macedonia, Germany, Switzerland, Montenegro, Italy, Austria, and the United States.

The survey shows that exporting SMEs performed better than non-exporting SMEs in terms of revenue growth (2012-2013). As is depicted in Chart 18, more than 50% of exporting SMEs achieved a growth of more than 5% while this was true for only 25% on non-exporters. Conversely, only 12% of exporters experienced a decline of turnover as compared to more than 30% of non-exporting businesses. Besides, exporters place more emphasis on product and service quality strategically. As was discussed in Chapter 7, on average 41% of SMEs are pursuing a quality-focused strategy. Among exporters, quality orientation is more important with 53% following such a strategy.

**Chart 18** *Share (%) of SMEs with growing, constant and declining revenues 2012-2013: exporting vs non-exporting SMEs*



Source: KOSME SME Survey 2014

with funding from



Table 13 informs about the difficulties with and obstacles to exporting as perceived by SMEs. The Table compares the views of those actually exporting with those who were planning or considering exporting at the time of the survey ('would-be exporters'). For exporters two obstacles stand out: The major difficulty obviously is finding clients or agents abroad. This is confirmed by 65% of exporting SMEs, and a considerable part of the would-be exporters are experiencing the same difficulty as well. Travel restrictions are ranked second in the list of obstacles as this caused a problem to 50% of exporters. Interestingly, would-be exporters are not aware of this issue to the same extent, which might be due to the fact that many of them have not yet started travelling to any target countries. One fifth of the exporters have difficulties with coping with the economic risks involved in international business activities.

Keeping up with competitors on international markets is not seen as great difficulty by the SMEs – neither in terms of price nor in terms of product quality. The same holds for compliance with product standards and authorisation abroad. Customs procedures and duties are perceived as a major challenge by 44% of those considering exporting, but only by 9% of actual exporters. This could be related to a lack of practical experience of would-be exporters with these procedures.

**Table 13** *Share (%) of businesses facing or perceiving difficulties and obstacles to exporting*

	<b>% of actually exporting SMEs</b>	<b>% of SMEs considering exporting</b>
Finding clients, contacts or agents abroad	65%	43%
Travel restrictions (e.g. visa requirements)	50%	6%
High economic risks involved in export sales	21%	37%
Poor image of Kosovo abroad	17%	8%
To be competitive in terms of price	14%	17%
Compliance with product standards / product authorisation abroad	11%	0%
Customs procedures and duties	9%	44%
To be competitive in terms of quality of products/services	7%	2%
Transport to foreign countries	6%	3%
Language barriers	2%	4%

Source: KOSME SME Survey 2014

with funding from

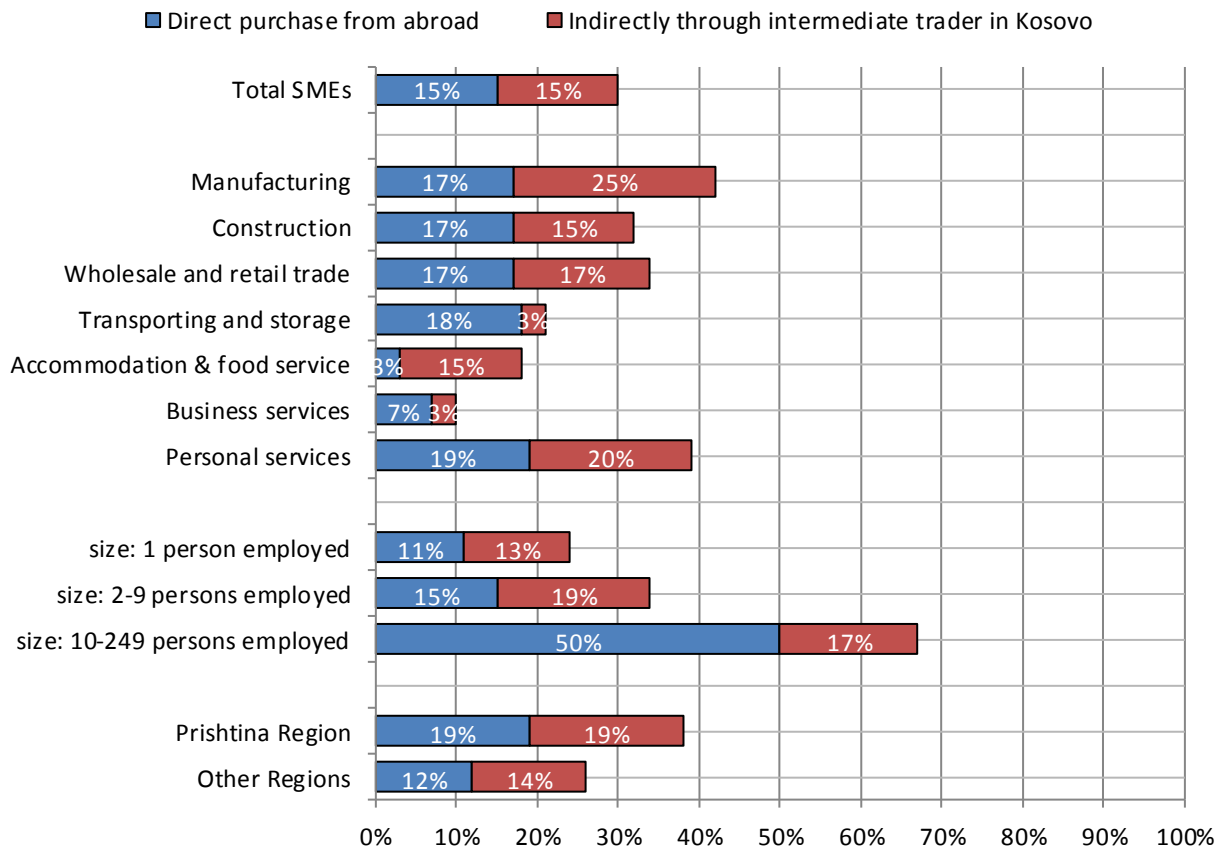
co-financed by



## 8.2 Importing

Among SMEs in Kosovo importing is significantly more frequent than exporting: 15% are directly purchasing goods or services from abroad and another 15% are doing so through an intermediate trader in Kosovo (see Chart 19). The incidence of importing increases with firm size. Among small and medium-sized enterprises (10-249 persons employed) every second firm is a direct importer. Sector differences are rather small overall, although direct imports seem to be less relevant in the business services sector and in accommodation & food services (7% and 3% importers respectively). With respect to regional differences, the Chart shows that the share of importing SMEs is slightly higher in the Prishtina region than in other regions.

**Chart 19** *Share (%) of businesses importing goods or services from abroad, by sectors, size categories and regions*



Source: KOSME SME Survey 2014

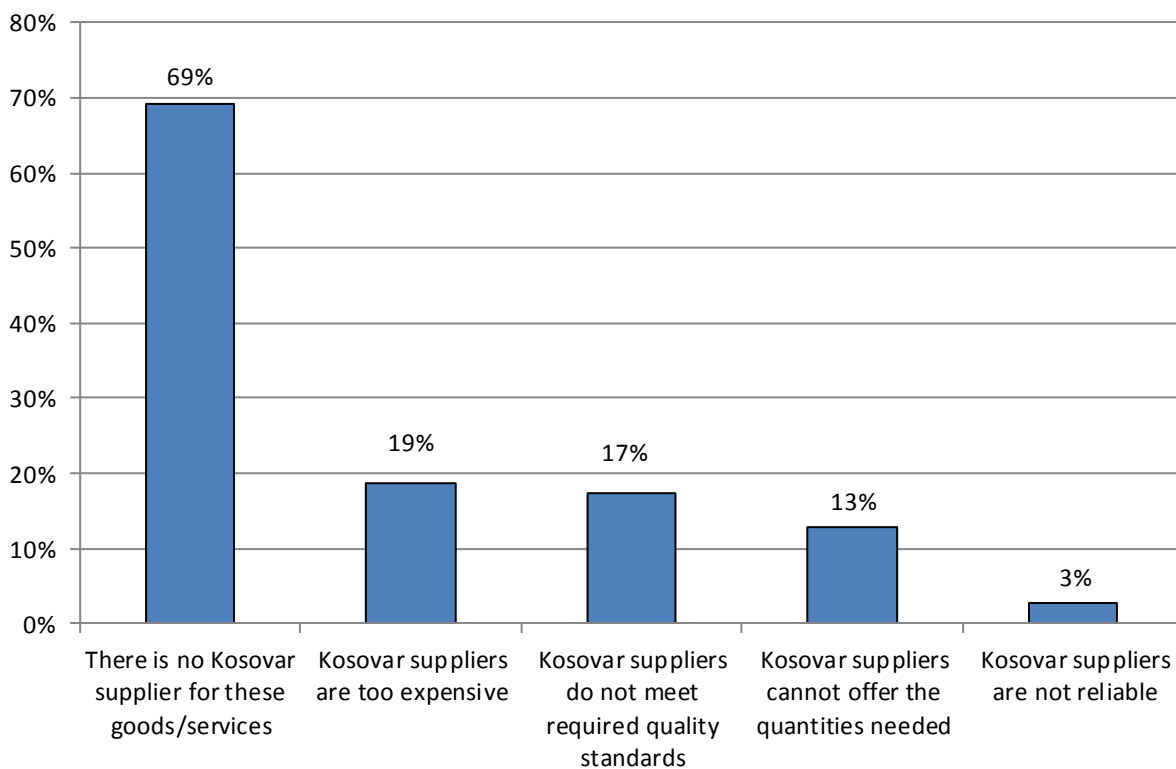
with funding from

co-financed by



In the survey, importers have been asked why they are purchasing goods or services from abroad rather than from domestic suppliers in order to better understand possible deficits or competitive disadvantages of local suppliers. However, the dominant reason for using foreign suppliers apparently is that the goods concerned are not being produced in Kosovo at all. This reason is stated by approx. 70% of importers (see Chart 20). Reasons which would refer to Kosovar suppliers being too expensive, unreliable or not meeting the required quality levels are less important, i.e. they were stated by less than 20% of the importers.

**Chart 20** *Reasons for purchasing from foreign instead of Kosovar suppliers (percentage of importers stating the reason)*



Source: KOSME SME Survey 2014

with funding from

co-financed by

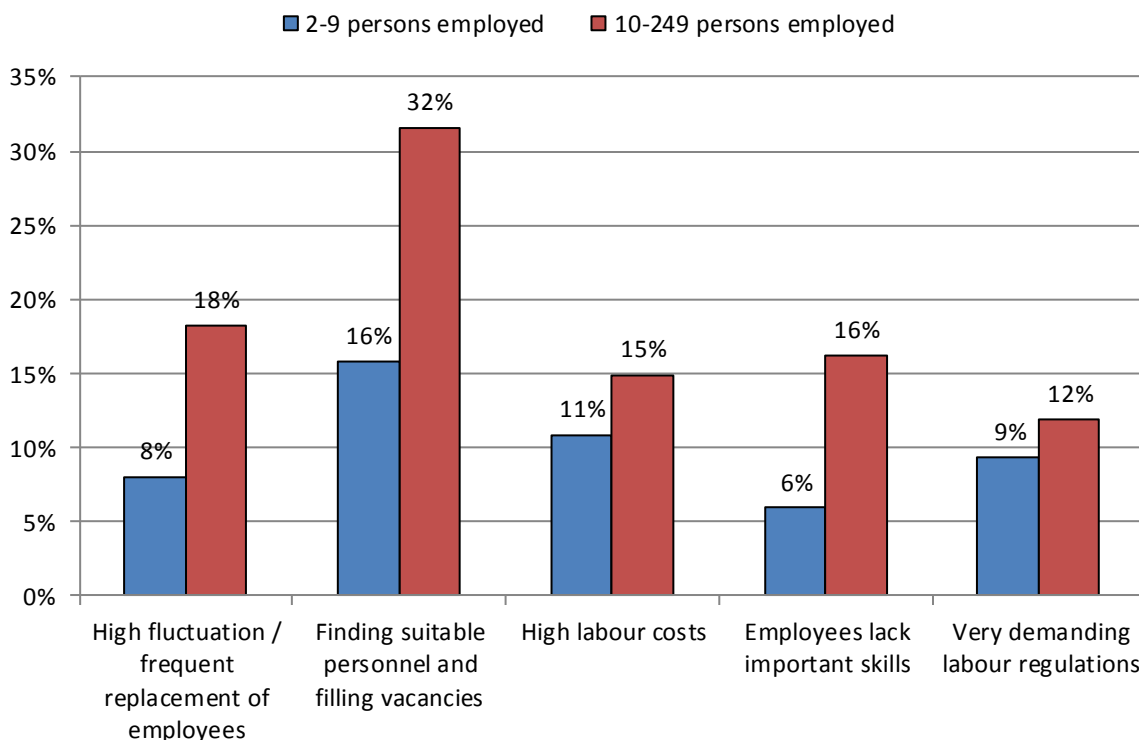


## 9. SMEs and the Labour Market

This chapter looks at how SMEs assess their situation with respect to personnel and human resource matters. The analysis excludes solo-entrepreneurs and focuses on those enterprises which employ at least one dependant worker. Chart 21 shows which are the main personnel-related problems SMEs are facing. The greatest challenge concerns finding suitable personnel for vacancies, which is experienced by approx. one third of small and medium-sized enterprises and by 16% of micro enterprises. Most of the other types of problems do not seem to constitute a widespread obstacle for SMEs. There are only relatively few enterprises that would complain about high labour costs, lacking skills of their employees and too demanding labour regulations.

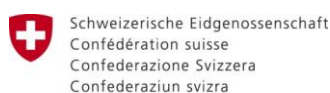
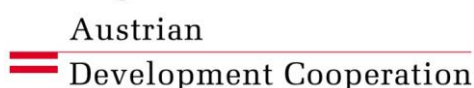
All kinds of labour-related difficulties are more often felt by larger firms since they employ more workers and are therefore more likely to be confronted with any of these issues. Sector differences in regard of the importance of labour-related constraints are generally less pronounced, but there is one exemption: In the transport sector, labour regulations are considered a major constraint by almost 50% of SMEs.

**Chart 21** Share (%) of SMEs facing major problems with respect to personnel, by size categories



Source: KOSME SME Survey 2014

with funding from



Swiss Agency for Development and Cooperation SDC

co-financed by

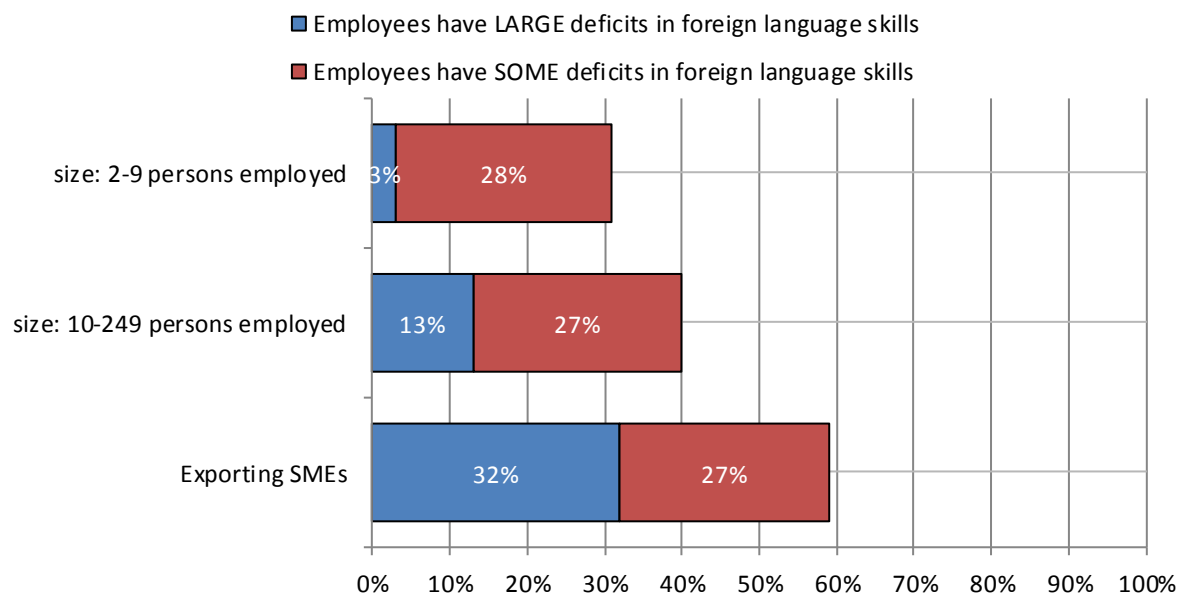






Overall, SMEs are obviously quite satisfied with the skills level of their employees as was shown above. A notable exception is their foreign language skills. Of all types of competences this is the one most missed by business owners. Chart 22 shows that about 30% of micro enterprises complain about large or at least some deficits in foreign language skills and among small and medium-sized businesses it is even 40% that are unsatisfied with the language competences of their employees. Not surprisingly, exporting SMEs are feeling the largest deficit in this respect; 60% of exporters are assessing the language competences of their workers as insufficient.

**Chart 22** *Share (%) of businesses observing a lack of foreign language skills with their employees*



Source: KOSME SME Survey 2014

with funding from

co-financed by





## 10. The Use of Consultants and Trainers by SMEs

Table 14 informs to which degree SMEs have used services of professional consultants or trainers to develop their businesses over the last two years. The analysis distinguishes between various thematic fields or subjects of consultancy. In general, tax consulting was by far most used by SMEs; 27% of SMEs relied on the assistance of a professional in that field. Other types of consultancy were rarely asked for. For example, 4% of businesses obtained legal advice, 5% received assistance in marketing and sales, and just 2% used a professional ICT consultant. However, the Table shows that the use of professional consultants clearly increases with firm size. Small and medium-sized enterprises use all kinds of advice much more often than micro enterprises and solo-entrepreneurs in particular.

**Table 14** *Share (%) of businesses having used services of professional consultants or trainers over the last two years, by consulting subjects*

	Tax issues / accounting	Legal advice / lawyer	Production engineering / work techniques	Marketing and sales	Business strategy / leadership	Personnel management	ICT issues
<b>Total SMEs</b>	<b>27%</b>	<b>4%</b>	<b>6%</b>	<b>5%</b>	<b>3%</b>	<b>2%</b>	<b>2%</b>
<b>Size categories</b>							
1 person employed	17%	3%	3%	4%	3%	1%	2%
2-9 persons employed	40%	6%	10%	4%	2%	3%	1%
10-249 persons employed	45%	10%	6%	17%	6%	6%	4%
<b>Particular sectors</b>							
Business services	38%	15%	12%	13%	12%	7%	2%
<b>Regions</b>							
Prishtina Region	29%	8%	9%	7%	5%	4%	1%
<b>Gender of business owner</b>							
Female business owners	20%	12%	8%	7%	6%	8%	0%
Male business owners	29%	3%	6%	4%	3%	1%	2%
<b>Other groups of SMEs</b>							
Exporters	60%	3%	33%	13%	7%	9%	5%
High growth SMEs	45%	1%	16%	14%	13%	14%	2%

Source: KOSME SME Survey 2014

with funding from

co-financed by



There are a number of other sub-groups of SMEs which use consulting services more often:

- Using such services is much more widespread in the business services sector than in any other sector.
- With a view to regions, Prishtina-based companies are more open to professional consulting than enterprises located in the other regions.
- Although female business owners are using tax consultants to a lesser extent than men, they are more willing to work with many other kinds of consultants.
- Exporters are another group which uses consultants to a very large extent.
- Finally, there is a clear positive correlation between the growth of the SME and the use of consulting services – strongly growing companies rely more often on various external advisors. Whether growth generates a need for consultancy or consultancy leads to growth can however not be established.

The interviewed SMEs are very satisfied with the consulting services received. Almost 60% have assessed the services to be “very useful and valuable” and almost 40% rated the services as “reasonably useful and valuable”. Only 4% stated that services had been of little or no use at all.

An estimated 15% of the consulting services used by the SMEs had been financially subsidised. However, the share of subsidised services is much higher in the group of female business owners, namely 44%. This might explain the higher use among women of various types of professional advice.

with funding from



co-financed by



## 11. Use of and Need for Support Programmes and Policies

The number of SMEs that have actually used support schemes of the local or national government or of donors is quite small as is shown in Table 15. Micro-finance programmes and credit guarantees have been used most, i.e. by 6% and 8% of SMEs respectively. Other types of support have been used by only 2% of SMEs or even less. For most kinds of schemes the participation rate increases with firm size. For example, while only around 1% of solo-entrepreneurs have benefited from training or consultancy support, this applies for about 5% to 6% of small and medium-sized enterprises. Some other types of programmes seem to be specifically tailored to micro enterprises with 2-9 persons employed: Micro-finance (9%) and credit guarantees (12%) show relatively high participation rates of this size category.

**Table 15** *Share (%) of SMEs which used support schemes of the local/national government or of foreign donors*

	Total SMEs	Size categories		
		1 person employed	2-9 persons employed	10-249 persons employed
Provision of micro-finance	6%	5%	9%	2%
Provision of credit guarantees	8%	7%	12%	5%
Business parks / incubators	2%	0%	4%	3%
Training provision (including vouchers)	2%	0%	3%	6%
Provision of consultancy (incl. vouchers)	1%	1%	2%	5%
Networking or match-making scheme	1%	0%	1%	5%
Grants for investments	1%	1%	2%	4%
Export promotion	0%	0%	0%	2%

Source: KOSME SME Survey 2014

Comparing the actual use of support with the need as expressed by businesses (see Table 16) shows that there is a (partly wide) gap for all types of schemes. The most requested method of support, across all size categories and sectors, is investment grants, which would be regarded as particularly helpful by 64% of SMEs (usage stands at 1%). Credit guarantees and micro-finance are ranked second with about 30% of SMEs expressing a need for these support types. Micro-finance instruments are especially valued by female business owners: 45% would regard this kind of assistance as helpful.

Support through provision of training (14%) is somewhat more often requested than support through consultancy (9%). Especially larger SMEs (21%) and exporters (38%) find training very helpful. Enterprises in business services seem to have a special need for networking and matchmaking schemes (21%). With regard to export promotion the need is highest in manufacturing, wholesale and retail trade, and of course among exporters.

with funding from

co-financed by



**Table 16** *Share (%) of SMEs which would find the following support schemes particularly helpful*

	Provision of micro-finance	Provision of credit guarantees	Business parks / incubators	Training provision (including vouchers)	Provision of consultancy (including vouchers)	Networking or match-making scheme	Grants for investments	Export promotion
<b>Total SMEs</b>	<b>31%</b>	<b>32%</b>	<b>5%</b>	<b>14%</b>	<b>9%</b>	<b>9%</b>	<b>64%</b>	<b>15%</b>
<b>Size categories</b>								
1 person employed	34%	32%	5%	13%	8%	9%	63%	17%
2-9 persons employed	28%	32%	6%	13%	10%	9%	65%	14%
10-249 persons employed	19%	33%	4%	21%	15%	7%	65%	9%
<b>Sectors</b>								
Manufacturing	35%	41%	7%	10%	18%	6%	66%	21%
Construction	19%	26%	1%	9%	8%	5%	69%	8%
Wholesale and retail trade	29%	36%	10%	14%	7%	11%	63%	22%
Transporting and storage	26%	26%	0%	17%	9%	1%	69%	9%
Accommodation & food ser.	41%	30%	1%	7%	7%	3%	63%	3%
Business services	32%	15%	1%	14%	9%	21%	65%	10%
Personal services	36%	32%	0%	24%	10%	1%	60%	7%
<b>Other groups of SMEs</b>								
Female business owners	45%	29%	3%	11%	18%	5%	79%	13%
Exporters	10%	35%	1%	38%	9%	24%	50%	53%

Source: KOSME SME Survey 2014

SME policy is not only about dedicated support programmes but also about creating an environment where businesses can flourish and are not impeded in their economic activities. It is therefore of interest to understand what SMEs regarded as the major constraints to their business operations. Chart 23 ranks these business constraints according to how often they were assessed as significant by the SMEs in the survey. Poverty of people (low income) and corruption were mentioned by more than 50% of enterprises and are therefore on the top of the list. The informal economy constitutes another major concern for SMEs and in particular for those in the construction sector.

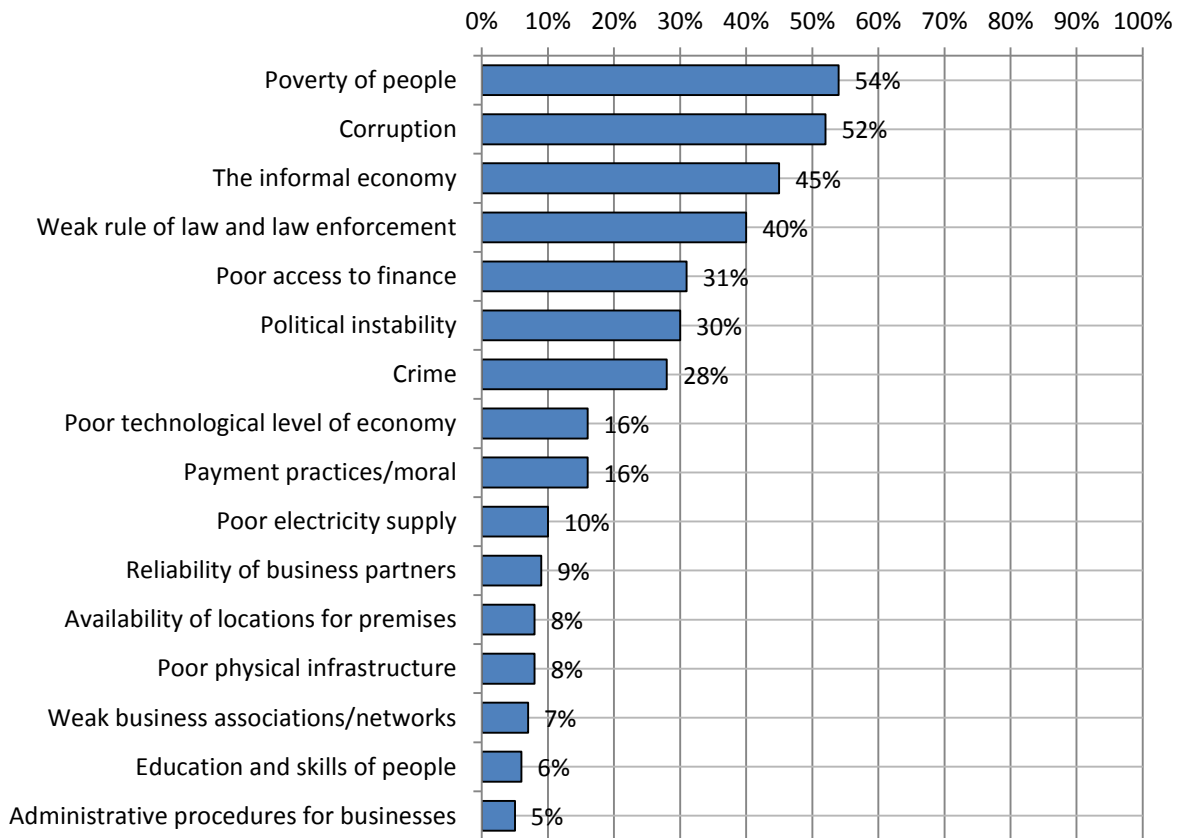
with funding from

co-financed by



Poor availability of finance possibilities is on fifth position. However, this was mainly mentioned by solo-entrepreneurs and to a lesser extent by small and medium-sized companies. In addition, around one quarter of the SMEs says that their financial resources were weak. Payment practices/moral is an issue which was again very often mentioned by enterprises in the construction sector. Almost at the end of the list stands 'education and skills of people'. However, this is partly due to the fact that the share of businesses with no employees is high in the economy and in the survey. SMEs employing personnel are somewhat more critical on this aspect. Finally, administrative procedures such as registrations etc. obviously do not actually constitute an impediment for SMEs in Kosovo.

**Chart 23** Major problems/constraints for doing business (percentage of SMEs)



Source: KOSME SME Survey 2014

with funding from



co-financed by





## 12. Policy Conclusions


This report has shown that Kosovo has a fast growing SME sector in terms of both number of enterprises and employment. Over the last few years SMEs have clearly outperformed large-scaled enterprises with respect to job creation. Much of the growth in the SME sector happens in the micro enterprise segment (up to 9 persons employed): One important growth component is the high number of very small new market entrants every year. There is also a strong job growth in existing enterprises, but this appears to be concentrated on relatively few companies, while the vast majority is more or less stagnating.


Therefore the SME sector is (still) dominated by micro-enterprises and small and medium-sized businesses have a comparatively small weight in the economy. However, Kosovo's micro enterprises are often economically fragile and vulnerable and most of them are in a 'struggle to survive'. Compared to small and medium-sized enterprises, micro firms have more difficulties with funding investments as their cash flow is low and they are thus much dependent on external sources of finance.

It should therefore be a strategic goal for SME policy to help developing a stronger segment of sustainable small and medium-sized companies – by **encouraging and supporting growth in micro enterprises**. Indeed, the report has shown that many of the micro entrepreneurs have a growth ambition. The results of this report suggest various policy approaches to this end:

- Financing remains a major bottleneck. Enterprises need to be supported with financing investments for expansion. Ways should be explored to offer affordable finance for very small firms, e.g. through micro-finance instruments with beneficial terms and conditions which is a tool strongly demanded by SMEs.
- Increasing exporting among SMEs might be another focus of SME policy. The share of exporting SMEs in Kosovo is currently rather low (at 5%) compared to the situation in other economies with small domestic markets. However, we have seen in this study that there are a considerable number of micro enterprises presently considering exporting. A medium to long-term goal could be to double the share of exporting SMEs. According to the report's results would-be exporters should be supported with:
  - increasing the quality of their products and services and encouraging them to follow a quality-focussed business strategy;
  - finding customers and agents abroad as this is the greatest challenge for most exporters;
  - improving the relevant skills, including foreign language skills, of their employees.
- We have also seen in this report that micro enterprises are using and benefiting from support schemes to a lesser extent than small and medium sized companies. The reasons might be manifold, including lower awareness of support offers or administrative hurdles

with funding from

 **Austrian**  
**Development Cooperation**

 Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

Swiss Agency for Development  
and Cooperation SDC

co-financed by



Ministry of Trade  
and Industry



# KOSME


Kosovo SME Promotion Programme

Provision of Capacity Development to Ministry of Trade and Industry (MTI/SMESA)  
Financed by Austrian Development Cooperation and Swiss Development Cooperation  
Co-financed by Ministry of Trade and Industry, Republic of Kosovo  
Implemented by ECIKS/KMU Forschung Austria

detering micro entrepreneurs more than larger SMEs. It seems therefore important to ensure that any support programmes are well accessible for the smallest enterprises.

- This report has also shown that female entrepreneurship is currently weakly developed and very much concentrated on certain industries and often takes the form of solo-entrepreneurship where women work just on their own. SME policy should therefore pay special attention to this group of entrepreneurs with an aim to make this a more widespread and diverse phenomenon and to raise their potential for economic development.
- Finally, from the viewpoint of SMEs a further improvement of the general business environment is also needed. For example, the informal economy and a weak rule of law and law enforcement seem still to be an impediment for many SMEs.

*with funding from*

 **Austrian**  
**Development Cooperation**



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

**Swiss Agency for Development  
and Cooperation SDC**

*co-financed by*



**Ministry of Trade  
and Industry**