



# KOSME

Kosovo SME Promotion Programme

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## SME Exports

Patterns, Approaches,  
Success Factors,  
and Barriers

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Author:

**Thomas Oberholzner, Austrian Institute for SME Research**

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# 1. Context and Purpose of the Report

The 'Report on SMEs in Kosovo 2014'<sup>1</sup>, produced under the KOSME project, has shown that small and medium-sized enterprises (SMEs; i.e. enterprises with less than 250 persons employed) form the main part of Kosovo's private sector economy and account for approx. 80% of total employment in the country's market economy. However, Kosovo's SMEs, which are predominantly micro enterprises with up to 9 employees, are seen to be economically fragile and vulnerable, many of them are stagnating, and they are in a 'struggle to survive'.

In the above mentioned report, exporting has been identified as one of the major unexploited growth potentials of Kosovo's SMEs and the entire private sector. Indeed, the share of SMEs active in exporting is currently rather small at 5% to 6%. This is a very low percentage for small economies which usually are very much reliant on international trade. Increasing exports would not only benefit individual SMEs but – from a macro-economic viewpoint - constitute an important source for the creation of jobs, value added and wealth in Kosovo. Promoting the export performance of Kosovar SMEs should therefore be high on the agenda of the country's SME policy.

In order to design effective policy support to foster exporting by SMEs the present research report takes an in-depth look at the phenomenon of SME exports. It investigates in detail several aspects such as:

- What are the characteristics of SME exporters and their export activities in Kosovo?
- How do non-exporters become exporters? How do they start exporting?
- What are successful approaches to developing export activities?
- What are success factors and pre-conditions for exporting? What kinds of capacities do SMEs need for exporting?
- What are the barriers and obstacles to exporting in different industries and in different target countries? How can these be overcome?
- What can policy do to encourage exporting?

In this way the study shall inform policy making and contribute to better understanding SME exports and, ultimately, increasing the export performance of SMEs in Kosovo.

1 Kosovo SME Promotion Programme (KOSME), Report on SMEs in Kosovo 2014, December 2014.

## 2. Methodology Used

This study is based on in-depth face-to-face interviews with two types of interviewees.

**First,** interviews have been carried out with a total of 31 small and medium-sized exporters in Kosovo. Various sources were used to identify exporting companies for interviewing. They represent different industries; however the focus of this report is on exports of goods and commodities (rather than services). Agriculture, food and beverages, construction parts and materials, and metal products are the most prominent industries, which reflect the concentration of Kosovo's exports on a limited range of goods. We also ensured diversity in terms of size categories: Medium-sized (50-249 employees) and small (10-49 employees) enterprises each account for 40% of the sample, while micro enterprises (up to 9 employees) account for 20% of the sample. The interviews were done face-to-face by Management Development Associates MDA with the owners or managers of the companies. An interview guideline was used covering the questions/aspects outlined above. The answers were documented in written transcripts.

**Second,** interviews have been conducted with 10 agents/intermediaries in the field of exporting and importing. More specifically, this mainly includes foreign business associations and foreign importing agencies, intermediate traders (wholesalers) and distributors which source internationally – amongst others from Kosovo. They were asked about their assessment of Kosovo's international competitiveness, strengths and weaknesses; about how Kosovar products are perceived; about factors impeding exporting from Kosovo; about success factors in exporting; about recommendations for would-be exporters and government; and about exporting opportunities. Again, the interviews were done face-to-face by MDA with directors or managers of the organisations and by using an interview guideline. The responses were recorded in the form of written transcripts.

## 3. Some Key Characteristics of Exporting SMEs

The 'Report on SMEs in Kosovo 2014'<sup>2</sup> has shown that the share of SMEs active in exporting is very small in Kosovo. Overall, i.e. across all sectors, only 5% of private sector SMEs have direct sales to customers located abroad and another 1% are exporting indirectly through an intermediate trader based in Kosovo (also see Table 5 in Chapter 9). Looking at the production sector in particular, which is in the focus of this report, percentages are slightly higher with 7% being direct exporters plus 3% indirect exporters.

Considering the small number/share of exporting SMEs it is interesting to see what a 'typical' SME exporter looks like, what their specific characteristics are, and how they differ from the general SME population. In this respect, the following patterns and features can be highlighted.

1. Exporting SMEs are usually active in one of a very few industries, including in particular:
  - a. Agricultural and forestry products, e.g. fruits, vegetables, seasoning, honey, wood pellets
  - b. Production of food and beverages, e.g. jams, flour, milk products, cookies, meat, juices, beer, mineral water, energy drinks
  - c. Production of building materials and elements/units, e.g. doors and windows, ceramic tiles, insulation materials, sanitary parts, kitchens
  - d. Production of metal goods or processing of metal, e.g. metal cans, metal pipes, recycled metals
2. Exporting SMEs are mostly small and medium-sized, i.e. they have more than 10 employees. There are only relatively few micro enterprises (with up to 9 employees) among the exporters. The fact that the segment of small and medium enterprises is comparatively small in Kosovo therefore constitutes a systematic weakness of Kosovo's business structure.
3. Owners of exporting SMEs are younger than owners of non-exporters. Otherwise ownership does not differ much from the situation in non-exporting SMEs. Approx. 80% of the exporters are owned by Kosovar nationals, either by one individual or jointly by family members. In six (6) of the 31 cases investigated there are or were foreign individuals or companies as full owners, co-owners or partners involved: one Arabian, one Bosnian, one Dutch, two Maltese and one

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2 Kosovo SME Promotion Programme (KOSME), Report on SMEs in Kosovo 2014, December 2014.

Turkish investor. However, in only two of these cases the company's export target market is directly linked to the foreign ownership (i.e. concerns the same country).

4. Exporting SMEs place more emphasis on product and service quality in their business strategies. This is apparent from the more than 30 cases studied for this report as well as from the survey conducted in the framework of the 'Report on SMEs in Kosovo 2014'<sup>3</sup>. More than 50% of exporting SMEs are pursuing a dedicated quality-focussed strategy.
5. Exporting SMEs use professional consulting and training services more often and to a larger extent than non-exporting SMEs. This can be concluded from data taken from the 'Report on SMEs in Kosovo 2014' and depicted in the Table 1 below. The Table distinguishes between various fields/subjects of consultancy or training. Apparently exporting SMEs use almost all kinds of advice significantly more often than SMEs in general.
6. Finally, the 'Report on SMEs in Kosovo 2014' also showed that exporting SMEs mostly achieve good growth rates in terms of jobs, while non-exporters often stagnate. This is also confirmed by the 31 case studies: 23 exporters experienced an increase in number of employees over the last five years, in six (6) companies the number remained constant, and only two (2) exporting SMEs cut the number of jobs down in that period.

Table 1 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>Exporting SMEs</b>	<b>60%</b>	<b>3%</b>	<b>33%</b>	<b>13%</b>	<b>7%</b>	<b>9%</b>	<b>5%</b>

Source: KOSME SME Survey 2014

3 Kosovo SME Promotion Programme (KOSME), Report on SMEs in Kosovo 2014, December 2014, p. 30.



# 4. Characteristics and Patterns of Exporting Activities

## 4.1 Significance of exports

The relative significance of exports for the company, measured as the share of export sales in total sales, varies strongly among the SMEs investigated here. Basically, the following three groups/types of exporting SMEs can be distinguished in this respect:

- “Export specialists”: These SMEs have export ratios of 80% to 100%, i.e. they are fully specialised on exporting and hardly earn any revenues on the domestic market in Kosovo. In our sample of SMEs this holds for 8 out of 31 enterprises (26%). Among these export specialists we find companies from the agricultural, food and metal industries, but none of the producers of building materials. Also, the export specialists are rather small: Their size is 20-30 staff at maximum and some of them have only a few employees. Some of the export specialists focus their export activities on only a few target countries (in the EU) or even just a few foreign clients (companies), while others serve a multitude of countries and clients.
- “Significant exporters”: These SMEs have export shares of more than 10% and up to 40% of total sales. They represent more than half of our sample, i.e. 17 out of 31 companies. There are enterprises from all industries in this group as well as from different size categories, but hardly any micro enterprises. This means that exporting micro enterprises are either export specialists or marginal exporters. With some exceptions significant exporters are mostly selling to a multitude of countries, i.e. not only to one or two countries.
- “Marginal exporters”: These SMEs have export ratios of only up to 10%. In our sample of SMEs this holds for 6 out of 31 enterprises (20%). There are companies from the agricultural and beverage industries as well as producers of building materials among the marginal exporters, but no SMEs of the metal goods industry. Furthermore, there are very small enterprises as well as larger ones (e.g. with more than 200 employees) among this group of exporters. The marginal exporters usually sell to only one or two countries – often either Albania or one of the German speaking countries.

According to the ‘Report on SMEs in Kosovo 2014’<sup>4</sup> the arithmetic mean of the export shares of all exporters is 26%.

4 Kosovo SME Promotion Programme (KOSME), Report on SMEs in Kosovo 2014, December 2014, p 30.

## 4.2 Target countries

Overall, the most important target countries of Kosovo's exporting SMEs are the following:

1. Albania (15 of the 31 investigated SMEs are selling there)
2. Germany (11)
3. Switzerland (10)
4. Macedonia (8)
5. Montenegro (6)
6. Serbia (5)
7. Italy (5)

More specifically, the exporting SMEs from Kosovo can be categorized according to the countries they are targeting with their exports. The following five groups of exporters can be distinguished:

- There is one group of exporting SMEs which is focussing only on Albania. Although their exports may be significant in some cases, there are also a number of marginal exporters in this group.
- Another group of exporting SMEs targets at least two or more of the Western Balkan countries (in the neighbourhood and vicinity of Kosovo). This includes e.g. Albania, Macedonia, Montenegro, Serbia, Bosnia and Hercegovina, and partly Croatia and Bulgaria. These SMEs are mostly significant exporters, but there are also some export specialists among them, for example producers of metal goods.
- The third group is focussing exports solely on one or two of the German speaking countries (Germany, Switzerland or Austria). Most of them belong to the building materials industry. Similar to those focussing only on Albania there are a number of marginal exporters among this group.
- Furthermore, there is a small group of exporting SMEs which specifically target just one or two other Western EU countries, e.g. the Netherlands, the UK or Italy. These are mostly quite small export specialists from different industries which usually serve a rather limited number of clients in these countries.
- Finally, there is a group of SMEs exporting to multiple and diverse countries including Balkan as well as other European countries. This group is made up of many companies from the agricultural and food industries and they are either significant exporters or export specialists. Micro

enterprises are hardly being found in this group.

### 4.3 Methods and organisation of exporting

In this section we are interested in two aspects of SME's exporting activities:

1. How contacts to foreign clients are developed and maintained, e.g. whether assistance of intermediaries is being used by the SMEs;
2. How the shipment of goods is organised.

The clear majority – i.e. more than two thirds - of the 31 SMEs investigated here are developing and managing contacts and relations to their clients themselves and from their home-bases in Kosovo. However, their proactivity in approaching clients varies: Some do their own market research, including visits to fairs etc., to find new foreign clients while others are more passive and wait for being approached by interested companies or individuals from abroad.

Only two (2) SMEs systematically use independent agents or consultants in the target countries, who help them with establishing contacts and connections to possible clients (companies). Both these SMEs are export specialists.

Three (3) SMEs have engaged and cooperate with representatives in the target countries. Representatives are usually specialised firms. They function as intermediaries and manage client relations for the Kosovo exporters. The three enterprises working with representatives are all relatively large as they employ more than 100 people each.

Finally, another two (2) SMEs, which are exporting to Albania only, have established their own branches there through which they organise their exports to the neighbouring country.

With respect to the issue of organising shipment the investigated cases show that this is mostly arranged for by the exporting SMEs themselves. In only a few instances it is the clients who need to take care of picking up the goods in Kosovo and transporting them back to their locations. This way of procedure mainly concerns some of the marginal exporters. For those companies which use representatives (see above) it may be the representatives' duty to organise the shipment.

## 5. How Exporting Starts

To know about how companies can initially start exporting and turn into exporters is important for the design of export promotion policies and policies which seek to increase the number of exporting SMEs. Of course each company has its own specific story and pathway leading to its first export sales. However, from 26 cases investigated in this study we can identify some general patterns, especially in relation to how the SMEs have initially attracted their foreign clients.<sup>5</sup>

One way of finding foreign clients is obviously to simply do your own market research and client approach (online and by travelling). However, only three (3) of the 26 exporting SMEs successfully applied this strategy. They are all exporting solely to some of the Western Balkan countries, so this strategy may work only for going to Kosovo's immediate neighbouring countries.

Two (2) exporting SMEs were successful in finding their first foreign customers by taking part in international fairs and B2B meetings organised by e.g. government, associations or donors. Through these events they have found buyers in, for example, Sweden, the Netherlands, Belgium, France, the UK, and Turkey.

Interestingly, nine (9) exporting SMEs – which is approx. a third of the sample – have actually been 'pushed' into exporting as they were directly contacted by foreign clients interested in their products. These SMEs did not have prior intentions or plans of exporting. In fact this type of exporting SMEs can be divided up into two sub-categories:

- i. SMEs mainly from the agricultural or food industries, which have been approached by clients from the neighbouring Balkan countries;
- ii. SMEs mainly from the building and construction industries, which have been approached by clients from the German speaking countries – where these clients often belonged to the Kosovo diaspora.

The most frequent gateway to exporting though is through various kinds of intermediaries which connect the Kosovo SME to (potential) clients abroad. Such intermediaries were used by twelve (12), i.e. almost half of the investigated cases, to establish initial contacts with foreign buyers. There are different types of intermediaries; some are more 'formal' while others are rather 'informal' agents. In our cases, the following have acted as intermediaries:

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<sup>5</sup> For five of the 31 exporting SMEs investigated for this report no information was given about how exporting started. So, the analysis is based on 26 cases in this section.

- Formal representatives are specialised firms and are representing the exporter on a long-term basis. They were involved in two (2) cases and seem to be relevant for larger SMEs (medium-sized enterprises).
- Individual export/trade professionals - who are not acting as formal representatives – were involved in three (3) cases.
- Local distribution partners (wholesalers) in the target country were involved in identifying clients in one (1) case.
- Other business partners (peers) helped in finding first foreign clients in two (2) cases.
- In three (3) cases the intermediaries were part of the circle of friends and family members of the business owner.

The intermediaries may be located in Kosovo, in the target country or even in third countries; what counts is not their location, but their connections. The gateway to exporting via intermediaries seems to be the most effective one in terms of future export performance. All the export specialists of our sample initially got into exporting through intermediaries; not through own market research, although this may have been important in later stages to further develop their export activities. Also, most of those exporting SMEs who are going beyond just the neighbouring Balkan countries or the German speaking countries found their way into exporting through intermediaries.

The higher effectiveness of using intermediaries for going international can be illustrated by the case of one SME: A producer of milk products employing approx. 50 people intended to export to Albania. They started with own market research activities there and based on that made three consecutive attempts of directly approaching possible clients and selling their products. They failed in all three attempts. Later they came across two Albanian logistics companies which had contacts to potential clients and helped the Kosovo producer with introducing the milk products to these clients. In the meantime the Kosovo firm have now established their own warehouse in Albania and are well known on the Albanian market.

## 6. Success Factors in Exporting

This chapter discusses the main factors, requirements and capacities determining success and sustainability in exporting. The focus here is on company-internal factors. From the interviews with the 31 exporting SMEs and the 10 trade intermediaries a clear ranking emerges in this respect.

### High product quality

High product quality is undoubtedly the most important factor as 24 out of 31 SMEs and 6 out of 10 trade intermediaries cited this among the top 3 criteria for being successful on the international market. Product quality is relevant for all types of exporters, in all industries and target countries, and regardless of how a company entered into foreign markets. High quality products can therefore actually be seen as a basic prerequisite for any exporting activity. Some companies underline, however, that achieving high quality and introducing new, innovative products often requires investments, e.g. into modern machinery, equipment and top-quality raw materials. This makes the availability of financing an important issue to ensure exporting capabilities.

For some companies, especially those exporting to European countries beyond the Balkan region, product quality is associated with fulfilling certain standards and achieving corresponding certification. Also some of the interviewed trade intermediaries underline the importance of complying with international product standards. International clients will often require certification, which may however be costly to attain for SMEs. Enterprises therefore appreciate any financial assistance (e.g. grants) helping them to cover expenses related to certification of the company or their products.

In this context, some of the interviewed trade intermediaries point out that adequate professional development and training of staff and good managerial competencies are a prerequisite for producing products of high quality.

### Competitive price

A competitive (low) price is regarded as an important success factor by approx. half of the 31 exporting SMEs. Price is relevant across all industries, types of exporters, and target countries. Most of the SMEs emphasise that a low price should not be achieved at the expense of product quality though; rather it should be achieved alongside high quality.

## Connections and contacts

Good connections and contacts to clients abroad or intermediaries (e.g. local partners) is the third major success factor. This aspect has been emphasised by almost a third of the exporting SMEs investigated and by 7 of the 10 interviewed trade agents. It is obviously more important for those exporting to the neighbouring Balkan countries and less so for those targeting multiple and diverse European countries. This could be because of different business cultures.

Some exporting SMEs and many trade intermediaries mentioned that participation in international fairs is a good means to develop contacts and networks and to promote one's products. Unfortunately, however, participation of business people from Kosovo in these international events is sometimes impeded by travel/visa restrictions.

## Distinctive promotion and branding

Some of the interviewed trade intermediaries stress that penetrating export markets needs a particularly strong promotion and branding strategy which is tailored to the customer needs and habits in the foreign country. Companies may not be successful by just applying the home-market strategy abroad. A tailored strategy must be based on thorough market research and analysis.

## Quality advice and consultancy

Finally, a few exporting SMEs underlined the importance of quality advice and consultancy received from professionals and business associations. SMEs cannot afford in-house experts on legal regulations, administrative procedures, market research etc. So it is important for them to get affordable assistance in these fields.

## 7. Obstacles to Exporting

Exporting SMEs are facing a variety of obstacles and difficulties in their international activities preventing them from doing more exports. The obstacles actually vary from one company to another and for SMEs as a whole there is no specific impediment which is particularly frequent and outstanding. Two problems with exporting have been mentioned by approx. 20%-25% of the investigated 31 SMEs:

- Finding clients: This is certainly an obvious issue, considering the importance of contacts and connections to clients and intermediaries and the fact that most exporting SMEs are developing and managing their client base themselves (see preceding chapters). Finding clients may be difficult in all target countries, in the neighbouring Balkan countries just as in other European (EU) countries.
- Customs duties: Tariffs make the exported goods more expensive and thus less competitive in price, or reduce the profitability of exporting. Interestingly, export specialists do rarely regard customs duties as an impediment though. Next to the duties as such, many of the interviewed companies and trade agents explain that (delayed) customs procedures entail significant administrative burden (paper work) and storage costs, or may adversely affect timely delivery. The latter is particularly troublesome for agricultural and food products.

Next to these more general constraints to exporting there are also a number of more specific administrative and legal obstacles and some of them are associated with the international status of Kosovo and its limited European integration.

- Visa requirements make it more difficult for business people from Kosovo to travel and to visit potential clients abroad or to participate in trade fairs. This adds to the general challenge of finding customers and developing contacts and networks as was mentioned above.
- In the agricultural and food industries exporting SMEs report about difficulties in getting sanitary certificates, approval of the Kosovo Medicine Agency or because of additional radiological analyses required for their products.
- Examples of inadequate involvement in international agreements and systems causing obstacles in trade include Kosovo's veterinary agency which is not recognised by other countries (resulting in extra procedures and delays when exporting animal products) and the Basel Convention on Transboundary Movements of Hazardous Wastes which Kosovo is not a member of.



- For Kosovo's hauliers international transport is restricted. Exporters therefore need to use foreign hauliers for shipments which results in higher costs of transportation.

In addition, there are many administrative and regulatory difficulties which depend on the export target country and the bilateral agreements between Kosovo and that country.

Another group of difficulties is related to the general political situation and the image of Kosovo. Some of the interviewed exporting SMEs and trade intermediaries said that political issues have scared and discouraged some of their potential foreign business partners, or that business partners think that Kosovo does not offer high quality products, or that consumer products from Kosovo are not well accepted in some parts of the neighbourhood region. However, other interviewees think that the political situation does not constitute a problem on international markets as long as the product is competitive.

Finally, the limited availability of financing in Kosovo constitutes a constraint for exporting activities. To produce products of exportable quality companies need modern equipment and machinery. Such machinery often needs to be imported from other countries and can be quite costly. However, financing possibilities are limited in Kosovo<sup>6</sup>: First, smaller enterprises usually do not have sufficient cash flow generated from their business. Second, bank loans are seen to be too expensive (high interest rates). Third, alternative means of finance are hardly offered.

## 8. Use of Support Programmes for Exporting

The 'Report on SMEs in Kosovo 2014' has shown that the number of SMEs that are using support schemes of the local or national governments or of donors is quite small in Kosovo<sup>7</sup>. This holds even more for schemes specifically promoting exporting, which were used by only 2% of small and medium-sized enterprises and almost none of the micro enterprises according to the survey carried out for the above mentioned Report in 2014.

6 Kosovo SME Promotion Programme (KOSME), Report on SMEs in Kosovo 2014, December 2014, p. 27-28.

7 Kosovo SME Promotion Programme (KOSME), Report on SMEs in Kosovo 2014, December 2014, p. 38.

The little use of export support schemes is now again confirmed in the in-depth interviews with the 31 exporting SMEs. Only 4 of the 31 companies have used any assistance from government, business associations or foreign donors. This includes:

- A small food producer has received a USAID grant for HACCP<sup>8</sup> certification.
- Another medium-sized food producer has received a grant from the BAS programme to obtain ISO certification.
- Another micro food producer has received an EU grant for an investment into a warehouse needed for exporting.
- A small producer of building units participated in a USAID training programme for carpenters to produce exportable parts.

Reasons for non-use are diverse. Some exporting SMEs reported that they would not know relevant support programmes; some say that they do not match or agree to eligibility criteria and terms, and some reported that they – as a matter of principle – would not apply for government support because they were discouraged by previous negative experiences.

In any case, the need for support would be much higher than the actual use. This can be concluded from data taken from the 'Report on SMEs in Kosovo 2014' and depicted in the following Table 2. The Table distinguishes between different types of support schemes and compares exporting SMEs to SMEs in general. Exporting SMEs would regard investment grants (50%), training provision (38%), credit guarantees (35%), and networking and match-making initiatives (24%) as most helpful.

Table 2 Share (%) of SMEs and exporting 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
Total SMEs	31%	32%	5%	14%	9%	9%	64%	15%
Exporting SMEs	10%	35%	1%	38%	9%	24%	50%	53%

Source: KOSME SME Survey 2014

# 9. Conclusions and Recommendations

Exporting is still a rare phenomenon among SMEs in Kosovo. Only around 5% of SMEs are selling abroad, which is a low share when compared to other small economies. The country's enterprise population is featuring a very large number of micro firms and an extremely small segment of small and medium-sized companies with 10+ employees; but it is the latter ones which normally have the capacities for exporting and where exporters are usually found. Furthermore, it is only a few industries (e.g. agricultural and food products, building materials, metal goods) which exhibit a reasonable number of exporting SMEs.

However, the analysis in this report has shown that Kosovo's (few) exporting SMEs achieve much better growth rates, in terms of turnover and jobs, than non-exporting SMEs that often stagnate and struggle to survive. Expanding and stepping up exports in the SME sector could therefore constitute an important avenue for the creation of jobs and wealth in Kosovo.

Various types of exporting SMEs have been identified in this report. First, Kosovo's SME exporters can be grouped along their export intensity (share of export sales in total sales). We can distinguish between export specialists, which are micro and small firms with very high export ratios of 80% to 100%; significant exporters, which are mostly small and medium-sized firms with export ratios of 10% to 40% and usually selling to multiple target countries; and marginal exporters, which have an export ratio of only up to 10%, mostly sell to only either Albania or one of the German speaking countries, and have a rather passive approach to exporting. Table 3 below gives an overview of this typology.

Table 3 *Types of exporting SMEs according to export intensity*

	Export specialists (export ratio 80%-100%)	Significant exporters (export ratio 10%-40%)	Marginal exporters (export ratio up to 10%)
Sectors/industries	various	various	various
Enterprise size	micro enterprises small enterprises	small enterprises medium enterprises	micro enterprises small enterprises medium enterprises
Export target countries	multiple and diverse European countries or single Western EU country	mostly to a multitude of countries (not only to a single country)	Albania or a German speaking country
Approaches	usually started exporting with help of intermediaries	various	often passive, e.g. cli- ents organise shipment
Success factors	various	various	various

Second, Kosovo's exporting SMEs can be categorized in terms of the target countries they are selling to. As Table 4 shows we have identified five (5) types of exporters, including: (i) those which are trading with Albania only; (ii) a group doing business with a bunch of neighbouring Balkan countries; (iii) SMEs which are exporting to only one or two of the German speaking countries and where the diaspora plays an important role as clients; (iv) a few export specialists focussing on one or two other Western EU countries; and (v) a category of geographically more diversified exporters mainly from the agricultural and food industries. As the Table shows these 'geographic types' are also different in terms of the industries they belong to, in firm size, their export intensity, their strategies/ approaches, and there are also slightly different success factors.

Table 4 Types of exporting SMEs according to target countries

	Albania only	More Western Balkan countries	German speaking country	Single Western EU country	Multiple and diverse countries
Sectors/industries	various	various	building materials	Various	agricultural and food industries
Enterprise size	various	various	various	micro enterprises small enterprises	small enterprises medium enterprises
Export intensity	marginal exporters significant exporters	mostly significant exporters some export specialists	many marginal exporters	mostly export specialists	significant exporters export specialists
Approaches	various partly own branches	various relatively often direct approach of clients or directly approached by clients	often passive, i.e. approached by clients (diaspora) and clients organise shipment	usually started exporting with help of intermediaries	usually started exporting with help of intermediaries
Success factors	various	various connections and contacts relatively important	various standards, certification relatively important	various standards, certification relatively important	various standards, certification relatively important

This report has shown that the most effective and frequent gateway to exporting and foreign buyers is through various kinds of intermediaries. This includes peers from the business community, individual export/trade professionals, local distribution partners, and formal representatives (for larger SMEs). Intermediaries are even more important in the case of exporting beyond just the neighbouring Balkan countries or the German speaking countries.

Directly searching and approaching potential clients is a more difficult approach of starting exporting, but it is to some extent effective in Kosovo's immediate neighbouring countries. Furthermore, there are also a considerable number of 'passive' exporters who were simply contacted by foreign clients – primarily from neighbouring countries or the diaspora in German speaking countries - and so found their way into export business almost unintentionally.

High product quality is the most important success factor in exporting. It is a prerequisite for entering and being successful on all international markets. However, achieving high product quality often requires investments into modern machinery and equipment, training, and in complying with standards and corresponding certification, the latter being particularly important when exporting to EU countries. These investments in turn require sufficient possibilities and capabilities of financing. However, the availability of internal as well as external financing for businesses is for several reasons very much constrained in Kosovo. This holds especially for micro firms which usually have very poor cash flow.

Finding foreign clients is a great difficulty for many exporting SMEs. Good connections and contacts to the business community abroad, to people and organisations who could act as intermediaries, partnerships and possibilities to present the company and its products to potential customers are therefore another major success factor in exporting. In this context, visa requirements and travel restrictions make it more difficult for business people from Kosovo to develop and maintain such networks and contacts.

Exporting SMEs also need a distinctive promotion and branding strategy in foreign markets based on sound research and analysis, as patterns of demand and competition may significantly differ from home markets.

Various legal and administrative issues are hampering exporting by Kosovar SMEs. Customs procedures are regarded as burdensome and time consuming and delays often result in high storage costs or late delivery. Agricultural and food products are particularly sensitive to this. For such products there is also additional administrative burden such as difficulties in obtaining sanitary certificates or additional radiological analyses. Non-participation of Kosovo in international agreements or institutional standards today leads to various extra procedures for exporting businesses, e.g. from veterinary agencies. Restricted possibilities of international transport for Kosovo's hauliers lead to increased shipment costs for Kosovar exporters.

Exporting SMEs do rarely receive any direct support from government, business associations or foreign donors for their export activities, although many exporters would find various forms of assistance (e.g. financial, training, networking initiatives) very helpful.

With a view to boosting exports in the SME sector there may be two policy goals:

One policy aim is to increase the number of exporting SMEs, i.e. to encourage and enable non-exporters to sell their products abroad. Indeed, as the 'Report on SMEs in Kosovo 2014'<sup>9</sup> has shown, and as is depicted in Table 5, there are a considerable number of SMEs (8% of the total SME population) considering and being interested in exporting. Thus, a medium to long-term policy goal could be to double the share of exporting SMEs from 5% to 10%. There may still be potentials and opportunities in the (few) current 'exporting industries', such as agriculture and food, but there is a need to broaden the exporters-base in terms of industries and stimulate exporting in areas such as textiles, clothing, and electrical/electronic devices.

Table 5 Share (%) of businesses with direct exports, indirect exports, and considering exporting, by size categories

	Direct export sales	Indirect export sales through intermediate trader	Attempting or considering exporting*	Total
<b>Total</b>	<b>5%</b>	<b>1%</b>	<b>8%</b>	<b>14%</b>
<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

Another policy aim is to enhance the export performance of existing exporters. We have seen in this report that there are many marginal and passive exporting SMEs, often micro enterprises, which are selling to only one country and just wait for being contacted by foreign clients. A policy goal could be to transform marginal exporters into significant exporters by professionalising their export activities, making them more proactive and broaden their target countries.

From the analysis and results of this report we can infer the following recommendations for SMEs, government, business associations, and foreign donors, in support of the above mentioned policy goals. These recommendations and instruments are in general relevant and applicable to both encouraging new exporters as well as stepping up existing exporters.

9 Kosovo SME Promotion Programme (KOSME), Report on SMEs in Kosovo 2014, December 2014.

## Recommendations to enterprises

- In the first place, SMEs considering to start or further expand exporting need to offer products of high quality in their specific area of business. This will often require a readiness to invest into modern equipment and technologies as well as into skilled personnel and training of staff. Staff members need to be capable of operating modern production technologies and need to be committed to quality.
- SMEs need to understand the role of international standards and quality management systems in their particular field of business. They should, where possible, consider and invest into official certification of their production processes and product (specifications). An example is the HACCP<sup>10</sup> certification in the food sector.
- SMEs should seek to establish contacts abroad with relevant businesses, potential clients, possible intermediaries and other relevant organisations such as agencies and associations. For example, they could attend international fairs and B2B events to create relations in their field of business and also learn about competitors, trends etc. They could also join industry-specific international networks.
- SMEs need to understand the foreign market very well; it may be different from the home market. Thorough market research should therefore be conducted including demand, competitors, institutions, habits, existing procedures and requirements in the target country.
- SMEs should pursue a deliberate, well-thought and distinctive marketing/branding strategy in the foreign market. The offer/product needs to contrast from the established and well known suppliers and offers in that market.
- SMEs may consider cooperating with partners, distributors or agents in the target countries who help marketing their products. Existing small exporters could further professionalise and expand their international trade activities through partners such as representatives. However, due care is to be exercised in selecting reliable and fair partners.

## Recommendations to government, business associations, and donors

- Government, business associations, and donors should encourage and support SMEs in developing and producing products of high quality. This could be done in several ways:
  - Informing SMEs about the role and importance of quality management systems and international standards through websites, brochures, events etc. This could be done and organised specifically for different industries (e.g. food, construction materials, textiles etc.).

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10 Hazard Analysis and Critical Control Points

- Creating a group of consultants specialised in the area of quality management, product standards and certification, who could assist SMEs with introducing such systems.
- Providing grants to SMEs to co-finance certification processes according to various standards.
- Provide and/or support training in the field of operating modern production technologies in relevant industries.
- Facilitate the availability of finance especially for micro enterprises so that they can invest in and purchase proper equipment to produce products of high quality (loan guarantees, interest subsidies, subordinate capital etc.).
- Government, business associations, and donors could contribute to organising international fairs and B2B events where SMEs from Kosovo could establish contacts and present their products. These fairs and events could focus on the most important target countries and industries discussed in this report. Government, business associations, and donors could also support/co-finance participation of Kosovar SMEs in fairs or other B2B events abroad.
- Government and donors could furthermore support market research activities of SMEs in foreign countries, e.g. by grants.
- Government, business associations, and donors could help developing specialised ‘export consultants’ who can provide affordable quality advice to SMEs on all aspects of exporting and assist with market research. These consultants should have knowledge about the relevant sectors/industries and target countries.
- Government, business associations, and donors could provide or support training for SMEs on doing export business (forms of export, administrative procedures and legal regulations, market research, contractual issues etc.). Trainings tailored to specific industries and/or to specific target countries or regions as discussed in this report might be useful.
- In terms of procedures and regulations the government should review for example:
  - How customs procedures could be made more efficient, especially to reduce waiting times and delays.
  - How procedures of the Kosovo Veterinary and Food Agency AVUK could be made quicker.
- Further international (and European) integration of Kosovo would certainly also facilitate exporting and cross-border trade in general. Examples include facilitating international transport by trucks registered in Kosovo, international recognition of AVUK, or the international convention on trans-boundary movements of hazardous wastes.







# SME Exports

Patterns, Approaches,  
Success Factors,  
and Barriers



Implemented by:

