

# Funding Challenges of Small and Medium Enterprises in Transition Countries: Kosovo Case Study

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## Abstract

SMEs play a very important role in the development of economies of different countries and they are now considered as a key factor of economic development. They affect unemployment, promote social welfare and can be treated as a promoter of economic growth. The paper addresses the role and importance of financing SMEs in transition countries including Kosovo. The study examines the key factors affecting the increase of SME financing from external sources, namely bank lending since other external sources of financing in Kosovo are scarce and almost non-existent. For the purposes of this paper, data from 215 SMEs surveyed in Kosovo were used, randomly distributed across manufacturing, services and commerce sectors. Data collection was done in the period January-April 2016, and their processing was carried out with SPSS (Social Package for Social Science). In order to have more consistent information during data processing, certain models were used in the paper: Paired-Samples T Test, which was used to investigate the difference between two sets of averages, which indicates that the business plan for the enterprise is relevant to bank loan access. The One Way Anova model was used to test the differences between two or more averages, and through this model is proved that high-profit enterprises have achieved easier access to bank loans. Also following the One Way Anova and Post Hoc LSD test, there were found differences between groups of enterprise by their types, activity and age. The research shows that enterprises with older ages have been able to obtain more easily bank loans. The One Way Anova and Welch-Brown-Forthyse test was used to deal with the level of education of business owners, whereby it was found that owners with a high level of education had easier access to bank loans. Through the Independent Samples T Test technique it was found that there is a significant difference between the age groups of the owners based on the mean and standard deviation.

**Keywords:** SMEs, finance, bank, loans, transition, countries, Kosovo

## 1. Introduction

SMEs play an important role in economic development, both in developed countries and in developing ones. One of the main challenges they face are financial assets, which are increasingly absent. However, they also face many problems during the establishment and advancement of their business. Initially, initial capital is extremely low, so obtaining external funding is extremely difficult due to a number of factors: inexperience in the market, lack of management skills, insufficient funds, low collateral which require financial intermediaries as collateral for loan coverage, etc. The focus of this research is to provide financial support from external funding sources, specifically from the bank loan. Funding is the main determinant of growth and development of SMEs, both in developed countries and the developing ones (Ardic et al., 2011; De la Torre, et al., 2011). The literature which has addressed the issue of funding the SME through bank loans is different, especially in developed countries. However, the issue of funding SME is also addressed in transition countries, including Kosovo. Various authors have examined the difficulties and challenges they are facing SMEs in obtaining external sources of their funding, namely bank loans (Vo, 2017, Harvie, et al., 2013; Tmava et al., 2013; Beck et al. 2006). Recent studies related to SME financing are closely linked to economic growth and development. Thus, according to Ayyagari et al. (2007), SMEs in countries with high-incomes contribute an average of 50 percent of gross domestic product. While Beck et al. (2008b) by examining the role and importance of SMEs in the OECD countries, have found that SMEs with less than 250 employees employ two-thirds of the official labor force. Therefore, their role and importance in development is undisputed. Also Hallberg (2001), finds that SMEs represent growing sector in poor countries around the world and thus form the basis for development in general. Moreover, SMEs in developing countries have difficulties in accessing bank loans due to the high risk of failing loans, low profitability and lack of collateral required by banks (Harvie, et al., 2013.). The various difficulties of SMEs with limited access to finance, mainly

bank loans, are encountered by many other authors (Carbo-Valverde, Rodriguez-Fernandez, & Udell, 2016; Carbo-Valverde, S., Rodriguez-Fernandez, F., & Udell, G. F. 2016). Also, Brinckmann et al. (2011) find that small firms have greater difficulties accessing finance, compared to large firms. Access to finance and capital, for most of the SMEs in the region, including Kosovo, seems to be even more difficult. This is due to the weakness of the banking institutions, lack of capital market but also lack of inefficient legal framework regarding credit and collateral valuation. SME financing and access to finance play a crucial role in the growth process and development of enterprise (WB, 2011). Moreover, it is known that Kosovo SMEs have major problems with collateral, such as loan repayment guarantee, warranty, short term bank loans etc. This paper examines the various factors that influence the issue of SME financing through bank credit: collateral, business experience, type of activity, owner's gender, age, place of business, etc. Despite the importance of SMEs for creating new jobs and reducing unemployment, part of the great literature which deals with the financing of SMEs, shows that SMEs face greater obstacles to funding sources compared with large enterprises, which limits their growth and development. Numerous studies through the use of survey data at the SME level find that access to finance and cost of credit are not only barriers to SME funding, but also limit more SMEs in growth and development compared to big companies. Small firms find it more difficult for commercial banks to finance them, especially when it comes to long-term loans, for a variety of reasons: lack of collateral, difficulties in approving credit validity, low cash flow, unstable credit history, high-risk premiums, and underdeveloped borrower relationships (Nyugen, 2017, Galindo dhe Schiantarelli, 2003; Beck et al. 2006; and Beck and Demirgüç-Kunt, 2006). However, according to Ayyagari, Demirgüç-Kunt and Maksimovic, 2006, through cross-country evidence treatment, SMEs are more limited in their functioning and growth in relation to large enterprises and access to financial services. According to Ayyagari, Demirgüç-Kunt and Maksimovic (2006), access to finance and the cost of financing are often listed as one of the main difficulties in the business environment of SMEs. Specifically, in the sample treated in 71 different countries, mainly developing countries, the cost of financing was estimated as a major barrier to growth by over 35% of the treated SMEs. This is more important than any other characteristic in the business environment, including taxation and macroeconomic instability. According to Ayyagari, Demirgüç-Kunt and Maksimovic (2006), funding is one of the few characteristics of the business environment that along with crime and political instability are strongly associated with firm growth, while other features have at least an indirect effect on the growth of the firm. Whereas, according to Beck, Demirgüç-Kunt, Laeven and Maksimovic (2006) find that small firms consistently report higher funding barriers than medium and large ones. Even in Kosovo, the issue of SME financing is a challenge in itself, as they face difficulties in securing the collateral needed as a necessity by commercial banks, inferior managerial experience, and inadequate financial statements that make access to finance from external sources difficult, which is also evident in the following analysis.

## 2. Nature and Definition of SMEs

Currently, in the professional and scientific literature SMEs are extensively treated, but still lacks a common definition which would be acceptable to all countries. One of the main challenges when analyzing the various factors that influence the growth and development of SMEs is the lack of a universal definition of SMEs that is acceptable to all countries. The definition criteria for SMEs vary depending on the country. This is because the criteria for their definition are not standard for all countries. According to the World Bank study, there are over 60 definitions of SMEs used in 75 different countries around the world. According to the World Bank (Small Business Act, USA, 1953), SMEs are defined as businesses that are independently owned and operated in its field and activity. There are relevant definitions for SMEs, one of them given by the authors (Stanworth & Gray 1991), defining them as "a small market shareholder, one that is managed by the owner himself and is fully independent in decision-making, beyond any control of external". It should be noted that even in the US for SMEs, there is no universal definition despite the fact that many quantitative and qualitative determinations have been made. However, the guiding criteria are: total wealth, ownership status, annual turnover, number of employees always based on the industry average. Among the definition which is most applicable is the definition of SMEs in the European Union. Thus, according to EU recommendation 2003/361, the main factors underlying SMEs are: Number of staff (staff headcount) and annual turnover (either turnover or balance sheet total).

Table 1. SMEs definition by UE

Company category	Staff headcount	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Source: Commission Recommendation of 6 May 2003.

In Kosovo, the definition of SMEs is defined by the Law 2005-02-L5 on SME Support, which fits the definition of SMEs by EU, based only on the first criterion, namely the number of employees.

### 3. SME in Kosovo

The role and importance of SME for Kosovo's economy is indisputable. Kosovo, as a small war-torn country, was created as a state recently with the collapse of ex YU, inherited a completely devastated economy, but also is facing many problems of ownership transformation. Currently, according to KBRA (2016) the profile of businesses in Kosovo is dominated by SMEs, with over 99%. Of these, 98.4% is micro enterprises, 1.35% is small enterprises, 0.22% is medium enterprises and only 0.06% is large enterprises. The total number of registered companies in Kosovo is 149,843; however, according to the tax administration of Kosovo, the number of active enterprises is only 66,986. It means that more than half of them are inactive, which is an important indicator of the difficulty of accessing finance. Kosovo's SMEs are estimated to contribute 43.3% to the country's GDP (SDSMVK, 2011).

### 4. Research Objective

SMEs are the backbone of economic development, therefore the purpose of this study is to empirically investigate the role and importance of external sources of SME financing in Kosovo, through the investigation of different factors such as: capital resources structure, sector of activity, turnover, life expectancy, number of employees, education, age, gender, business plan. The specific task in our research is to determine some features of SMEs, as follows:

- What is the role of the business plan in getting a bank loan to SMEs?
- How determinant is the positive balance of SMEs in obtaining bank credit?
- What is the difference between SME activities in their access to bank loans?
- What is the difference between the ages of SMEs in their access to bank loans?
- What is the difference between the levels of education of SME founders in their access to bank loans?

The basic aim of this paper is to provide answers to the challenges faced by SMEs in financing their activities by using bank loans.

#### 4.1 Research Hypotheses

In order to assess the factors that influence the probability of obtaining bank loans to SME's, hypotheses are set as follows:

H1: In obtaining bank loan there is significant difference between SMEs which have developed business plan and those who do not own a business plan.

H2: There is a significant difference between SMEs with different profits in obtaining bank credit.

H3: There is a significant difference between commercial, service and manufacturing SMEs in obtaining bank loans.

H4: There is a significant difference between the ages of SMEs in obtaining bank loans, the older the age of SMEs the higher the probability of accessing credit.

H5: There is a significant difference between the educational levels of SME founders, in obtaining bank loan; SME founders with higher educational level have easier access to bank loan.

#### 4.2 Methodology

The method used in this research is survey conducted by SMEs in the Republic of Kosovo. The survey instrument is a four-part questionnaire. Data processing was done using SPSS program. Parametric and non-parametric tests were used for hypothesis testing. The techniques used in this research for testing hypotheses are:

- Paired-Samples T Test,
- One Way Anova, Post Hock Test LSD,
- Welch- Brown-Forsythe test,
- Independent-Samples T-Test.

#### 4.3 Measuring Techniques

Empirical research is based on an interview conducted with the owner, business manager or senior officials of the company. The questionnaire was organized and implemented by over 215 respondents throughout the Kosovo

region. The time period for conducting the survey covered the first six months of 2016. Of all respondents, 148 were owners, 56 were enterprise managers and 11 were senior enterprise officials.

#### 4.4 Population and Sample

Currently in Kosovo by MTI and KBRA number of SMEs registered in Kosovo includes approximately 150,000 SMEs. While active businesses registered in the tax administration of Kosovo are 66,986 businesses. The figure shows that it is impossible to test the whole population, so our research is based on the selected samples. The sample treated in research involving 215 SMEs, mostly simple and random samples, which have enabled the generation of sustainable results. The basis sample selection was obtained from MTI and KBRA.

#### 4.5 Research Methodology and Testing of Hypotheses

The method used in this research is the survey conducted with SME businesses.

The sample treated in the research includes a total of 215 SMEs, and is mainly a simple and random sample. The MTI and ABRK register was used as a basis for sample selection. The survey consists of four sections which include 57 questions. The first part of the survey includes the personal data of the respondent (interviewers). The second part of the survey includes data on the profile of enterprises and their characteristics. The third part of the survey includes data on SME business barriers. The fourth part of the survey includes data on the experiences of enterprises regarding bank loans and other forms of financing. Data processing was done using SPSS program. Parametric and non-parametric tests were used for hypothesis testing. The techniques used in this research for testing hypotheses are:

- Paired-Samples T Test,
- One Way Anova, Post Hock Test LSD,
- Welch- Brown-Forsythe Test,
- Independent-Samples T-Test.

H1. There is a significant difference in obtaining bank loans between SMEs that have a business plan and those without a business plan.

For the purpose of testing the first hypothesis Paired-Samples T Test was used, this test is used to investigate the difference between the two groups of averages. T-Test determines whether the mean of one group is significantly different from the average of the other group.

Table 2. Paired-Samples T Test Results

	Mean	N	Std. Deviation	Std. Error Mean	t	Correlation	Sig. (2-tailed)
Business Plan	.05	215	.221	.015	-6.376	.051	.000
Loan amount	37537.674	215	86331.7359	5887.7755			

According to the results of the analysis, the average amount of credit allowed for 215 businesses is € 37,538. The Sig (2-tailed) value in the 95% confidence interval is less than 0.05  $P = 0.000$ . There is a significant difference between the averages of the SME-s with business plans and those without business plans in obtaining bank loans. In this case, the H1 hypothesis will be accepted (there is a difference between averages). The correlation between credit allowed and business plan is .051. In this case, it can be argued that there is a relation between bank lending and having a business plan, so businesses with a well-crafted plan are likely to have a higher chance of obtaining a bank loan.

H2. There is a significant difference in obtaining bank loans between SMEs with different net profits.

In order to test the second hypothesis One Way Anova is used, analysis of variance is used to test hypotheses about whether there is a difference between two or more averages.

Table 3. One Way Anova Results

Loan amount	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1166775864581.260	96	12153915256.055		
Within Groups	428202220255.952	119	3628832375.050	3.349	.000
Total	1594978084837.210	215			

In this case, the One Way ANOVA technique has tested the difference between averages based on their earnings on bank loan acquisition. The value of F is large,  $F = 3.349$ , a value which indicates that this analysis is with great importance. The table above shows that the value of P (Sig.) is less than 0.05.  $P < 0.05$ , where in our case it is  $P = .000$ . Therefore we can say that there is a difference between businesses according to their profits in accessing bank loans. From the graph we can see that the businesses with the highest net profits have benefited from higher loan amounts from banks in Kosovo. Therefore the H2 hypothesis will be accepted.

H3. There is a significant difference between commercial, servicing and manufacturing SMEs regarding obtaining bank loans

In order to test the third hypothesis One Way Anova and Post Hock LSD Tests are used. Analysis of variance is used to test the relationships and differences between the type of SMEs and their access to bank credit.

Table 4. Description of results from the average SME-s

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean	
					Lower Bound	Upper Bound
Commercial enterprise	114	22775.439	58229.4250	5453.6853	11970.704	33580.173
Servicing Enterprises	89	51451.685	106361.1815	11274.2627	29046.457	73856.913
Manufacturing Enterprise	12	74583.333	119762.2329	34572.3787	-1509.959	150676.626
Total	215	37537.674	86331.7359	5887.7755	25932.214	49143.135

From the descriptive table we can see the averages of the three groups of SME. Commercial enterprises have an average of 22,775.44, service companies have an average of 51,451.70, and manufacturing enterprises have an average of 74,583.34. The following is One Way Anova table.

Table 5. One Way Anova Results

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	58542234695.281	3	29271117347.641	4.039	.019
Within Groups	1536435850141.930	212	7247338915.764		
Total	1594978084837.210	215			

From the results of One Way ANOVAs it is seen that there is difference between the averages of the SME in terms of their access to bank credit. The value of F is large, in our case the value is  $F = 4.039$ , which indicates that this analysis is with great importance. The table above shows that the value of P (Sig.) is less than 0.05. In this case the value of P is .019, so we can say that there is a difference between the types of SMEs in terms of their approach to bank loan acquisition. Therefore H3 hypothesis will be accepted. Post Hock LSD test was also performed to see the detailed differences between the groups.

Table 6. Post Hock LSD Test Results

(I) Type of SME		Mean	Std. Error	Sig.	95% Confidence Interval	
		Difference (I-J)			Lower Bound	Upper Bound
Commercial enterprise	Servicing Enterprises	-28676.2468*	12041.7575	.018	-52413.164	-4939.330
	Manufacturing Enterprise	-51807.8947*	25836.3708	.046	-102736.988	-878.801
Servicing Enterprises	Commercial enterprise	28676.2468*	12041.7575	.018	4939.330	52413.164
	Manufacturing Enterprise	-23131.6479	26179.6807	.378	-74737.480	28474.184

Manufacturing Enterprise	Commercial enterprise	51807.8947*	25836.3708	.046	878.801	102736.988
	Service Enterprises	23131.6479	26179.6807	.378	-28474.184	74737.480

The table above shows the results of the Post Hock LSD Test. Based on the significance level Sig. in the table for all groups it can be concluded that there is a significant difference for the groups below the 0.05 significance level. There are differences between the three groups of SMEs. According to these results it can be concluded; the difference between them is Sig level .018 and Sig. .046. From the results it can be concluded that access of commercial enterprises and service in obtaining bank loans is higher and easier than manufacturing enterprises.

H4. There is a significant difference between SMEs according to their age in obtaining bank loans, the older the SMEs are the chances for getting a loan are higher.

In order to test the fourth hypothesis One Way Anova and Post Hock LSD Tests are used. Analysis of variance was used to test the relationship and differences between the age of SMEs and their access to bank loan.

Table 7. Description of mean scores for SME

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean	
					Lower Bound	Upper Bound
0-1	30	5790.000	14695.4685	2683.0132	302.622	11277.378
2-5	85	10968.235	67488.8019	7320.1883	-3588.762	25525.233
6-10	44	18179.545	34943.6928	5267.9599	7555.692	28803.399
11 years and more	56	110083.929	116942.5341	15627.1034	78766.513	141401.344
Total	215	37537.674	86331.7359	5887.7755	25932.214	49143.135

In the descriptive table we can see the averages of SME by age groups. Enterprises aged 0-1 have an average of 5,790.0, enterprises aged 2-5 have an average of 10,968.24, enterprises aged 6-10 have an average of 18,179.55, and enterprises over 11 years have an average of 110,083.93. The following is One Way Anova table.

Table 8. One Way Anova Results

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	401456066475.292	3	133818688825.097	23.657	.000
Within Groups	1193522018361.920	212	5656502456.692		
Total	1594978084837.210	215			

From the results of One Way ANOVA it is seen that there is difference between the averages of groups of SME in terms of their access to bank credit. The value of F is large, in our case it is  $F = 23.657$ , indicating that the analysis is of high importance. The table above shows that the value of P (Sig.) is less than 0.05. Where in our case the value of P is .000, therefore it can be concluded that there is a difference between the ages of SMEs in terms of their access to bank credit acquisition. Therefore H4 hypothesis will be accepted. Therefore H4 hypothesis will be accepted. In addition we have performed the Post Hock LSD test, to see in more detail the differences between the groups.

Table 9. Post Hock LSD Test Results

(I) The ages of SME		Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
0-1	2-5	-5178.2353	15971.7616	.746	-36662.900	26306.430
	6-10	-12389.5455	17807.4972	.487	-47492.942	22713.851
	11 years and more	-104293.9286*	17016.4348	.000	-137837.927	-70749.930
2-5	0-1	5178.2353	15971.7616	.746	-26306.430	36662.900
	6-10	-7211.3102	13967.9620	.606	-34745.944	20323.323

	11 years and more	-99115.6933*	12944.3447	.000	-124632.500	-73598.887
6-10	0-1	12389.5455	17807.4972	.487	-22713.851	47492.942
	2-5	7211.3102	13967.9620	.606	-20323.323	34745.944
	11 years and more	-91904.3831*	15151.4305	.000	-121771.953	-62036.813
11 years and more	0-1	104293.9286*	17016.4348	.000	70749.930	137837.927
	2-5	99115.6933*	12944.3447	.000	73598.887	124632.500
	6-10	91904.3831*	15151.4305	.000	62036.813	121771.953

The table above shows the results of the Post Hock LSD Test. Based on the significance level Sig. Table for all age groups of SMEs, it can be stated that there is an important distinction to groups which are under the 0.05 level of significance. There are differences between the four age groups of SMEs. According to these results it can be concluded: the difference between them is Sig level. .000. So, the results we can see that longer-lived businesses have benefited most from access to bank loans. From the results it can be concluded that the older the SME was, the access to bank credit was higher. The result agrees with the findings of the authors Huynh & Petrunia (2010) who found the positive correlation between growth and financial leverage of the enterprise which confirms the role and importance of using external resources for enterprise growth and development.

H5. There is a significant difference between the educational levels of SME founders, regarding obtaining bank loans, SME founders with a higher educational level have easier access to bank loans benefit.

Testing the fifth hypothesis is done by using One Way Anova and Welch- Brown-Forsythe test. In the following table we present descriptive frequency averages.

Table 10. Description of the mean scores for the level education of SME owners

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean	
					Lower Bound	Upper Bound
Primary	4	1375.000	1376.8926	688.4463	-815.943	3565.943
Secondary	65	19212.308	80132.4889	9939.2120	-643.551	39068.166
College	93	10418.280	20736.4935	2150.2742	6147.649	14688.910
Master	51	109752.941	121365.6184	16994.5858	75618.311	143887.571
Doctorate	2	125000.000	176776.6953	125000.0000	-1463275.592	1713275.592
Total	215	37537.674	86331.7359	5887.7755	25932.214	49143.135

From the descriptive table we see the averages of the educational level groups of SME founders. Founders with a primary education have an average of 1,375.0, founders with a secondary education have an average of 19,212.30, founders with a college education have an average of 10,418.28, founders with a master's degree have an average of 109,752.94, and founders with a doctoral degree have an average of 125,000.0. Following is the table of One Way Anova.

Table 11. One Way Anova Results

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	376723721199.808	5	94180930299.952	16.235	.000
Within Groups	1218254363637.400	210	5801211255.416		
Total	1594978084837.210	215			

The table shows the results of One Way ANOVAs that there is a difference between the educational levels of SME founders in terms of their approach to bank loan benefit. The value of F is very large  $F = 16.235$ , indicating that the analysis is of high importance. The table above shows that the value of P (Sig.) is less than 0.05. Where in our case the value of P is .000, so this indicates that there is a difference between the education levels of SME founders regarding their access to bank loan benefit. Therefore H5 hypothesis will be accepted. Following is the Welch-Brown-Forsythe test.

Table 12. Welch-Brown-Forsythe test results

	Statistic <sup>a</sup>	df1	df2	Sig.
Welch	11.856	4	7.637	.002
Brown-Forsythe	8.029	4	2.290	

The table above gives the results of the Welch-Brown-Forsythe test. Based on the level of significance Sig. 002 in the table for all groups by educational level of SME founders, it can be stated that there is a significant difference between the groups. According to these results it can be concluded: The difference between them is Sig level. .002, the graph shows that businesses with more advanced education owners have obtained more bank loans.

H6. There is no significant difference between the genders of SME founders regarding obtaining bank loans.

For the purpose of testing the sixth hypothesis, Independent-Samples T Test was used to investigate the difference between the two groups of averages. T-test determines whether the mean of one group is significantly different from the average of the other group.

Table 13. Description of the average results of SME owners by gender

		N	Mean	Std. Deviation	Std. Error Mean
Loan amount	Man	182	31370.330	81617.4861	6049.8906
	Women	33	71551.515	103706.3918	18052.9656

According to the results, the average of the 182 male participants is 31,370.33, and the average of the 33 female participants is 71,551.51. There is a significant difference between groups based on averages and standard deviation.

Table 14. Independent-Samples T Test Results

		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
Loan amount	Equal variances assumed	10.061	.002	-2.490	213	.014	-40181.1855	16139.3226
	Equal variances not assumed			-2.110	39.503	.041	-40181.1855	19039.7149

Even the Sig score ( $p = .002$ ) indicates that there is a significant difference between the averages of groups (value of Sig. Is less than 0.05 within the 95% confidence interval). In this way, it is concluded that the H6 hypothesis is rejected. According to the results of the analysis, it is clear that the gender of SME founders is also a determining factor in obtaining bank loans.

## 5. Conclusion and Recommendation

### 5.1 Conclusion

Based on the fact that small and medium-sized enterprises in the Republic of Kosovo are generators of economic development, it cannot be argued that they are currently facing insufficient financial resources, in particular start-ups. Challenges of SME financing in the Republic of Kosovo face difficulties in finding external funding sources also due to information asymmetry, which is a very common phenomenon between SMEs and financial institutions in Kosovo. The findings generated by the analytical section of the paper are summarized in the following conclusions:

- The first step in the growth and development of small and medium-sized enterprises and their easier access to external sources of financing is the necessity for the enterprise to have a business plan.



Supporting this conclusion lies in the fact that small and medium-sized enterprises have insufficient internal resources.

- Enterprises with positive business activity enterprises have managed to significantly reduce the most challenges to access to bank loans, so the profit SME's is significant factor for the growth and development of the enterprise under planned projections. The results show that businesses with higher net profits have benefited higher credit amounts from banking institutions in the Republic of Kosovo.
- By activity, the findings show that manufacturing enterprises are not sufficiently supported by bank loans compared to commercial and service enterprises. The data show that manufacturing enterprises are still challenged by financial constraints. From the results it is concluded that the access of commercial and service enterprises to bank finance is easier compared to manufacturing enterprises.
- The age of the enterprise demonstrates this dualism: young enterprises are faced with various barriers (turnover, history, collateral, guarantors) to accessing bank loans, although older firms are much more likely to obtain financial support from banks. Here are the opposite poles, where in the first case banks are reluctant to back new start-ups because they do not meet the bank's requirements. The second case is that older enterprises have internal own funds and reduce the demand for external sources of financing. From the results of the analysis, it is clear that more experienced businesses have benefited more from access to bank loans.
- Also the level of education of the business owner is a significant factor in bank credit support. According to the results of the analysis, it is clear that businesses with educational background owners have managed to benefit more easily bank loans from financial institutions. It is worth noting that the proportion of owner education with primary education compared to doctorate is 1/11.
- Gender owners of the enterprise compared with other variables shows that are significant in access to bank loans. According to the results of the analysis, it is clear that the gender of the SME founders is also a determining factor in obtaining bank loans. This implies that banks do not ignore the fact of what gender the owner is relying on other conditions, such as net profit, turnover, collateral, credit history.
- Enterprises in Kosovo are heterogeneous categories specifying the various properties they possess such as age, gender, activity. In addition, the environment in which businesses operate is facing a number of problems (the rule of law, inefficiency of the judiciary and the lack of an economic court).

### 5.2 Recommendation

Based on the theoretical review of the relevant literature on SME financing, as well as the results generated from the questionnaire addressed to SMEs in Kosovo, concrete recommendations can be made for a group of actors: policymakers, financial institutions, businesses, regulatory authorities etc. The following are specific recommendations:

- Policy makers and public institutions including the Central Bank of Kosovo should encourage various forms of incentives to financial institutions, to increase their investments in favor of the domestic financial market.
- To create conditions for additional financial incentives to encourage further investments of the Diaspora and foreign investors in terms of raising financial funds as a potential for the development of small and medium-sized enterprises in the Republic of Kosovo.
- To accelerate the initiatives to establish a Commercial Court that would urgently resolve the large number of untreated cases that have been in their archives for years.
- Governmental institutions and commercial banks will be organized in terms of reducing the barriers faced by enterprises and create a favorable environment that would support the enterprise, especially micro and small enterprises.
- Small and medium-sized enterprises in the Republic of Kosovo should focus on human resource development by working closely with educational institutions. Education and training of new staff will create sufficient space to significantly increase the opportunity for enterprise development and entrepreneurship in the country.

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