THE CHALLENGES OF FINANCING SMALL AND MEDIUM ENTERPRISES IN KOSOVO

Enver BAJÇINCA,
PhD Candidate, European University of Tirana – Tirana
e.bajcinca@gmail.com;

Abstract
Access of SME to external finances shows as one of main barriers which are faced SME in the region. Increasingly is growing role of access to external finance to SMEs for investment and development. The study of factors affecting the supply side and demand side of financial instruments can provide a better picture of how SMEs can facilitate access to external sources of funding. Financing SMEs largely depend on financial market development and its instruments in country. In Kosovo, this market is limited to within the banking sector and credit is the main instrument for funding. There is a clear evident that small businesses are limited to accessing external finance than large businesses. Access to external finance also depends on the level of business turnover, age, collateral etc. Viewing from the financial offer side, credit conditions are point out - in Kosovo especially the interest rate appears as a limiting factor in the utilization of external finance.
This paper is based on enterprise-level data from the survey of 500 SMEs led by BSC Kosovo in order to analyze the determinants of obtaining finance from banks when applying. Also we used the data provided by the Central Bank of Kosovo on Kosovo's financial sector. This paper aims to address the above issues and draw conclusions and recommendations on SME financing from external sources.
Kew words: SME, external finance, financial offer, bank loan, Kosovo

1. Introduction

In the last decade there has been an increased interest among different researchers about SME financing from external sources. This interest has come as a result of economic structural change of the majority of countries where SME[1]s constitute the majority of private sector employment in developed and developing countries. (Hallberg 2001).[2] Moreover, most large companies usually start as small, so that the ability of SMEs to grow and develop is crucial for any economy[3].

Access to finance is a major determinant in the starting, development and business growth of SMEs and they have different needs and face different challenges in terms of funding compared to large businesses. Lack of own capital to invest in small firms makes these businesses more to rely on external sources of financing such as bank loans and other financial products. (European Commision, finance SMEs access to finance survey, Analytical Report December 2011)) Tests for external financing of SMEs made from different perspectives ranging from the comparison of funding from external sources between SMEs and large businesses. So from a survey conducted in 71 developing countries made by Beck and Demirguç-Kunt, it appears that 30% of large firms use bank financing to realize their investments, compared with 12% of small firms. These data encourage different researchers to analyze the barriers to access to external finance by SMEs. Access to finance is the second most difficult problem faced by SMEs in the EU, after finding customers. SMEs have the option to use only external finance compared to large firms (56% compared to 50%), while large enterprises have the opportunity to use both sources of financing, internal and external. (European Commision, finance SMEs access to finance survey, Analytical report December 2011)

An economic agent, who could not cover his full costs on his own resources, or through internal funding or self-financing, is forced to resort to external financing. From the analysis realised by the American economists John Gurley and Edward Shaw (developed in 1960 in their paper *Money in the Theory of Finance)*, we extract two ways of external financing of the economic agents, namely:

- *The direct funding*, characterized by the fact that the agents that have available capital fund directly the agents that need financial resources. This direct financing is made by buying the securities issued by the agents that need capital on the financial market. This type of financing is done through the capital markets and the opened money markets.
- *The indirect funding* or "the intermediate funding" differs in that a financial intermediary is interposed between the agents in need of capital money and the agents who want to place their surplus cash capital. Intermediaries which made indirect financing are represented by banks and other financial authorized entities. (Ignatescu, 2010)

Traditionally, internal funding (from personal savings, retained profit and sales of assets) is an important source of financing for SMEs. Bank loans (used by 32% of SMEs) and bank overdrafts, credit lines and credit card overdrafts (used by 30% of SMEs) had been the largest source of external financing for SMEs during the preceding six months. So we observe the traditionally important role of bank financing for SMEs in the euro area.

Indeed, bank loans, credit lines and overdrafts are not only used to finance investment but also as working capital. Leasing, hire purchase and factoring (27%) and trade credit (15%) had also played a relatively important role, while market based financing had been of minor importance to the financing of SMEs during the preceding six months (1% had issued debt securities and 1% had issued equity or relied on external equity investors).

Large firms had also barely relied on market-based financing (2% used either debt securities issuance or

[1] 1 Size of SMEs in Kosovo is defined by Law no. 2005/02-L5 and Law no. 03/L-031 ee support Small and Medium Enterprises, which fits the division that makes the OECD and the European Commission. This division is based on the number of employees: 1-9 employees = micro enterprise; 10 - 49 employees = small enterprises, 50 to 249 employees = medium enterprise, and with 250 and above employees are considered large enterprises

[2] According to data collected by Ayyagari, Beck, and Demirgüç-Kunt (2007) for 76 developed and developing countries, SMEs, on average, account for over 50% of manufacturing employment.

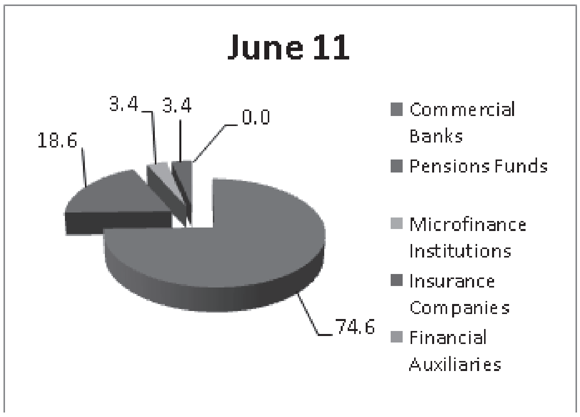
[3] See, for example, Beck and Demirgüç-Kunt (2006) and references therein.

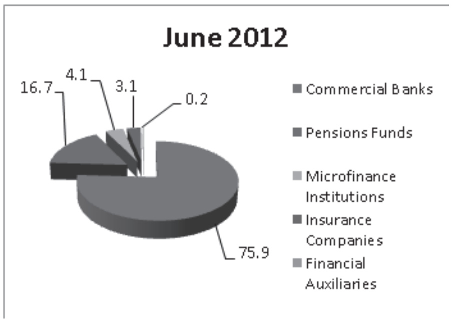
equity issuance or external equity investors) during the preceding six months, relying to a much greater extent on bank loans (used by 38% of the large firms) and on leasing, hire purchase or factoring (36%).
From different types of external sources of financing, the most common source used for small businesses is bank loan (see Houghes and Storey 1991; Riinvest 2006), which will be examined in the remainder of this paper. Sources of funding for small business owners are usually limited, especially for new and small businesses. So growth oriented SMEs need external sources of finance provided by banks. But for various reasons (not related to entrepreneurship), particularly information asymmetry, these funds are often not available to all enterprises. Although not directly attributed to the size (of the company), "external finance gap" is usually associated with asymmetric information which is not unique to small businesses and even not to the capital markets. Despite this, information problems arising from asymmetric information decisions affect affect most small businesses. (Krasniqi, B. 2010)
Consequently, there is a common view that capital markets are inefficient with respect small business finance because of credit rationing stemming from asymmetric information (Stigliz and Weiss 1981). They argue that in a situation where the banks can not observe the quality of the borrowers due to insufficient information adverse selection takes place. Under conditions of asymmetric information, banks are uncertain about future behavior of the borrower in terms of repaying loan. Put another way, banks can not distinguish between potentially "good" and "bad", investment projects, thus, they may be encouraged to increase the interest rate. Also, because of their inability to monitor investment projects, banks will choose to increase interest rates leading to credit rationing problem and worsening position of the lender who best can consider that the rates high interest rates are high risk and may choose not to apply for a loan at all. Under these circumstances, banks will ration the supply of loans and in addition will tighten further as collateral requirements in order to protect themselves from opportunistic behavior of the dishonest borrowers. In the presence of asymmetric information, bank will incurr relatively high trasaction costs per unit (loan) if they will deal with small enterprises compared with large enterprises implying that banks' administrative costs depend on number of loans made rather than the size of the loan (Parker 2004; Krasniqi, B. 2010)
The ability of small businesses to use external finance depends not only on the supply side factors or market imperfections, but also by other demand-side factors such as the characteristics related to the enterprise and entrepreneurship. There are two important issues addressed when analyzing the demand side factors. First one is related to entrepreneurs's willingness to growth and his/her consequent decision whether to apply for a bank loan or chooses to fund its project by internal funds. The second point is related to the ability of enterprises to meet the bank's requirements as sound financial information, business plan, collateral, and the ability to absorb these loans. (Krasniqi, B. 2010)
Around 99.9% of the enterprises in Kosovo are registred as are micro, small and medium enterprises. (Kosovo Business Registration Agency), which according to the analysis estimated that SMEs contribute 43.30% to the gross domestic product. (Agency for SME support in Kosovo, 2010).
The purpose of this paper is to investigate Kosovo SME access to external sources of financing including two aspects: the supply side, which means the financial capital available, which in the case of commercial banks represents their credit potential including their ability to benefit as many small businesses demand for financial resources; and demand side factors also include the ability of entrepreneurs to absorb external financial resources being able to meet the criteria set by banks or other institutions that provide financial support for businesses.

2. Kosovo's Financial Sector

Kosovo's financial sector consists of commercial banks, insurance companies, pension funds, microfinance institutions and financial auxiliaries (exchange offices and money transfers). Total value of financial sector assets in June 2012 amounted to EUR 4.8 billion, mainly characterized by a satisfactory level of sustainability and why the trend growth slowed from 13.2% in June 2011 to 4.8% in June 2012.
Dominant role in the structure of the financial sector continue to play commercial banks (banking sector) with 74% of total financial sector assets. As the banking sector represents the largest financial sector, this is characterized by a slowing trend of growth from 12.7% growth in June of 2011 in an annual increase of 6.0% in June 2012. It is worth noting the growth of pension funds assets which in June 2012 representing 18.6% of financial sector assets compared with 16.7% in June 2011. This is understandable when we know that in every month paid employees' contributions to these funds, as is the low number of those who have reached the age of starting to use the fruits of their contributions from these funds.

Graph 1. The structure of financial sector assets for years 2011 & 2012





Kosovo currently has 78 financial institutions, of which 8 are commercial banks, 13 insurance companies, 2 pension funds, 36 microfinance institutions and 19 financial auxiliaries. The number of commercial banks and pension funds has not changed in the past 4 years. While insurance companies have increased from 11 in June 2011 to 13 in June 2012, microfinance institutions from 32 in June 2011 to 36 in June 2012 and financial aid from 17 in June 2011 to 19 in June 2012.

Source: CBK (2012)

Table 1. Number of financial institutions

Description	June 2009	June 2010	June 2011	June 2012
Commercial Banks	8	8	8	8
Insurance Companies	11	11	11	13
Pension Fund	2	2	2	2
Microfinance Institutions	28	29	32	36
Financial Auxiliaries	19	17	17	19

Sourc: CBK (2012)

In the first half of 2012, the movement of interest rates was characterized by a slight decrease in loans, while interest rates on deposits remained unchanged compared to the same period last year. The average interest rate on loans decreased from 14.3 percent in January-June 2011, to 13.7 percent in January-June 2012. (Financial Stability Report, CBK, 2012).

The average interest rate in the financial sector in Kosovo is considered to be the highest in the region. Data for 2011 to the average of the region are: Albania 12.9%, Macedonia 11.9%, Serbia 10.3% and Croatia 10.2%. This high rate of interest on business loans contributes to the tightening of financial conditions of businesses. (Banking sector, Riinvest 2012)

Creating financial offer for the domestic market

Kosovo's financial sector consists of commercial banks, insurance companies, pension funds, financial auxiliaries and microfinance institutions. Of these institutions, commercial banks (banking sector) represent the largest financial market. The value of assets in the banking system in December 2012 was 2.83 billion euros, compared with the same period last year shows an increase of 6.8%.

Graph 2.

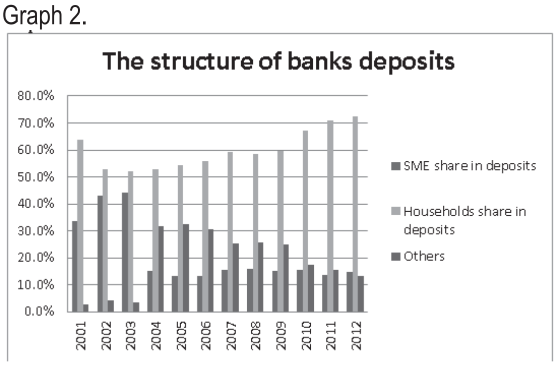


Table 2.

Financial offer in the banking system is represented of deposits, which account for about 80% of funding sources, about 10% is commercial banks' own capital. Other part of commercial bank financing represents subordinated debt which primarily relates to borrowings in foreign financial markets represents about 1.2% of the funding. At almost same share of funding used by credit lines of foreign financial institutions (EBRD, KfW) (Annual Report 2011, CBK). Part 7% of funding comes from the category of other deposits.

Regarding the structure of the deposits, the bulk comes from households 72.0%, businesses 14.7%, and the rest are deposits of other financial institutions (insurance companies, pension funds, etc.).

Financial offer in Kosovo is limited from the financial investnents of Kosovo Pension Trust assets abroad. From about 760 million € collected in Trust until 31 January 2013, 710 million of them, or 93.3% are placed in foreign financial markets, while about 50 million or 6.7% found in the domestic market. However, these financial means in the domestic market are not all contributing to the financial supply of commercial banks that will be able to finance businesses.

The table below presents the statement of Pension Trust's assets which are invested in domesic and foreign market, in particular the structure of these funds in the domestic market.

Financial Assets	The type of financial instruments	Value	Structure
Financial Means invested in international market	Different financial instruments	710,130,897.74	93.30%
Central Bank of Kosovo	Uninvested	16,711,003.12	2.20%
NLB Prishtina	Banking deposits certificate	16,478,112.98	2.17%
Raiffeisen Bank	Banking deposits certificate	16,150,621.36	2.12%
Kosovo Government	Treasury Bonds	1,275,997.18	0.17%

Source: www.trusti.org

As you can see from the table, along with the small amount of the Trust Fund placed on domestic sector, only € 32.5 million were granted commercial banks which are included in the banks credit potential. A symbolic part of nearly € 1.3 million was invested in government bonds, while about 16.7 million held uninvested in Kosovo Central Bank for the purpose of distribution of pensions to those contributors who have reached retirement age.

Apart Pension Trust assets are also about 557 million €[1] held at the Kosovo Privatization Agency Trust Fund to an account at CBK, which are collected from the sale and liquidation of socially enterprises, which can not be used in the financial sector and in the real sector of Kosovo.

These funds[2] and other financial resources of Kosovo's financial institutions are placed in external financial markets contributing that the local financial sector net assets[3] toward the external sector to be 2.08 billion €. This is a very high financial which represents about 45% of Kosovo GDP, and its placement in foreign markets exacerbates business financing conditions in Kosovo.

3. Placement of the banking sector's financial funds in the domestic market

Loans extended by the banking system for enterprise annual growth of 6.3 per cent, while loans to households recorded an annual growth of 13.0 percent. (Financial Stability Report 2012, CBK)

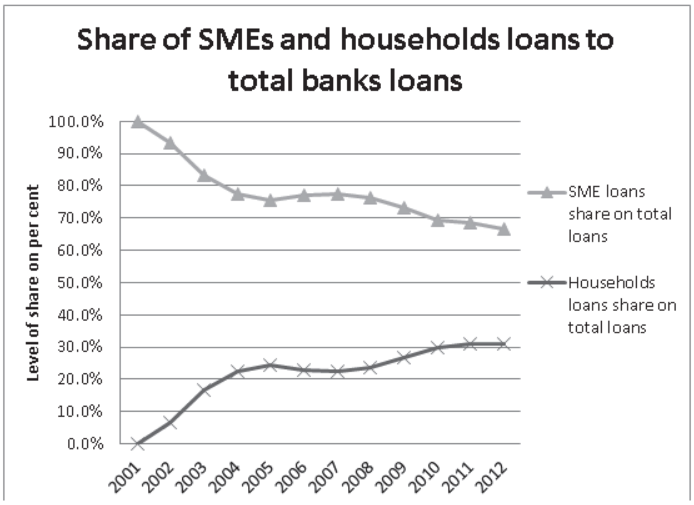
Based on survey results CBK conducted with banks operating in Kosovo, in the second quarter of 2012, it appears that banks reported increased demand for credit by small and medium enterprises, while the decline in demand from large enterprises. Despite increased demand for loans by enterprises, banks reported a tightening of standards and criteria applied in the lending process. According to the banks, the main factors that contributed to this contraction were negative perception by the banks to the overall economic situation and specific industries, as well as the risk associated with the realization of collateral. (Financial Stability Report 2012, CBK)

[1] Data obtain from Annual Report of Privatization Agency of Kosovo, 2011
[2] The funds of Pensional Trust and PAK.
[3] Net assets represent consolidated balance of foreign sector, ie assets – liabilities

Table 3.

Years	Share of loans in total assets of commercial banks	Loans/deposits Ratio	Share of SME loans to total loans	Share of households loans to total loans
2001	4.8%	5.3%	100.0%	0.0%
2002	18.1%	20.2%	93.4%	6.6%
2003	39.9%	45.3%	83.1%	16.8%
2004	46.2%	53.8%	77.6%	22.4%
2005	52.2%	61.4%	75.5%	24.5%
2006	56.0%	68.9%	77.0%	23.0%
2007	63.0%	78.0%	77.5%	22.5%
2008	67.7%	81.9%	76.2%	23.7%
2009	65.3%	73.9%	73.1%	26.6%
2010	64.9%	75.3%	69.3%	29.8%
2011	68.7%	80.7%	67.1%	30.3%
2012	65.5%	77.4%	66.5%	31.0%

Graph 3.



Analyzed from the perspective of who forms the commercial bank's credit potential and who get it records give us a result in favor of businesses. For example, on December 2012 SMEs participate in the total banking sector deposits by 14.7%, which means that participate in the creation of credit potential or financial offer, while using 66.5% of the value of loans allowed at this time. While at the same time the main contribution to the formation of the main potential provide households with 72.0% share in deposits while they use this potential participation in the total credits allowed by 31%. In this context, the banking sector channels and directs the financial fund from households to businesses that viewed by economic aspects it states economic uselfulness of banking financial funds.

However, serial data do not provide encouraged results, since the trend in the use of financial funds is going decreasing for SMEs and growing for households as the table 3. Thus, since 2004 when it was decided a more stable use of bank loans between SMEs and households, SMEs have a decrease in the use of loans from 77.6% to 66.5% at the end of 2012. On the other hand households recorded an increase in the use of loans from participating 22.4% in 2004 to 31.0% in 2012.

Ratio of non-performing loans towards total loans in June 2012 had reached 6.5 per cent from 5.9 in June 2011. This rise in NPLs represents deterioration in loan portfolio quality, which implies increased credit risk in the banking system in the country. Non-performing loans to households was 2.5% in June 2012, but since SMEs make up 2/3 of loans appreciate that they have the largest share in the level of non-performing loans and the level of 6.5% of non-performing loans representing SME loans. The level of non-performing loans of Kosovo is close to the euro area average of 7% (IMF data).

Table 4.

	SME loan/GDP(%)	Non perfomal loans (%)	Relation of other countries toward Kosovo regarding to SME loans/GDP ratio	Relation of other countries toward Kosovo about non perfomal loans	Conclusion: regarding to non perfomal loans Kosovo is better or worse?
Kosovo	28.3	5.9	1	1	-
Albania	41.2	18	1.46	3.05	Better
Bosna and Hercegovina	46	11	1.63	1.86	Better
Serbia	47.5	19	1.68	3.22	Better
Macedonia	49.9	8.5	1.76	1.44	Worse
Monte Negro	121.2	25	4.28	4.24	Approximetely same

Source: Banking Sector – facilitator or barrier, Riinvest 2012. Data of 2011.
Three columns on the rights are processed by this paper's author

As you can see from the table above, Kosovo has the lowest level of SME loans, but also non perfomal loans are lower than other countries in the region. But by comparing the ratio of loans to SMEs and nonperfomal loans of these countries to Kosovo, Kosovo non perfoming loans is better than Albania, Bosnia and Serbia, because these have a higher ratio of non-performing loans to loans for SMEs compared to Kosovo, while Kosovo is worse than Macedonia, and is roughly same with Montenegro. But as regards the ratio of SMEs loans to GDP, Kosovo is worse than all the countries of the region. In general, on 2011 is recorded the highest increase share of enterprises' external finance about 32.3%.

4. View of the demand for bank loans from the perspective of SMEs

5.1 Methodology

The data used in this part of paper was collected as part of wide-ranging survey of 500 SME in Kosovo, conducted by Business Support Center Kosovo. The interviews were conducted face - to face with the key people in each enterprise, mainly owner/managers or financial managers. The sample is drawn randomly from the business register kept at the Ministry of Trade and Industry/Agency for Business Registration. This randomly stratified sample enables us to draw generalized conclusions about the whole population of SMEs in Kosovo. The sample includes SMEs across all regions of Kosovo and is stratified by three main sectors in order to reflect the differences between trade, production and services. Statistical stratification was also done in terms of size in order to ensure the representation of medium firms within the SME sector. During the implementation of the field survey we found that at least 43 percent of the firms were not operating or did not exist anymore. This high figure of inactive SMEs might indicate high failure rate, informal or even a creation of firms only for one purpose or project.

This random sample enables us to draw generalized conlusions about the whole population of SMEs across all regions of Kosovo.

5.2 Access of SME to bank finance

As regarding to the loans used by SMEs, the research findings show that about 29.7% of them have taken loans from banks, 67.7% did not apply, and 2.6% were rejected in applying for loans. Data show that in the group that received loans from banks 48.2% of them have used a second time or more from banks. This data indicates that these businesses have created a sustainable relationship with commercial banks in Kosovo. Despite this fact, these companies do not enjoy favorable conditions observed from the interest rate, repayment period etc.., compared with firms that for the first time use loan, after both groups were the same conditions, 13% of the average rate of interest and 30 months the average loan repayment. (BSC Kosovo, SME Survey 2011)

The following table shows the situation of SMEs in relation to the need and use of loan.

Table 5.

Enterprises that used loans	29.7%
Enterprises that didn't applied	67.7%
Enterprises that applied but are refused	2.6%

On the question of making enterprises respondents who have taken loans to evaluate loan terms from 1 - very awkward to 5 - affordable, around 63% of businesses consider as unfavorable credit conditions, while the general index of conditions is 1.96 points. In about 80% of cases is required collateral for obtaining credit, while about 20% is not required. More enterprises were asked to put collateral household wealth in 60% of cases which could be expected because the majority of enterprises in Kosovo are individual micro and small businesses. Also there are frequent cases when banks require vehicles (cars, trucks, etc.). as collateral, because of easier possibility of the seizure of the collateral in the event of non-fulfillment of the obligations of borrowing business. The average value of the loan is € 94.740, while the average value of collateral to spend is 124,240 € or about 131% of the average loan value received.

The group of companies that have not applied for a loan of about 72% had no need to apply for loan and about 28% of the cases have been other reasons which dominate the high interest rates to 20 percentage points of these reasons. The reasons why companies that have been denied loans are in 6 cases the lack of collateral, in 4 cases the lack of documents required by the bank and in 1 case of lack of business plan.

5.3 Size of enterprises

Findings shows that the size of the company affects the access to bank loans because of firms that have received loans 81.6% are micro enterprises, 8.8% small, 7.4% are medium and 2.2% are large enterprises. Comparing these data with the participation of enterprises by size in the survey shows that the proportion of micro and small enterprises is lower than their share in the sample, while medium and large enterprises have greater participation in the context of enterprises utilizing loans than their share in the sample. The larger enterprise access to bank loans easier and conversely the smaller the enterprise access is difficult. This fact reinforces the analyse observed within the same enterprises by size category, which in the context of micro enterprises 28.2% had bank loans, 22.2% of small enterprises, 50% of medium and all three companies as large enterprises that were part of the research were to use the bank loan. Enterprises that were rejected in all loans were micro enterprises, ie 9 or less employees.

If compare loan receiving with the level of turnover, it is difficult to draw conclusions what the connection between them, but we what can be judged on the basis of obtained data in the table is that 25% of users have loans up to € 10,000 turnover level, which can be assumed to be small stores where the owners operate their business as employees themselves. If we expand the categorization of borrowers cumulatively we will see that about 60% of their annual turnover up to € 50,000.

Table 6.

	Level of annual turnover (€)	Share in obtaining loans	Cumulative share in obtaining loans
I.	deri 10 000	25.0%	25.0%
II.	10001 - 20000	20.2%	45.2%
III.	20001 - 50000	14.3%	59.5%
IV.	50001 - 100000	9.5%	69.0%
V.	100001 - 500000	14.3%	83.3%
VI.	500001 - 1000000	7.1%	90.5%
VII.	above 1 milion	9.5%	100.0%

Since the data in the table indicate dominance in borrowing of enterprises with low annual turnover, this suggests that banks became more costly lending as they in most cases have to deal with the large number of requests with low amounts of loans.

5.4 Age of Enterprises

Data from the survey indicate those enterprises age under 5 years and those above 10 years are more interested in borrowing, while those between 5-10 years of age are less interested i.e that they either are more stable in business and financial or growth plans. This is shown in the table below where information established enterprises from 2006 and newer, and they set up in 2000 have a higher participation in borrowing that is their share in the total number of companies involved in research.

Table 7.

	Year of start up	2010 & 2011		2006-2009		2001-2005		Up to 2000		Total
A.	Structure of enterprises by aging	7.1%		20.5%		28.5%		43.9%		100 %
B.	Structure of enterprises by aging that have used loan	7.6%		23.7%		22.1%		46.6%		100 %
C.	Enterprises that have a loan account with bank	29.4%		31.6%		21.3%		29.0 %		
	Enterprises that haven't a loan account with bank	70.6%	100 %	68.4%	100 %	78.7%	100 %	71.0 %	100 %	n.a
D.	Refused on loan	0		25.0%		16.7%		58.3%		100 %

Source: BSC Kosovo, Survey with SME 2011

It is interesting to note, as it is seen from the table that the research is not found rejection in the demand for loans to newly established enterprises, 2010 and 2011. This is a new clue, since until recently commercial banks in Kosovo have been reluctant to lend new enterprises. Recent years a number of projects that support entrepreneurs with credit lines, which give them financial tools in commercial bank management (psh.Projekti SPARK, the Dutch Government).

Regarding the age of the enterprise, there is not any positive corelation between age and access to bank loans.

5.5 The structure of SME finance

In 2011 48.8% of SMEs in Kosovo had invested. To finance these investments, SMEs were mainly based on their own sources of funding with 67.7%, the rest is met from funding sources outside the company, of which loans from local banks are the main funding channel to 25.2%. Regarding the key role of financing the investment in 66.3% of cases dominate their own sources of funding; in 20.35% of cases have a similar role between internal resources and external financing of enterprises, while 13.4% of cases dominate funding sources outside the enterprise. Analysis and our estimates lead us to the conclusion that the 19 percentage points of SMEs had fully funded investments they own resources.[1]

[1] The result derive from the number of enterprises stated that 100% of investment have implemented from own resources and dhe differencies between percentage of SME that have had investments and percentage of SME that used banks loan (48.8 – 29.7)=19.1

The table below shows the structure of financing sources SME investments in Kosovo, in a trend any time during certain years.

Table 8.

Source of financing	2002	2003	2004	2005	2010	2011
Own resources	80.3	74.8	68.7	72.4	72.8	67.7
Loan from domestic bank	13.8	18.5	19.6	21.9	16.8	25.2
Loan from foreign bank	1.6	1.1	1.1	1.2		1.0
Grants from donors and NGO	0.3	1.3	0.8	0.9	0.1	0.9
Borrowing from family and friends	4.0	4.2	9.0	2.9	7.1	3.5
Remittances	n.a	n.a	n.a	n.a	n.a	1.8
New equity (FDI)	n.a	n.a	0.4	0.3	n.a	0
Other resources	n.a	n.a	0.4	0.5	3.2	0
Total	100	100	100	100	100	100

Source: Riinvest, SME Survey, 2002 -2005; BSC Kosovo, SME Survey 2010 & 2011.
*Non available data.

5. Conclusions and recomandations

Since the war, the financial sector in Kosovo has a stable and sustainable development, although its growth rate has decreased in recent years.

Kosovo interest rates are the highest in the region, which makes it difficult to finance SMEs in Kosovo. These high interest rates are largely the result of the laws of the market (supply and demand), due to high placement Kosovo financial funds in foreign markets, the financial offers for the domestic market remains low against the needs of high for SME financing. Even though the analysis and evaluation of commercial banks many times stated that the high rates are due to the business environment and the functioning of the judicial system, serial data for non-performing loans denies this as Kosovo has the lowest among the the region.

In addition to lower loan potential remains for the domestic market, although the volume dominates lending to businesses as opposed to households, the trend is going against businesses since the volume of loans to businesses is falling, while for households is growing. Kosovo marks the lowest level of the loan ratio for SMEs / GDP compared to other countries in the region.

Enterprise size plays a role in the use of external finance; SMEs have more limited access to finance compared to larger enterprises. From about 49% of SMEs had 29 points investments this percentage had a credit balance with the bank, while about 20 points this percentage has accomplished entirely with own funds. SMEs on average about 68% of the investment funded by own sources, while about 32% of the funding sources outside the enterprises.

Despite the fact that half of SMEs have credit balance with the bank for the second time or more, they had no easing of conditions in terms of reduction of the interest rate or extending the time of repayment.

Most companies that have commercial bank loan balance (60%) had a level of turnover up to € 50,000 per year, this is another fact that banks became more expensive the cost of credit, because they have to deal with the number of range of applications for loans with lower amounts.

Taking into account the above conclusions is necessary for the competent institutions to take appropriate activities to improve financial supply in the domestic market, which it can do through the Central Bank regulations to limit foreign sector net requirements by applying these measures first CBK and then commercial banks. Also be guided and regulated by legal mechanisms that Kosovo Pension Trust at least 50% of the proceeds to invest in the domestic market, given that one of the principles of management of the Trust's financial assets is risk diversification. Commercial banks should be brought in conformity with the laws and practices of doing business and banking business, thereby avoiding the foreign market, as investment returns have higher domestic market, given the past a decades-long war in Kosovo's banking sector with low levels of bad loans and the conditions of existence of a credit registry system that enables the exchange of information between banks for their customers. In order to better recognition business customers seeking loans, the banking sector may conclude a memorandum of understanding with the Tax Administration of Kosovo and other companies as may be electricity sales company (Limak) to know how responsible a customer to carry out its obligations on time is. In this track, commercial banks should establish sustainable relationships with businesses, particularly those businesses that use for the second time in the same bank loan and have been regular in payment of the first loan obligations, be given favors in terms of interest rate deduction.

Given the more limited access to financing small businesses, the Kosovo government should take initiatives and projects to support more small business financing. Small and medium enterprises should increase their management capacity level, to develop fair and sustainable relationships with business partners and banks.

References

Agency for SME support in Kosovo SME Report for 2010;
Beck, Thorsten (2007). ”Financing Constraints of SME in Developing Countries: Evidence, Determinants and Solutions”. World Bank, Development Research Group
Beck, Thorsten and Demirguc-Kunt, Asli (2006). ”Small and Medium-Size Enterprises: Access to Finance as a Growth Constraint”;
BSC Kosovo, 2011. Enterprneurship and small business development in Kosovo*, Research Report;*
BSC Kosovo, 2012. Enterprneurship and small business development in Kosovo in 2011, *Research Report;*
BSC Kosovo, SME Survey 2010 & 2011;
Central Bank of Kosovo, Financial Stability Report 2011;
Central Bank of Kosovo, Financial Stability Report 2012;
Central Bank of Kosovo, Monthy Statistics Bulletins;
European Commision, SME finance access to finance survey, Analytical Report December 2011;
Hallberg, Kristin. 2001. “A Market-Oriented Strategy For Small and Medium-Scale Enterprises.” *IFC Discussion Paper # 48.*
Ignatescu, D. V. “Alexandru Ioan Cuza” University of Iaşi Financing of the SMEs in the european union through credit institutions, *CES Working Papers*, II, (3), 2010
Krasniqi, B. 2010. Are small firms really credit constrained? Empirical evidence from Kosova. *Int Enterp Manag Jurnal* (2010) 6:459-479;
Privatisation Agency of Kosovo, Annual Report 2011;
Riinvest Institute, 2012. Banking Sector: Facilitator or Barrier;
Riinvest Institute. SME Survey 2001 – 2006;
Stiglitz, J., & Weiss, A. (1981). Credit rationing in markets with imperfect information. *American Economic Review*, 71 (3), 912 – 927
www.pak-ks.org
www.trusti.org