Kosovo Chamber of Commerce

For

European Union Office in Prishtina

Final report

Project reference 2017/385-630 “Assessment of the Needs of Micro and Small Enterprises in Kosovo”

Prishtina, August 2017
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Introduction
The EU seeks ways to support micro enterprises in order to make them contribute to economic growth and employment.

Rational
As in many economies, the micro and small enterprises represent the biggest sector in Kosovo. These are the most enterprises, in the grey and in the real economy. They employ the most employees, registered and not registered. Should the Kosovo economy grow, these enterprises have to be sustainable and grow. The successful transition from the micro or small sector into small or medium sector would contribute greatly to economic growth and increased employment. This survey focusses on the micro enterprises.

Enterprises in Kosovo suffer from the lack of technical capabilities, managerial competencies and skilled human resources. This is partly caused by the dramatic quality of the education system. (PISA results are an indication of this.) It also may have led to a focus on trade and trade related activities, and a low production base. The persisting structural problems that the economy faces have created a high-risk/low-return environment for businesses, negatively affecting firms’ investment decisions.

Without investments, the transition from micro to small will not be possible. However, for such expansion, there might be a nascent need for financing, be it formal and/or informal. This is an assumption, and the project will test the assumption, and will indicate ways on how to distribute funds in order to stimulate growth at the target group of micro enterprises.

However, care should be taken that projects to be financed have potential.

Background
Kosovo economy for some time now is having problems of taking off. One of the issues is a non-optimal stimulating entrepreneurship and another the business environment. The economy needs to shift from consumer driven to investment driven, thus stimulating employment growth, and in turn reduce poverty.

Employment can be generated mostly by the private sector. The private sector only does when it perceives that there are sufficient positive opportunities. These opportunities come from increased export or increased domestic sales. Both lead to increased production. Seen the high level of imports and low level of production, there is room to produce locally. (One of the authors of this report is strongly advocating
import substitution, perhaps with some infant industry protection, as a strategy as opposed to export stimulation. The Kosovo entrepreneurs are often not yet at a level to be able to enter the export arena.) As said by Economy professor, Musa Limani that the absence of economic policies has contributed to poor trade balance. "Kosovo does not have any production and the current policies have transformed us in a consuming economy. We import 80% of the goods from other countries. If the production is non-existent within an economy, then we cannot talk about economic development", said Limani.

As in other economies, the backbone of the Kosovo business community are micro and small enterprises; they are 98% of the number of businesses and employ more than half of the workers, and should one count grey and black, even more.

For economic growth, it is of paramount importance that enterprises grow from micro into small, and from small into medium. For this, entrepreneurship, qualified workers, and financial means are a few of the conditions. The latter, financing, is the topic under consideration.

Economic growth contributes as well to poverty alleviation. However, it is considered an additional effect, not a primary objective.

**Justification**

KCC has a wealth of experience in organising surveys, and in those surveys, KCC also incorporates micro enterprises. KCC visits the enterprises (applies face-to-face interview); it is not done through telephone or emails. This decreases the risk of false understanding and mistaken interpretation greatly.

KCC has done research. There is now a timeline of 17 quarters describing the business climate as perceived by the business sector. The business confidence over time is growing, and this is valid for all sectors and sizes. Further, there has been done a research, describing factors that hamper economic growth of enterprises. This study is titled “Paving the Way for Better Business in Kosovo”, subtitle “What are the growth obstacles for business in Kosovo?” This is now done for the third time. One of the more major factors is financing; the cost of capital and the availability. From the survey at the micro sector, and the stocktaking of financing institutions, KCC was be able to indicate key ways of delivering finance to the sector.

However, the micro and small scale sector must demonstrate the growth potential. Realising the shift from micro to small, and from small to medium has many positive effects, such as increases employment and improved management and entrepreneurship. Nevertheless, it is questionable whether micro and
small enterprises could finance that in a traditional way. As there is no reliable data, this study will provide an insight in the problem, and the initial solutions.

As condition for the choice of enterprises was that enterprises are registered and active. The number of not registered enterprises is big, more so for the micro enterprises. The non-registered were not considered, as the loans or grants would bear as condition registration.

**Approach**

- **Questionnaire design:**

  Kosovo Chamber of Commerce for the purpose of the project has developed three different questionnaires; the first one was for the micro and small sized companies (2 to 9 employees) and the second questionnaire was for the Banking sector, with minor adaptations for the Micro Finance Institutions, the third one. Questionnaires were designed based on the needs of the project and its aim was to identify gaps and scan the situation in the banking sector as well as the needs of the micro enterprises for loans. While asking enterprises for their business activity we were able also to understand the role they have in the national economic development through its components such as: employment, taxing system etc. From activity, it is easy to enter in the financing issue. Questions were combined: open and close questions, some of the questions were also multiple choice and also giving the opportunity to specify the issue.

- **Identify services provided by the banking sector:**

  Through this activity we were able to identify all the services provided by the banking sector from which micro and small enterprises benefit directly, especially regarding loans and granting system. There is a lot of information about functioning of the banking system in Kosovo. However, the business community is not very well informed and still needs specific details. By comparing the services and the needs of the micro and small enterprises in Kosovo, we were able to understand and measure the potential of the banking sector of Kosovo and facilities offered for the enterprises, to satisfy their nascent needs. In the last years, services have improved substantially, however, businesses still complain. Hence, this activity has helped us in clarifying the current situation of the banks as well as conclude whether there is still room for improvements.
• **Desk research:**

A lot of studies and researches have been made in the last years for the banking system and the issue of the cost of financing. Since 2013, KCC does a quarterly survey called “Business Climate Index”. In it KCC also reports on barriers. It is worth mentioning, specifically for this project, that it includes questions about the “cost of financing”, “high interest rates” and “lack of financial support”. This was a starting point for the desk research, aiming to identify what has been already done in this context and find out why businesses still mention the banking system and its services on top of the doing business barriers. Other relevant studies and reports were also reviewed during this activity.

• **Identify micro and small enterprises:**

After having a starting point, we have identified companies which we have afterwards interviewed for the purpose of the study. We have used our extensive data bank, and earlier experiences. For this activity, we have additionally contacted Tax Administration of Kosovo to share with us the needed information of the micro and small enterprises whom we have interviewed. Since as registered companies we have twice number compared to active companies, we have worked only with the companies that are registered, pay taxes and operate based on the law in force.

• **Identify banks and MFI:**

Since we already knew all the banks in Kosovo we didn’t face any particular problem, considering also the fact that the Banking Association of Kosovo is a member of KCC and also a member of the Steering Committee. Out of 9 operating banks, only one of the banks did not arrange a meeting with us. The MFI’s are bigger in number but also not that big. A number of the recognized most active have been visited, others have been sent the questionnaire. The results can be found in the annex.

• **Sampling size:**

Sampling was done based on the needs of the European Commission and the target. Over 100 companies of different profiles were interviewed, please find the description in the annex. The available time limited the number.
• **Data collection:**
  10 people were engaged for the data collection, divided in regions. 6 people (one per region) were engaged for Gjakova, Peja, Ferizaj, Gjilan, Mitrovice and Prizren, where KCC has regional offices. 3 people were interviewing in Prishtina region, taking into consideration that most of the companies are located in Prishtina region. Data collection took 3 weeks, considering technical conditions.

• **Data entry:**
  We started entering the data at the time we had first questionnaires from the field, and data entry timing was 5 working days (after the total number of questionnaires was collected). The data were entered and analysed in SPSS software.

• **Data interpretation:**
  Data analysing and interpretation took 5 working days, including graphs, tables and appendixes.

• **Financing modalities:**
  During the time of gathering information, and after the interview with banks, time was allocated to find inspired modalities on the delivery of grants and/or loans.

• **Draft report:**
  Two more weeks were needed to finalize the report and sent as a draft to European Commission representatives. The report was prepared in English version. In the discussion additional requirements were formulated, which took additional time.
**Instrument for deliveries**

The objective is to stimulate micro and small enterprises to grow, realise larger sales, increase profitability, enlarge the portfolio, invest back in the enterprise and thus generate employment.

It is assumed that micro and small enterprises encounter difficulties of different nature, especially financial, that hinders them to easy realise the next step in their growth pattern. These enterprises are often financed in a more non-bank way, through savings, family participation, decreasing working capital, non-payment of bills, trading in kind, and more. As microfinance is about more than safeguarding employment, choosing potentially successful micro-enterprises with the potential to create jobs is often not the primary concern when local financial institutions grant loans. Microfinance does, however, stimulate the entrepreneurial activity of borrowers. This has been proven in individual studies for developing countries. Yet, banks remain a major source of financing, and micro finance institutions, despite there number of outstanding loans, remained unmentioned in the interviews.

Microfinance is oriented to provide financial services to the poor people and low income people, such as loans, savings, insurance, money transfer, etc. and also microcredit loans. Banks differ from this. Microfinance institutions could be particularly suitable for this economic sector, since they might operate with efficient organization and credit analysis methods for informal enterprises (no proper accounting system, balance sheets or traditional collateral are requested). Our interviews however did not confirm this. It did confirm a tendency towards the agricultural sector; not the sector for which the grant would be designed.

Subsistence enterprises often are started by an individual entrepreneur as self-employment to safeguard his own livelihood. Such 'enterprises' are often not registered and tightly connected to his household. These entrepreneurs survive through various activities including micro entrepreneurialism, day work and money sent home by diaspora working abroad. These remittances are often important for the enterprise. As self-employed they know several constraints, and are not able or willing to grow. Thus, they do not create additional jobs, certainly not beyond the family. However, many of informal micro-entrepreneurs have an amazingly high productive potential which, however, requires targeted development in order to be realized. Even when successful, self-employed micro-entrepreneurs only sometimes develop into small or medium sized enterprises having created jobs and demonstrating growth.
Then there are entrepreneurs who have an achievement level beyond subsistence level. Entrepreneurs who strive and realize the jump from micro to small or from small to medium (the jump from subsistence to growth) are of a different breed, relative to subsistence entrepreneurs. They manage their enterprise with a view to growth and create additional jobs within that enterprise and beyond the family. Innovation may be expected. Realizing sales is a strong drive, if not motivator. They are more dynamic entrepreneurs whose enterprises tend to develop into businesses with a relatively steady course of growth. Those micro-enterprises wishing to grow, however, often do not have access to the necessary external financing. It is these enterprises we would like to identify, and check whether their projects are promising. The decisive forces when it comes to the creation of jobs for dependent employees do seem to come more from the sector of innovative small and medium-sized enterprises and the large-scale enterprise sector, i.e. the formal sector.

The project aims at making available finance for a set of enterprises, through a grant, thus facilitating growth. These enterprises are considered promising for growth and realizing the next step, and of which it is evident that the lack of finance limits their possibility to make that next step. Nevertheless, the key point is determining the quality of the project as well as the personality of the entrepreneur. It encompasses as well the philosophy and the processes. In absence of a good project and a good entrepreneur, finance will not make an impact. A delivery system that will bring results will have to address this reality. Unfortunately, Kosovo micro entrepreneurs are not yet recognised as mature. Of course, it will be possible to identify a good number of projects that are good quality in itself as well as benefiting of a quality entrepreneur, but it is of paramount importance to incorporate these considerations within the selection process.

In order to increase the number of qualified investment possibilities, it is envisaged to design guidance measures next to the entrepreneur. This generates possibilities to increase the number of successful projects. On the other hand, it should be avoided that such guidance pampers the entrepreneur to a too high degree. It is after all his perseverance that will make a success. Hence, the consultancy and training guidance needs to be measured. There are known cases in which the supporting measures became too important, or almost a goal in itself.

Another important point is the interest rate. MFI interest rate could be as high as 20%, banks could charge between 5% and 8%, entrepreneurs find actual interest rates too high, and suggest that 3% would be acceptable, and a grant could offer 0%.

In our opinion, good projects should be able to carry interest. Goods or money that carry no price and are free of charge bear the possibility to be considered of no value, worthless.
Free of charge means cheap money. For an individual entrepreneur, cheap money may be helpful. From a macro-economic point of view the amount of the grant under discussion is considered too small to be of influence.

Combining the grant with some credit insurance might result in convincing the bank to engage in a 3% interest charge to the micro entrepreneur.

In case of a grant, contact possibilities are less. In case of a loan, there is always a reason for a contact. The above-mentioned considerations seem to indicate that loans would be preferable over grants.

A last topic is the choice for the delivery organisation. The MFI’s were not mentioned at all in the interviews, while banks were in most cases. While interviewing the MFI’s, they mentioned a good number of loans, though many agricultural and for the informal sector. The interest rates were also considerable higher than at the banks. Both do have collection systems in place, though this is not important in case of a grant.

A bank, willing to address the sector of micro enterprises, and to enhance their proportion in the portfolio, next to a not too conservative look at the role of a bank, would be a good choice. We have encountered a bank that could consider supporting enterprises as well though non-financial measures, like counselling, consultancy, training. Whether such support should be subcontracted or done through cooperation agreements was not discussed. Nevertheless, cooperation with KCC was welcomed.

This being said, there is need for the participating enterprise to demonstrate its capacity for growth, to make the next step. A possibility to do that is to prepare and present a comprehensive business plan, composed out of an operating plan, a development plan and an investment plan. It is understood that many micro and small enterprises need assistance to prepare such comprehensive plan. Once the plan is ready, it needs to be evaluated, and presented for disbursement of the grant component. (It is envisaged that the average amount will be around 5,000€: assistance should be measured to that.) After disbursement, there is a need for monitoring and, when needed, counselling and training, as to assure optimum results. Close monitoring will assure that appropriate supporting mechanism will be offered in time, and when needed.

Disbursement and administration are then only a part in the total process.

Hence, components for the assistance to growth enterprises are
- The grant scheme
- The availability of a format for business plan
- Assistance regarding composing such a plan
- Assessment of the plans produced
- Allocation scheme for grants
- Disbursement authority
- Monitoring authority, with documents of disbursement and business plan
- Guidance through counselling, including weekly or two weekly contact moments to monitor progress
- Training/consultancy authority
- Through contacts, determine further need for training and/or counselling
- Introduce the case to the training/consultancy authority
- Administration of grants, with warning points when implementation engages in non-agreed activities
- Correcting measures

The bottleneck study as well as the survey regarding the analysis of needs and/or opportunities for micro and small enterprises provided us with a set of potential enterprises. These promising enterprises could be provided the possibility to compose a business plan. The composition of the business plan assists in formulating the business future.

When applying for a loan or in a grant, it is important to know that the enterprises understand what to provide and what lenders are looking for. Think of the application as a sales tool, just like brochures or ads. As a matter of fact, the composed business plan can function like that. It can proof to the customer or business contact seriousness and the outlook at the future. It is a strong and convincing instrument. When put together with the right combination of facts and figures, the application will sell to the lender on the short- and long-term profit potential of lending money to the enterprise. Likewise, specific business contacts can be convinced to choose the enterprise as the partner. To do that, the application must convince the lender that the enterprise is sufficient profitable to pay back the loan as promised and that the managerial ability will result in a profit-making partnership; this even though it involves a grant, as the granting authority will likewise need to be convinced.

Banks are in the money-lending business, and risk minimisation. Consultants and monitors are in optimising performance, and taking risk can be part. Risk avoiding is not so much a good entrepreneurial characteristic. Thus, combining the two makes sense.
To lend money, banks need evidence of security and stability. The business plan, as well as the credit history can provide this compelling evidence. Next to that, a bank has its own expertise which will be used to complement the monitoring agency.

Within the business plan, 3 aspects are of importance:

- An operational plan (electricity, labour etc.),
- A development plan (for the workforce, or management etc.)
- An investment plan (equipment; from the grant)

The grant or loan might be used especially for the investment financing. However, investment does not stand on its own.

KCC has already started implementing the online business plan platform which has its approval by the Minister of the Ministry of Trade and Industry of Kosovo to be accepted as a national format for business plan development. As foreseen in the future activities of this project, KCC will establish a new business plan and counselling unit. This new KCC business plan and counselling unit, will be a supporting mechanism to the EU project and other international organizations. KCC will identify the businesses that need financial support to further business development which facilitates identification process for grants by any donor/international organisation. The overall idea is by increasing cooperation between KCC and EU Office, to facilitate and identify businesses in need which also show potential for development, and distribute grants or provide them with any other financial support.

The assessment can lead to disbursement; disbursement either through the new unit or through a bank, MFI or through the EU office; preferred is a cooperating bank. The earlier bank interviews have indicated that there is a nascent interest within banks for such role. The new KCC unit does frequent follow up visits (once a month) for monitoring and for assessing he need for ad hoc training and/or counselling. The new unit does the counselling or outsources it.
Data analysing

Kosovo Chamber of Commerce for the purpose of the project has interviewed 100 micro and small enterprises.

<table>
<thead>
<tr>
<th>What is the size of your company (employees)?</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-9 employees</td>
<td>52</td>
<td>52.0</td>
<td>52.0</td>
<td>52.0</td>
</tr>
<tr>
<td>10-24 employees</td>
<td>25</td>
<td>25.0</td>
<td>25.0</td>
<td>77.0</td>
</tr>
<tr>
<td>25-49 employees</td>
<td>23</td>
<td>23.0</td>
<td>23.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

KCC has selected the companies which were interviewed based on the Tax Administration Database, aiming to involve companies that are active and formal. Below is the composition of the sectors in the study.

<table>
<thead>
<tr>
<th>Sectors interviewed</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>10</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>29</td>
</tr>
<tr>
<td>Metal industry</td>
<td>7</td>
</tr>
<tr>
<td>Services</td>
<td>19</td>
</tr>
<tr>
<td>Textile</td>
<td>10</td>
</tr>
<tr>
<td>Tourism</td>
<td>16</td>
</tr>
<tr>
<td>Trade</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

When asked what the main source of financing their businesses were, enterprises have mentioned to have been own savings. Situation varies from one category to another. Companies belonging to the category between 10-24 employees for about 88% have declared to have used their own savings in establishing the company.

A loan bank did not pay a significant role in company establishment.
Loan from a family member has played more significant role, from the category of employees between 1-9, about 35% have stated they have used family loan for company funding, about 28% of the companies of the category between 10-24 employees and around 22% have used the family loans from the category of 24-49 employees.

Loan from friends is not a popular method of company funding. From the survey we can conclude that this was not among the instruments used to establish companies.

Micro and small enterprises have not used informal lender to finance their enterprises. Only 4% of the companies used informal lender to establish their companies.

Challenges vary for difference size of the companies. Below are presented the percentages for different business activities considered as challenging for enterprises. Among the barriers, finding customers is mentioned quite a lot. For the category between
10-24 employees this seems to be a bigger barrier.

Same as for finding customer, in regard to the competition as a barrier small companies have bigger barriers.

Cost of production is a sensitive barrier, not only for larger companies, but also for micro and small. From the opinion of the interviewed enterprises we can see that Kosovar companies are still facing production cost as a barrier which automatically makes them less competitive.

Tax system is also causing problems to micro and small enterprises. Micro companies seem to suffer less from the taxing system, mostly because of the less business activities they have and also lower number of employees.
Shortage of cash is considered among the biggest obstacles. The percentage is about the same in all business activities, however considering the fact that they represent about 98% of Kosovo enterprises.

A considerable differentiation we can see under this business activity. Finding skilled workers in Kosovo

Access to finance is considered a major obstacle for small sized companies.

Growth is a problem for all classes of the companies, somehow less influential is for micro enterprises.

Kosovo micro and small enterprises are still facing difficulties in approaching regional markets. This may be exclusively due to the lack of capability to compete with the
products/services. Kosovar micro and small sized-companies have ranked among the biggest barrier access to foreign markets/exports.

When asked about employment trends, small companies stated that they had increased the number of employees in the last years for about 83%. On the other side, a small percentage of the interviewed companies have stated that the number of employees has been decreased.

Those 83% of the companies that highlighted the increased number of employees, belong mostly to the first category, respectively the highest percentage of increase stands between 1-3 employees, followed by the category between 4-8 employees.

Companies mentioning deterioration in number of employees belong to the size of the companies between 10-24 employees.
Companies participating in the survey share different experiences in regard to skilled workforce. Micro enterprises stated that it was difficult to find skilled workers for about 57%.

Micro and small companies highlighted the needs for specific trainings. The needs are mostly highlighted for the small sized companies.

Based on the opinion of the companies interviewed, all categories of the enterprises have invested in professional development of their employees. The percentage is somewhat higher for small sized ones.

When asked about their formal participation in the market, about all of the companies mentioned their employees are all registered. Only 6% of the companies of micro size class said their employees are not all registered.

Micro companies participating in exports are very small in percentage, only about 16% of the
interviewed micro sized companies export in the regional and international market. The percentage is higher for the small sized enterprises.

Considering the low export performance, the surveyed companies emphasized higher percentage on imports compared to exports.

As mentioned in the last years and on regular annual reports from different sources, Kosovo enterprises consider interest rates to be very high. Only 2% of the total number of interviewed companies said that interest rates are not high. Banking sector keeps the trend of interest rates high, due to the high risks.

About 34% of the micro enterprises have applied for a loan at least 2-3 times. From the survey we found that in total of the categories interviewed, micro enterprises seem to apply more for loans.

Rejections from the banks for a loan to the companies in percentage are not so high,
however, about 21% of the micro sized companies have been rejected at least one time from a bank; 13% of them has been rejected for 2-3 times and around 3% of loan application from micro enterprises has been rejected for more than 6 times.

43% of the micro enterprises have declared to be ready to enter the formal economy if there would be a financial incentive. About 79% of the total number of interviewed enterprises stated they are currently in the formal market.

In general, more than 80% of the micro and small enterprises said they need additional funding for their businesses. The percentage is somewhat higher for small sized companies.

Companies stating they would need additional funds, answered they will consider banks to finance their business activities. 64% of micro enterprises will consider banks for a loan followed by 79% of the category between 10-24
employees and 90% of the companies between 25-49 employees.

Family/friends support is mostly considered by micro enterprises as a possible instrument to finance their business.

Informal lender is not at all an option for additional funding from micro and small enterprises. Few companies have mentioned this instrument to be an option.

Even though diaspora is positively influencing Kosovo economy, micro and small companies do not consider it as an opportunity for additional funding's.
Delaying payment of bills and other expenses is also not an instrument which will be used by enterprises to finance their businesses.

About 37% of micro enterprises will use the additional funding’s to maintain current business situation. The percentage is somewhat lower for small enterprises.

Companies will use mostly additional funding to increase their businesses. Around 70% of micro companies are considering this as an option to increase their businesses and about 92% of the small enterprises.

76% of the micro companies consider their products/services to be competitive enough to the regional and international markets. The percentage is smaller for small-sized companies.
In order to increase their quality of products/services and competitiveness Kosovar enterprises are considering different options. Below are the percentages highlight:

Enterprises are mostly considering a loan from a bank to help them increase quality and performance.

Specific trainings are also an instrument which enterprises are considering to use to improve themselves. Even though the percentage is not very high for micro enterprises, they still seek for employees’ development.
Small sized enterprises expect the grant scheme to help them increase their quality of the products/services. Micro enterprises expect less benefits in this context.

Additional equipment’s are considered as an instrument to increase productivity, especially for small sized companies.

When asked if the enterprises are certified, more than 90% of all, micro and small enterprises confirmed to be certified.

Companies also declared to apply standards. Less than 20% of the interviewed enterprises don’t use standards.

Aiming to get to the information whether the enterprises are interested to follow-up activities from this project, KCC asked about their willing.
A considerable percentage of the companies would like to be informed about the possibilities.

More than half of the micro enterprises interviewed declared that turnover in the last three years remained unchanged. Small sized companies reported their turnover to have been increased.

When asked in details about the percentage of increased turnover, micro enterprises reported 64% increase in turnover for more than 15%. Small sized enterprises have also increased their turnover quite substantially.
Business barriers for 2016:

Kosovo Chamber of Commerce is publishing on annual basis since the year 2014 the data on business barriers in Kosovo, the report “Paving the way for a better business in Kosovo”. This research is done among over 500 enterprises, from small to large. Below will be added some relevant data of the above-mentioned report of KCC (2017, around 300 micro and small enterprises), whose purpose is also to identify the needs of micro enterprises and small enterprises. For the purpose of this report, the results have been reworked for only micro and small enterprises.

Economic obstacles:

<table>
<thead>
<tr>
<th>Economic obstacles</th>
<th>Micro</th>
<th>Small</th>
</tr>
</thead>
<tbody>
<tr>
<td>insufficient demand</td>
<td>63.76%</td>
<td>67.37%</td>
</tr>
<tr>
<td>unfair competition by grey economy</td>
<td>63.76%</td>
<td>67.37%</td>
</tr>
<tr>
<td>high interest rate</td>
<td>62.01%</td>
<td>63.16%</td>
</tr>
<tr>
<td>customers do not pay on time</td>
<td>61.23%</td>
<td>61.29%</td>
</tr>
<tr>
<td>liquidity problems</td>
<td>50.22%</td>
<td>60.64%</td>
</tr>
<tr>
<td>lack of qualified staff</td>
<td>48.00%</td>
<td>55.32%</td>
</tr>
<tr>
<td>lack of capacity and equipment</td>
<td>47.11%</td>
<td>54.35%</td>
</tr>
<tr>
<td>other</td>
<td>47.09%</td>
<td>43.48%</td>
</tr>
<tr>
<td>usage of company money for personal purposes</td>
<td>35.56%</td>
<td>34.74%</td>
</tr>
</tbody>
</table>

Administrative obstacles:

<table>
<thead>
<tr>
<th>Administrative obstacles</th>
<th>Micro</th>
<th>Small</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax system (e.g. rates, administration, procedures)</td>
<td>54.95%</td>
<td>63.83%</td>
</tr>
<tr>
<td>adequate laws</td>
<td>52.51%</td>
<td>63.83%</td>
</tr>
<tr>
<td>Legal environment (e.g enforcing contracts)</td>
<td>48.18%</td>
<td>56.67%</td>
</tr>
<tr>
<td>Other administrative or regulatory issues</td>
<td>42.72%</td>
<td>56.38%</td>
</tr>
<tr>
<td>Customs regulations, procedures, bureaucracy</td>
<td>41.26%</td>
<td>50.54%</td>
</tr>
<tr>
<td>import/export licenses</td>
<td>33.93%</td>
<td>48.39%</td>
</tr>
<tr>
<td>high cost for quality standards</td>
<td>33.49%</td>
<td>45.65%</td>
</tr>
<tr>
<td>protection of intellectual property rights</td>
<td>31.51%</td>
<td>34.74%</td>
</tr>
<tr>
<td>Business registration</td>
<td>31.14%</td>
<td>34.04%</td>
</tr>
<tr>
<td>construction permits</td>
<td>29.33%</td>
<td>33.68%</td>
</tr>
<tr>
<td>access to land</td>
<td>23.66%</td>
<td>33.33%</td>
</tr>
</tbody>
</table>
**Infrastructure obstacles:**

<table>
<thead>
<tr>
<th>Infrastructure obstacles</th>
<th>Micro</th>
<th>Small</th>
</tr>
</thead>
<tbody>
<tr>
<td>cost of electricity</td>
<td>77.19%</td>
<td>84.21%</td>
</tr>
<tr>
<td>reliability of electricity</td>
<td>74.01%</td>
<td>81.05%</td>
</tr>
<tr>
<td>political instability</td>
<td>58.77%</td>
<td>61.05%</td>
</tr>
<tr>
<td>corruption</td>
<td>52.63%</td>
<td>58.95%</td>
</tr>
<tr>
<td>Other infrastructure or general issues</td>
<td>51.14%</td>
<td>58.24%</td>
</tr>
<tr>
<td>Crime (e.g. theft, robbery, vandalism)</td>
<td>49.12%</td>
<td>57.45%</td>
</tr>
<tr>
<td>cost of water supply</td>
<td>49.12%</td>
<td>54.74%</td>
</tr>
<tr>
<td>transport</td>
<td>43.30%</td>
<td>50.53%</td>
</tr>
</tbody>
</table>

**Internal factors within companies:**

<table>
<thead>
<tr>
<th>Internal factors</th>
<th>Micro</th>
<th>Small</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability is too low</td>
<td>62.67%</td>
<td>70.53%</td>
</tr>
<tr>
<td>Quality of products/services is often not competitive</td>
<td>59.03%</td>
<td>64.21%</td>
</tr>
<tr>
<td>Financial reporting is underdeveloped</td>
<td>54.63%</td>
<td>55.79%</td>
</tr>
<tr>
<td>No adequate business planning is installed</td>
<td>39.65%</td>
<td>46.81%</td>
</tr>
<tr>
<td>Not enough investment in training of own staff</td>
<td>39.11%</td>
<td>44.21%</td>
</tr>
<tr>
<td>Lack of distribution channels</td>
<td>34.82%</td>
<td>41.05%</td>
</tr>
</tbody>
</table>

**Other barriers Kosovar enterprises are facing:**

<table>
<thead>
<tr>
<th>Other barriers</th>
<th>Micro</th>
<th>Small</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are these subsidies exploitable and business development oriented?</td>
<td>49.55%</td>
<td>61.80%</td>
</tr>
<tr>
<td>Do you think that subsidies / grants for the support and development of businesses are transparent?</td>
<td>16.67%</td>
<td>31.18%</td>
</tr>
<tr>
<td>Kosovo businesses do they have enough support for licensing, standardization and conformity assessment?</td>
<td>15.63%</td>
<td>24.44%</td>
</tr>
<tr>
<td>Did you benefit from this grants/subsidies?</td>
<td>5.68%</td>
<td>15.22%</td>
</tr>
</tbody>
</table>

KCC in the annual report has also asked enterprises for their investments plans for this year (2017). Below are percentages and dimensions micro and small enterprises consider to invest for this year.

**Investments plan for 2017**

<table>
<thead>
<tr>
<th>Investment planned for 2017 will mainly be of the following kind?</th>
<th>Micro</th>
<th>Small</th>
</tr>
</thead>
<tbody>
<tr>
<td>Replacement of old equipment, modernizing existing assets</td>
<td>43.86%</td>
<td>41.05%</td>
</tr>
<tr>
<td>Expansion of production line/existing services</td>
<td>27.07%</td>
<td>29.47%</td>
</tr>
<tr>
<td>new fields of production/services</td>
<td>10.48%</td>
<td>24.21%</td>
</tr>
<tr>
<td>modernize production/services</td>
<td>10.04%</td>
<td>11.58%</td>
</tr>
<tr>
<td>control of air pollution, safety</td>
<td>3.49%</td>
<td>3.16%</td>
</tr>
</tbody>
</table>
Data analysis for the Banking and Micro financial institutions

Bank data analysing

Kosovo banking system is performing very well. The overall portfolio is very favourable.

Even the micro and small enterprises portfolio is very representative for the private sector in Kosovo. One of the banks declared that the do not have micro clients, the bank is corporate enterprise oriented.

5 out of 7 interviewed banks declared they are divided over the sectors.

While asking for attractive packages about 57% of the banks said they have very attractive packages for their clients. In the meantime about 29% mentioned the necessity and the fact that they are considering to have them in near future.
About 57% of the banks said the personality of the entrepreneur and its behavior is very important. Only 14% said it was not a relevant indicator.

Interest rate is mostly based interest, risk and administration.
Banks have about the same conditions to lend to micro and small enterprises. Mostly highlighted conditions were: personality of entrepreneur, quality of project, collateral, history of the client, etc.

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market research</td>
<td>86%</td>
</tr>
<tr>
<td>Counselling</td>
<td>86%</td>
</tr>
<tr>
<td>Trainings</td>
<td>100%</td>
</tr>
<tr>
<td>Franchise</td>
<td>86%</td>
</tr>
<tr>
<td>Factoring</td>
<td>100%</td>
</tr>
<tr>
<td>Micro credit</td>
<td>71%</td>
</tr>
<tr>
<td>Documents</td>
<td>100%</td>
</tr>
<tr>
<td>Life insurance</td>
<td>86%</td>
</tr>
<tr>
<td>Mortgage</td>
<td>100%</td>
</tr>
<tr>
<td>Credit rate</td>
<td>71%</td>
</tr>
<tr>
<td>Business plan</td>
<td>100%</td>
</tr>
<tr>
<td>Internal rate of return</td>
<td>43%</td>
</tr>
<tr>
<td>Payback period</td>
<td>71%</td>
</tr>
<tr>
<td>History in relation between entrepreneur and the bank</td>
<td>100%</td>
</tr>
<tr>
<td>Guarantees</td>
<td>86%</td>
</tr>
<tr>
<td>Deposits or collateral</td>
<td>100%</td>
</tr>
<tr>
<td>Quality of project</td>
<td>100%</td>
</tr>
<tr>
<td>Personality of entrepreneur</td>
<td>100%</td>
</tr>
</tbody>
</table>
Interest rates vary from a bank to another, also banks apply different interest rates for different clients and nature of the project. Basically the interest rates applied from banks vary between 6-10%.

<table>
<thead>
<tr>
<th>Banks</th>
<th>What is the interest rate in percentage, for micro and small?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank 1</td>
<td>8-10%</td>
</tr>
<tr>
<td>Bank 2</td>
<td>The interest rate varies from the requested amount</td>
</tr>
<tr>
<td>Bank 3</td>
<td>6.60%</td>
</tr>
<tr>
<td>Bank 4</td>
<td>6%</td>
</tr>
<tr>
<td>Bank 5</td>
<td>The interest rate varies from the requested amount</td>
</tr>
<tr>
<td>Bank 6</td>
<td>The interest rate varies from the requested amount</td>
</tr>
<tr>
<td>Bank 7</td>
<td>8-10%</td>
</tr>
</tbody>
</table>

The default rate by the bank side is mentioned to be under the legal scope, respectively being not very high. Only one of the banks has declared to have a considerable default rate of about 12%.

Mostly banks visit companies once a year, 29% of them visit their clients 2-3 times a year, and only 14 percent of the banks decide to visit clients periodically.
More than half of the banks do provide additional services, those services are usually provided during the meeting they have when they visit businesses.

60 percent of interviewed banks do ask spouse to be a co-applicant when they decide to lend to micro and small companies, 40 percent of the banks do not consider relevant to ask client for spouse to be a co-applicant.

It seems that for most of the banks registration date is not a determinant factor to approve a loan. Only for 14 percent of them it is a crucial factor to lend to micro and small enterprises.

All the banks do analyses the loan according to sectors.
Microfinance data analysing

Most of the microfinance institution in Kosovo are NGOs, only two of the interviewed MFIs were registered as companies.

It seems that microfinance institutions have a significant role in supporting micro and small company development, through access to finance.

From the interviewed MFIs, 67 percent of microfinance are financed from investors and 33 percent of them from donor.

5 out of 6 interviewed MFIs divide their loans through sectors. Only one of them prefer not to divide.
More than 60 percent of MFI’s offer attractive packages for their clients aiming to satisfy their needs.

Interest rate composition of MFIs is applied from 50% of the interviewed MFIs in composing the interest rates, 83% administration and 68% risk compensation.

Personality of entrepreneur is a key factor to issue a loan for MFIs, half of them said that it is very important for them.
In comparison with banks, default rate of MFIs is lower, it seems that microfinance has less non-performing loans. 33 percent of them have 1.5% default rate from total portfolio.

All MFIs said that they visit their clients to offer them support and to request feedbacks from them.

Half of them visit their clients at least once a year, 33 percent from three times and more and 17 percent at least twice a year.

When asked whether micro financial institutions do provide additional services, about 67% of the interviewed MFIs declared “YES”. On the other side 33 percent stated that they do not provide additional support/services.
For about 67 percent of the interviewed micro-financial institutions registration date is not a significant indicator to lend to micro and small enterprises.

As a non-significant indicator is also as co-applicant to be the spouse.

As for the banking sector, MFIs as well analyse loans according to sectors.
Regarding the criteria’s which are mostly applied by MFIs to lend to micro and small enterprises, personality of entrepreneur, guarantees, internal rate of return and history relation between the client and the MFI, play key role in approval.
<table>
<thead>
<tr>
<th>ADVANTAGES OF TWO FINANCING WAYS</th>
<th>DISADVANTAGES OF TWO FINANCING WAYS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing businesses in direct way from grants</td>
<td>Less opportunity to nepotism influence in supporting enterprises;</td>
</tr>
<tr>
<td>Possibility of donors to select by itself businesses, to meet them directly and to give a significant role to the enterprises who are experienced and have good performance during the years;</td>
<td></td>
</tr>
<tr>
<td>Select enterprises with multi-ethnic owner;</td>
<td>Reduction of financing costs;</td>
</tr>
<tr>
<td>Sectorial selection from which we can create an “absolute advantage” such as in the sectors of services(^1) especially in IT and tourism, textile production, wood processing, metal processing, trade, etc.;</td>
<td>Stimulate enterprises to join formal economy;</td>
</tr>
<tr>
<td>To create opportunities to enterprises to reinvest the profit to the company rather than to return to the bank as a part of payment of loans;</td>
<td>Stimulate enterprises to become more professional in accounting;</td>
</tr>
<tr>
<td>Companies have no obligation to pay fixed costs;</td>
<td>Increase competitiveness;</td>
</tr>
<tr>
<td>Direct monitoring of business performance during the granting period;</td>
<td>Ask for progress;</td>
</tr>
<tr>
<td>Ask for progress; motivate enterprises to increase performance in order to meet the requirements to apply for a grant;</td>
<td>Motivate enterprises to increase performance in order to meet the requirements to apply for a loan;</td>
</tr>
<tr>
<td>Possibility to help women owned businesses in increasing market share during company selection;</td>
<td></td>
</tr>
<tr>
<td>Stimulate enterprises to join formal economy;</td>
<td></td>
</tr>
<tr>
<td>Stimulate enterprises to become more active;</td>
<td></td>
</tr>
<tr>
<td>Stimulate enterprises to become more professional in accounting;</td>
<td></td>
</tr>
<tr>
<td>Increase companies performance and have opportunity to invest in new production lines/services;</td>
<td></td>
</tr>
<tr>
<td>Employment generation;</td>
<td></td>
</tr>
<tr>
<td>Increase competitiveness;</td>
<td></td>
</tr>
</tbody>
</table>

**DISADVANTAGES OF TWO FINANCING WAYS**

- Nepotism;
- Misuse of money;
- Might influence enterprises to be passive;
- More stimulation (and support) to banking sector than other business sector\(^2\);
- Short term influence in businesses;
- Possibility that banks can select their permanent clients to approve a loan;
- Limited business motivation (due to its limited impact in macroeconomic term);

---

\(^1\) The reason we propose investments in services sector is because the costs of technology and human resources are lower compared to other sectors and does not require much money for this sector to develop, the effects of which will be noticed in the present and future.

\(^2\) By financing interest rates, we fair that the banking sector (which is currently the best performing sector with the highest profit in Kosovo) is more likely to benefit from this scheme than other sectors. Through this supporting instrument we see more possibilities in increasing banking sector activity rather than micro and small enterprises business activity of different profiles.
Conclusions

Kosovo Chamber of Commerce for the purposes of the project requested by the European Union Office in Prishtina has interviewed 100 companies; 7 operating banks and 6 micro financial institution.

Entrepreneurship in Kosovo shows signs of ‘not yet mature’. Non-subsistence entrepreneurs tend to be formal, and within the group one can find entrepreneurs showing potential.

From the survey with the enterprises, small sized companies have declared to have the biggest challenges compared to micro and medium companies. 43% of medium enterprises have difficulties in finding skilled staff and experienced managers; 44% of the small enterprises rank “production cost” as their biggest challenge; and 33% of the micro enterprises said their biggest barrier is to find costumers.

In regard to employment, 62% of the micro enterprises in the last three years kept the same number of employees, which shows that their business activity has also remained in the same level (did not significantly develop). In the other side 64% of the interviewed enterprises of small sized have increased the number of employees in the last three years. Companies of this category that have increased the number of employees was mostly between 1-3 new people in the last years.

When it comes to investing in professional development in human resources, small enterprises somehow have invested more compared to micro enterprises, however, in general terms investments in human professional development is not significant. Even though they did not invest in HR, about 67% of small sized companies mentioned the necessity for a specific training for their staff.

Kosovo companies need additional financing support. It was highlighted by all company categories that they lack financial stimulation/support. Those companies that mentioned the need for additional funding, said that they would use it to increase their business (69% micro size; 92% small sized companies; 91% medium sized), more than to maintain current business situation.

Small and especially micro enterprises have difficulties in accessing international markets, only 16% of micro enterprises participating in the survey declared to export in foreign markets.

Small sized enterprises expect the grant scheme to help them increase their quality of the products/services. Micro enterprises expect less benefits in this context.

Banks operating in Kosovo declared they have special packages for micro and small enterprises (about 57%) and 29% said they will consider to have additional and attractive packages for micro and small
enterprises in the near future. Some of the interviewed banks were more focused to lend to larger companies, whereas two of the operating banks were corporate oriented.

Micro and small enterprises at the beginning were mostly established by own savings. Further to this finding, we suggest another financial source to be available for start-ups. Enterprises interviewed for this project were operating and active at least for the last three years and their main obstacle since the beginning of their businesses were lack of financial means and difficulties to access to finance.

Interest rates vary from a bank to another, also banks apply different interest rates for different clients and nature of the project. Basically the interest rates applied from banks vary between 6-10%.

Most of the microfinance institution in Kosovo are NGOs, only two of the interviewed MFIs were registered as companies. Microfinance institutions are not well recognized within the enterprises on which the future project would wish to focus. From the feedback, we understand that micro financial institutions are a significant financial resource for micro and small enterprises of the informal sector. Also, the interest rates applied when financed businesses are too high. Microfinance institutions, unlike banks, do not pretend to force micro and small enterprises to enter to the formal economy.

In comparison with banks, default rate of MFIs is lower, it seems that microfinance has less non-performing loans. 33 percent of them have 1.5% default rate from total portfolio.

For both banks and microfinance “personality of entrepreneur” is the key condition to lend to micro and small enterprises.

Rejections from the banks for a loan to the companies in percentage are not so high, however, about 21% of the micro sized companies have been rejected at least one time from a bank; 13% of them have been rejected for 2-3 times and around 3% of loan application from micro enterprises have been rejected for more than 6 times.

Registration date for banks, is a significant factor to approve a loan, from which we can conclude that they attempt to lend more to experienced and structured enterprises. On contrary microfinance institutions do not give attention to this factor.

Based on these findings we conclude that banks are mostly supporting micro and small enterprises of the formal economy in Kosovo, whereas microfinance institutions are considerably financing non formal enterprises.
Recommendations

Since KCC will establish a new business plan and counselling unit, which vision is to support businesses in developing a proper and professional business plan, to provide training modules to enterprises to increase their potentials and capacities, we see potential for a fruitful cooperation in implementation of both projects, aiming to support micro and small enterprises for future development. In this context, KCC will have access to micro small businesses, will recognize their potential and development plans, as the core activities that the European Commission needs for distribution of grants. Therefore, we recommend institutional co-operation between the European Commission and Kosovo Chamber of Commerce in the implementation of these two projects.

Before approving a grant or a loan require (as key criteria) to enterprises to be formalized (join the formal economy), to have good business performance during the years, managerial capacities, prepare a detailed and professional financial budget, present financial statements and investments plan for the coming years.

We recommend to focus on non-subsistence entrepreneurs, being promising and with a recognized achievement level.

Since important factors to lend to micro and small enterprises are ‘Quality of Project’ and ‘Personality of the entrepreneur’, it would be necessary to use business plan methodology to discover those enterprises which are promising.

Provide additional support to the enterprises; combine grants/loans with additional guidance (counselling, consultancy, and training).

Require interest (consider 3 groups, 0%, 3%, 8%). In this way, lessons can be learned to see to what extent 0% adds to the result, and whether 8% is influencing the results.

If considering financing through the interest rates, preferably select and cooperate with an innovative bank (some of the banks have considered this as an option and their future goal), willing to cooperate with a consultancy program to support micro and small enterprises.

However, direct granting is always a good option, especially for those micro and small enterprises which tend to expand their production/services lines.
We want to highlight two different point of view of two stakeholders in the process: a) the donor (granting authority) is more willing to finance businesses which have potential, respectively business oriented in development plans; whereas, b) banks pretend to finance (through a loan) businesses which have lower risk on principal return, even though the business might not have a promising project, however the loan is secured by collateral.

We suggest to determine the duration of the project implementation and to require the evidence of fulfilment plans and the achievement of the project expectations. Furthermore, we suggest to increase the monitoring process.

Micro and small enterprises in Kosovo need specific trainings and counselling, therefore we recommend to the European Commission to provide also additional supporting instruments together with a grant scheme.
Appendix 1

Questionnaire

The questionnaire for the enterprises:

1. When was your company founded? 
   ________

2. What is the size of your company (employees)?
   a) 1-9 employees
   b) 10-24 employees
   c) 25-49 employees

3. With how much money you started?
   a) Less than 5 000
   b) 5 000 to 10 000
   c) 10 000 to 20 000
   d) More than 20 000

4. What was the source of your starting capital?
   a) Own savings
   b) Personal bank loan
   c) Loan from family
   d) Loan from friends
   e) Informal lender
   f) Other, specify __________

5. How did your number of employees change over the past three years?
   a) It has increased, how many?
   b) Remained unchanged,
   c) It has decreased, how many?

6. How did your turnover perform over the past three years?
   a) It has increased, how much?
   b) Remained unchanged
   c) It has decreased, how much?

7. Was it easy to find a skilled workforce for your business profile?
   a) Yes           b) No

8. Did you invest in professional development of your employees?
   a) Yes           b) No

9. Do you need any specific training for employees?
a) Yes  b) No

10. If “Yes”, what kind of training?

___________________________________________

11. Are all your employees registered?

a) Yes  b) No

12. What are the biggest challenges grantee enterprises are facing?

1. Finding customers
2. Competition
3. Access to finance
4. Costs of production
5. Availability of skilled staff or experienced managers
6. Tax burdens
7. Growth
8. Shortage of cash
9. Access to foreign markets (export)
10. Other, specify

12.1 Why are Finding Customers and Competition problematic?

1. Unable to complete local products in quality
2. Unable to complete foreign products in quality
3. Unable to complete foreign products in price
4. Unable to complete local products in price
5. Other, specify

12.2 Why is Access to Finance problematic?

1. Reduced control over company
2. Loan procedure take a long time
3. Loan collateral requirements too high
4. Interest rate too high
5. Other, specify

12.3 Why is Cost of Production problematic?

1. Rent cost too high
2. Raw materials too costly
3. Import procedures too costly
4. Electricity costs too high
5. Other, specify
12.4 Why is availability of skilled staff or experienced managers problematic?

1. Nepotism
2. Lack of training or schooling
3. Lack of professional hiring platform
4. Lack of skills or experience

12.5 Other, specify

Why are Tax Burdens problematic?

1. Difficult tax reporting procedures
2. Constant inspection from tax administration,
3. Bureaucracy,
4. High tax,
5. Other, specify

12.6 Why is growth problematic?

1. Insufficient growth capacities,
2. Insufficient demand,
3. Limited sales market,
4. Absence of capital,
5. Other, specify

12.7 Why are exports problematic?

1. Difficulty finding overseas customers,
2. Limited knowledge of exporting,
3. Have sufficient business in Kosovo already,
4. Unsuitable product or service for export,
5. Other, specify

12.8 Why is shortage of cash problematic?

1. High receivables and difficulty to collect,
2. High financing expenses,
3. High overhead expenses,
4. High labour costs,
5. Other, specify

12.9 How important are each of the following factors to your company’s growth?

1. Lesser collateral for loans,
2. Tax incentives,
3. Equity investments (angel/venture investors),
4. Business support services,
5. Favourable interest rates for loans,
6. Other, specify

13. Does your enterprise export?
   1. Yes
   2. No

14. Does your company import?
   a) Yes
   b) No

15. Do you think interest rates applied from the banks are high?
   a) Yes
   b) No

16. How many times have you applied for a loan from a Bank?
   a) One time
   b) 2-3 times
   c) 3-5 times
   d) 6 and more

17. What was the annual interest rate for the last loan your company applied for?

18. What would be an agreeable annual interest rate for you as an enterprise?

19. How many times you have been rejected for a loan from a Bank?
   a) One time
   b) 2-3 times
   c) 3-5 times
   d) 6 and more

20. If there would be a supporting mechanism for your company to further development (financial support in operations, investments etc.), would you be willing to join the formal economy / becoming an official well established company/with reporting financial statements?
   a) Yes
   b) No
   c) Maybe

21. Do you need additional funding for your business?
   a) Yes
   b) No
   c) Maybe

22. If “Yes” and “Maybe”: Where would you get the funds?
   a) Bank
   b) Personal loan from family/friends
   c) Informal lender
   d) Diaspora
e) By delaying paying bills  
f) Other, specify________________________

23. For what would you use the additional funding?
   a) Maintaining current business (salaries, payments to suppliers);
   b) Increasing current business (explain)
   c) Other, specify________________________

24. Are your products/services competitive to the region and EU market?
   a) Yes  
   b) No

25. If “No” what would you need to increase the quality of the products/services?
   a) A loan from a Bank;
   b) Grants  
   c) Investments in innovation;  
   d) Training of the staff;  
   e) Additional equipment’s (more innovative technological equipment’s);  
   f) Raw materials  
   g) Other, specify________________________

26. Is your company certified?
   a) Yes  
   b) No

26.1 Do you use standards?
   a) Yes  
   b) No  
   c) Sometimes

27. Please list the doing business barriers your company is facing?
   ________________________________
   ________________________________
   ________________________________

28. Would you be interested in participating / receiving more information on KCC project for
    enterprise strengthening and access to finance?
   a) Yes  
   b) No

29. If “yes”, please provide:
    a) Name of the company;
    b) Contact person  
    c) Email address  
    d) Address  
    e) Contact phone number
Appendix 2

Questionnaire for the Banks

1. What is the micro portfolio over the last 3 years of your Bank? Also please indicate in percentage for micro and small companies in total portfolio?

________________________________________________________________

1.1 Division over the sectors?

________________________________________________________________

2. Do you have attractive packages for micro and small businesses?

________________________________________________________________

3. How important is the personality of the entrepreneur in lending a loan?

________________________________________________________________

4. What are the Bank conditions for credit?
   a) Personality of entrepreneur;
   b) Quality of project
   c) Deposits or collateral
   d) Guarantees
   e) History in relation between entrepreneur and the bank
   f) Payback period
   g) Internal rate of return
   h) Business plan
   i) Credit rate
   j) Credit insurance
   k) Mortgage
   l) Life insurance
   m) Documents
   n) Micro credit
   o) Factoring
   p) Franchise
   q) Training
   r) Counselling
   s) Market research

________________________________________________________________

5. What are the repayment terms/maturity/quantity from different loan types?

________________________________________________________________
6. What is the interest rate composition?
   a) Base interest
   b) Administration
   c) Risk compensation

6.1 What is the interest rate in percentage, for micro and small?

__________________________

7. What is the default rate for micro and small companies? Is it different from the total?

__________________________

8. Why would you lend to micro and small companies?

___________________________________________________________

9. If you wouldn’t lend to micro companies, what is the reason?

___________________________________________________________

10. Do you visit micro and small companies, if “Yes” how often?

___________________________________________________________

10.1 What kind of feedback are you requesting?

___________________________________________________________

11. Are you offering additional support/services during that discussion/meeting?

___________________________________________________________

12. Is registration date of the company determinant factor for approving a loan?
   a) Yes b) No

13. Do you ask spouse (wife’s) to be co-applicant (for micro and small lending)?
   a) Yes b) No

13.1 If “Yes”, please specify “Why”

___________________________________________________________

14. Do you analyse the loan according to sectors?

___________________________________________________________
Appendix 3

Questionnaire for the micro finance institution

1. What is your legal status?

2. Is there an institution that legally oversight your activities?

3. How are you being financed?

4. Who is in your board, and how free are you in your activities?

5. What is the micro portfolio over the last 3 years of your Bank? Also please indicate in percentage for micro and small companies in total portfolio?

   a. Division over the sectors?

6. Do you have attractive packages for micro and small businesses?

7. How important is the personality of the entrepreneur in lending a loan?

8. What are the Bank conditions for credit?

   t) Personality of entrepreneur;
   u) Quality of project
   v) Deposits or collateral
   w) Guarantees
   x) History in relation between entrepreneur and the bank
   y) Payback period
   z) Internal rate of return
   aa) Business plan
   bb) Credit rate
   cc) Credit insurance
   dd) Mortgage
   ee) Life insurance
   ff) Documents
   gg) Micro credit
   hh) Factoring
   ii) Franchise
   jj) Training
   kk) Counselling
   ll) Market research
8. What are the repayment terms/maturity/quantity from different loan types?


9. What is the interest rate composition?
   d) Base interest
   e) Administration
   f) Risk compensation
      a. What is the interest rate in percentage, for micro and small?


10. What is the default rate for micro and small companies? Is it different from the total?


11. Why would you lend to micro and small companies?


12. If you wouldn’t lend to micro companies, what is the reason?


13. Do you visit micro and small companies, if “Yes” how often?

      a. What kind of feedback are you requesting?


14. Are you offering additional support/services during that discussion/meeting?


15. Is registration date of the company determinant factor for approving a loan?
      b) Yes   b) No


16. Do you ask spouse (wife’s) to be co-applicant (for micro and small lending)?
      b) Yes   b) No

      a. If “Yes”, please specify “Why”


17. Do you analyse the loan according to sectors?
      a) Yes   b) No
Appendix 4

List of the Banks interviewed:

- Banka per Biznes (Bobs Bank)
- NLB Bank
- Banka Kombëtare Tregtare
- ISBANK
- TEB Bank
- Raiffeisen Bank Kosovo J.S.C
- Ziraat Bank
- Procredit Bank

List of Micro financial Institutions interviewed:

- KEP Trust
- TIMI Invest
- Kreditimi Rural i Kosovës
- Kos Invest
- Finca
- START

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3 We met bank representatives, however, no input is included due to the lack of information the representative had and the limited time KCC had to prepare the report.