

## BARRIERS OF SME'S IN KOSOVO

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**Abstract:** Small and medium enterprises (SMEs) play a very important role for the economic success of any country, due to their contribution to the functioning of the economic network, job creation, development of entrepreneurial skills, innovation and the improvement of economic well-being. For the functioning and development of SMEs also plays an important role their financing, which is defined as key factors for the functioning of the business, as well as for its long-term development. Despite their importance in the economy, they face a number of obstacles that affect their development, where in most research of SMEs in Kosovo access to finance is considered as the main barrier. The purpose of this paper is to identify and analyze the barriers faced by small and medium enterprises (SMEs) in Kosovo during the exercise of their business activity and is based on quantitative data using the quantitative method. Data collection was conducted through a survey conducted with 200 SMEs and the instrument used for data collection is the questionnaire. Assessing barriers to doing business by businesses themselves is an important insight which serves various entrepreneurs in an effort to improve the business environment. Despite the importance of small and medium enterprises in their role in the economic development of the country, we can say that the business environment has not always been favorable for these enterprises. From this research we can conclude that small enterprises in our country are not sufficiently developed they face many problems during the development of their activity. The study concludes with a number of conclusions, where these can address a large number of obstacles faced by businesses on the path of doing business in Kosovo, trying to create a conducive environment in which companies can be helped to overcome, or face these obstacles.

**Keywords:** enterprises, environment, activity, innovation.

### 1. INTRODUCTION

Small and medium enterprises (SMEs) play a very important role for the economic success of any country, due to their contribution to the functioning of the economic network, job creation, development of entrepreneurial skills, innovation and improvement of economic well-being. Especially in Kosovo, SMEs make up about 98% of jobs can also contribute to meeting many challenges such as: the effects of inequality, high unemployment, demographic growth and the need for structural change.

SMEs contribute to economic development in various ways, providing sustainable sustainability and innovation in the economy as a whole, and in addition, a large number of people rely on small and medium enterprises directly or indirectly (Krause et al. , 2008), p. 3). For the functioning and development of SMEs also plays an important role their financing, which is defined as key factors for the functioning of the business, as well as for its long-term development. Despite their importance in the economy, they face a number of obstacles that affect their development, where in most of the research of SMEs in Kosovo, access to finance is considered as the main barrier. Internal financial constraints force SMEs to seek financing from external sources of the enterprise, where in transition economies such as Kosovo bank loans, financing from friends or family play a major role.

Assessing barriers to doing business by businesses themselves is an important insight which serves various entrepreneurs in an effort to improve the business environment. Based on the facts, the possibilities for solving the problems will be analyzed and it is important for entrepreneurs to take adequate measures to reduce the consequences that these barriers may bring to their business activity.

### 2. LITERATURE REVIEW

Private sector development is closely linked to a country's economic development, so given the importance of small and medium-sized businesses in the economy for job creation, innovation and improving economic well-being, many different authors based on studies conducted have stated that small and medium businesses are considered as generators of economic development of a country. According to data from the Kosovo Business Registration Agency (KBRA), at the end of 2011, SMEs (including micro enterprises) accounted for about 99.97% of all businesses operating in Kosovo and we can say that SMEs to constitute the backbone of the economy.

According to Klapper, Laeven and Rajan (2006) the entry of new firms into the market affects the economic development of any country. Small and medium enterprises generally outperform large companies because they employ many more people. It is very important to emphasize the fact that most employment generation is only through the growth of the SME sector (Ardic, Mylenko & Saltane, 2011). Also according to (Harif et al., 2011; Haron et al., 2013), SMEs are considered responsible for fostering competitiveness and innovation in many economic sectors.) Despite the economic growth, SMEs face more challenges or obstacles in doing business where

they are evident not only in Kosovo but all over the world. Access to finance is an essential determinant that affects the creation of new firms as well as the expansion of existing ones in all countries (Krasniqi, 2007). According to data from the World Bank (2010), access to credit has been identified as a major obstacle to business development in Kosovo. Small and medium enterprises in our country are very limited in terms of the use of external sources of financing, in addition to bank loans, can rarely use other forms of financing.

According to Longenecker (2006) and Oketh (2000) the cause of SME failure can be improper planning and poor management. Also the lack of skilled personnel hinders the firm's tendency to develop the innovation process (Kamalian et al., 2011). Guijarro et al., (2009) concluded that poor SME management engagement, which may be a signal that organizational culture does not support innovation, has been cited as one of the most important barriers to innovation among SMEs.

### 3. RESEARCH METHODOLOGY

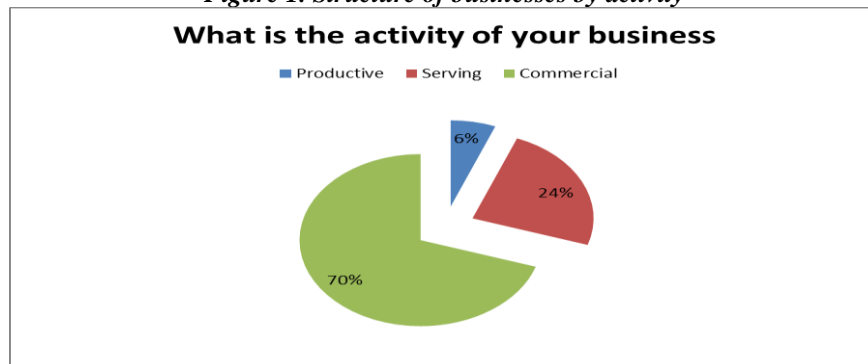
The research methodology to be used in the paper concerns the combination of primary and secondary data. The paper consists of the theoretical part, empirical studies and statistical analysis. The collection of primary data to conduct the empirical part of the study is intended to be done through a survey that will be conducted with 200 small and medium enterprises in the territory of Kosovo. The instrument that will be used for the collection of primary data of this study will be a structured questionnaire, directed mainly to the owners or managers of the enterprises taken in the study. For the collection of empirical research data will be used voluntary sample, since enterprises will be included in the full study will be those companies, owners or whose managers will accept the enthusiasm and participation by curiosity study and completion of questionnaire, guaranteeing the reliability and validity of the data. The order of the questionnaire was compiled in such a way as to start with general questions about the enterprises, and then to continue with narrow questions that were directly related to the subject of the topic. The research is mostly intended to be done through eye contact with owners or managers, who possess extensive knowledge about the business activities of their companies. The selected sample will be stratified in the three main sectors of the economy, in order to reflect the differences between the trade, services and manufacturing sectors, in terms of the use of external funding sources. The sample is also intended to be stratified in terms of enterprise size, including micro, small and medium enterprises. As can be seen, the bulk of the empirical research of this paper will be quantitative in nature. Such a study of SMEs through the quantitative method is done in order to achieve the descriptive and rational objectives of the study thesis. The paper will also use the mixed method as a combination of quantitative and qualitative method, where owners will have the opportunity to give more answers, through an additional interview, which will enable us to expand our thoughts.

As for the secondary data, for the realization of the work will receive data from other research studies, annual reports, scientific publications, then literature from publications such as books, magazines and data from the Internet. Both these types of data, both primary and secondary, will serve us in the analysis performed in the study and will help us the methodology for the effective realization of this work.

### 4. EMPIRICAL ANALYSIS OF THE STUDY

The businesses surveyed in this study belong to different business activities and also differ in terms of business size. Based on the data collected through the business survey, trade represents the largest share of the businesses surveyed. Trade covers 70% of these businesses, the services sector accounts for 24%, while the manufacturing sector represents only 6% of the businesses surveyed.

*Figure 1. Structure of businesses by activity*



Source: Author calculations

There is a greater concentration of enterprises operating in urban areas, compared to rural ones. Of the surveyed businesses, most of them, about 73% operate in the city, while the rest about 20% in the villages. Another small part of businesses, around 8%, operate in the city and in the countryside. Most of the businesses surveyed belong to cities, due to the fact that we managed to do an easier survey in cities compared to villages.

*Table 1. Location where the surveyed enterprises operate*

<b>Company_location</b>				
		Frequency	Percent	Valid Percent
Valid	City	145	71.8	72.5
	Village	40	19.8	20.0
	City and village	15	7.4	7.5
	Total	200	99.0	100.0
Missing	System	2	1.0	
Total		202	100.0	

Source: Author calculations

In the case of analyzing the barriers that hinder businesses in developing their business we have seen before from various studies, and we see even now in the survey part that there are a large number of business barriers which complicate their work. Of all the barriers, we can say that the financial ones are considered as the main ones with 43% that hinder the business activities of the development of these businesses. Fiscal policy is also a problem for small and medium enterprises in the economy of Kosovo, where according to the survey 25% of these businesses consider it as an obstacle. Another 25% of businesses consider the lack of qualified staff as a significant barrier to their business. While informality in the economy, only 8% of surveyed businesses consider it as an obstacle in the development of their business activity.

*Table 2. Challenges in the business of the surveyed enterprises*

<b>Business_challenges</b>				
		Frequency	Percent	Valid Percent
Valid	Lack of qualified staff	50	24.8	25.0
	Fiscal policies	50	24.8	25.0
	Informality in economics	15	7.4	7.5
	Financial barriers	85	42.1	42.5
	Total	200	99.0	100.0
Missing	System	2	1.0	
Total		202	100.0	

Source: Author calculations

To the question that we refer to the consequences that these barriers bring to the business of these businesses, it is noticed that most of the surveyed businesses 30% consider low productivity as a consequence, while the rest about 24% answered that these consequences reduce profits, 23 % restrict market expansion. Another 15% of businesses rated the reputation risk as a consequence and the other 7% closed the business.

**Table 3. Consequences that bring barriers to the business of the surveyed enterprises**

		Challenges_implications		
		Frequency	Percent	Valid Percent
Valid	Low productivity	60	29.7	30.0
	Reduce profits	48	23.8	24.0
	Limit market expansion	47	23.3	23.5
	Endanger reputation	30	14.9	15.0
	Close the business	15	7.4	7.5
	Total	200	99.0	100.0
Missing	System	2	1.0	
Total		202	100.0	

Source: Author calculations

Among the most important financial barriers are the high interest rates of 50%, then 18.5% was the impossibility for long-term loans. While other barriers such as collateral required by banks are declared only 17.5% of these enterprises, then 10% of them said that the bureaucracy of banks is a barrier that hinders their business activity. A very small part of 4% indicated that they have incomplete information on the requested loan. These barriers though diverse have the same effect. All hinder firms from developing their business activity.

**Table 4. Financial barriers that affect the business activity of the surveyed enterprises**

		Financial_barriers		
		Frequency	Percent	Valid Percent
Valid	High interest rates	100	49.5	50.0
	Impossibility for long-term loans	37	18.3	18.5
	Collateral required by banks	35	17.3	17.5
	Banking bureaucracy	20	9.9	10.0
	Incomplete financial information on the requested loan	8	4.0	4.0
	Total	200	99.0	100.0
Missing	System	2	1.0	
Total		202	100.0	

Source: Author calculations

If we refer to the question of what form of external financing these companies use in the absence of own capital, then we see that 43% of them use loans from microfinance institutions as a form of external financing. 23% of them use bank loans and a small part of 3% stated that they take loans from other firms.

**Table 5. Form of external financing in the absence of own capital**

		External_financing		
		Frequency	Percent	Valid Percent
Valid	Bank loans	45	22.3	22.5
	Loans from microfinance institutions	150	74.3	75.0
	Loans from other firms	5	2.5	2.5
	Total	200	99.0	100.0
Missing	System	2	1.0	

		External financing		
		Frequency	Percent	Valid Percent
Valid	Bank loans	45	22.3	22.5
	Loans from microfinance institutions	150	74.3	75.0
	Loans from other firms	5	2.5	2.5
	Total	200	99.0	100.0
Missing	System	2	1.0	
Total		202	100.0	

Source: Author calculations

Regarding the question of refusal of the loan from the bank, the surveyed businesses gave various reasons where the most common reason was the lack of demand for collateral 65%, 28% of businesses lacked proper documentation and 7% of them have cited lack of previous experience as a reason for refusal by the bank.

**Table 6. Reasons for refusal by the bank**

		Rejectet_reason_by_banks		
		Frequency	Percent	Valid Percent
Valid	Lack of demand for collateral	130	64.4	65.0
	Lack of previous experience	15	7.4	7.5
	Lack of proper documentation	55	27.2	27.5
	Total	200	99.0	100.0
Missing	System	2	1.0	
Total		202	100.0	

Source: Author calculations

## 5. CONCLUSION

Business Development in Kosovo has a crucial importance for economic growth and development. All businesses, particularly small and medium enterprises, considered generators of economic development. Based on the data studied for the realization of the paper and the data we have collected through the survey, we came to these conclusions: The structure of the businesses surveyed, according to our research shows the majority of businesses in Kosovo belong to the trade sector, 70% of businesses surveyed. From this number of 200 companies, about 73% exercise their activity in urban areas and 20% in rural areas. It noticed a large concentration of the trade sector in urban areas, due to the greater number of the population in these areas as well as the largest concentration of purchasing barrel. Regarding the barriers that inhibit the growth and development of businesses, according to our research, dominate financial barriers by 43%, then fiscal policy with 25%, and lack of staff of unqualified 25%.

Through our research and through the study of different reports, we can say freely that our economy is not providing favorable conditions for the creation and growth of businesses veçanërisht for growth and development of SMEs. These enterprises today faced with many obstacles and one of this main obstacles are considered to be financial barriers, due to higher funding costs. Kosovo financial system is not competitive and does not offer many choices for financing. Enterprises are obliged to use bank loans as a source of external financing, unable to use other sources. The business environment requires decisions to be made by the government to ensure market equity, secure property, and enforce contracts. Then there should be facilities in the market, in fiscal policies, in customs policies, in trade policies, as well as in trade facilities and the provision of favorable economic conditions.

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