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FACULTY OF ECONOMICS

MASTER'S THESIS
**OBSTACLES TO SUSTAINABILITY AND GROWTH OF SMEs IN
KOSOVO**

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INTRODUCTION

The Republic of Kosovo, which lies in Southeastern Europe, between Albania, Macedonia, Montenegro and Serbia, is the youngest country in the world gaining its independence on February 17, 2008. Since then Kosovo has developed rapidly, mainly due to high foreign investments into the country.

Kosovo has recorded a significant progress on its way of transition into a market economy maintaining a sustainable macro-economic environment, however it remains reliant on the diaspora and international donor organizations, mainly for technical and financial support.

Kosovo remained the lowest-income European country with a per-capita GDP (PPP) of €3,055 in 2015 with a projection to reach the figure of €3,703 in 2020 (IMF, 2015).

High unemployment rate led to high levels of emigration and an extensive informal economy. The remittance income from diaspora to Kosovo is estimated to be nearly 15% of GDP, while support and assistance from donors through various development projects around 10%. (CIA, 2016)

Majority of inhabitants in Kosovo are mainly concentrated in rural areas outside of the capital, Pristina. Ineffective and old-fashioned farming is still present in Kosovo, which is characterized by weak mechanization and technical knowledge.

Through international support, Kosovo managed privatizing a large number of socially owned enterprises. Even though Kosovo possesses proven reserves of minerals and metals, such as: lead, zinc, lignite, nickel, chrome, aluminum, magnesium, and various construction materials, thus being the industry pillar decades ago, their importance and productivity are declining as a result of outdated machinery and low investments. (CIA, 2016).

Employment rates in Kosovo are enormously negative and initiatives for improving the labor market environment were not sufficient. The positive economic growth in the last years yet have not resulted in an improved performance in the labor market.

Kosovo remains a country with the highest unemployment rates in Europe, mainly as a result of low productivity and lack of competition in human resources and labor-related costs.

The employment incentives have decreased due to Kosovo's dependence on remittances from diaspora and the extensive informal economy. In 2014, the unemployment rate increased to 35.3% from 30% in 2013 (EC, 2015).

Table 1. Key Economic Figures for Kosovo, 2012-2014

Key economic figures	2012	2013	2014
GDP (euro per capita)	2 799	2 935	N/A
GDP growth (%)	2.8	3.4	0.9
Unemployment rate: proportion of the unemployed workforce (%)	30.9	30.0	35.3
Male unemployment rate (%)	28.1	26.9	33.1
Female unemployment rate (%)	40.0	38.8	41.6
Balance of payments: current account total (million euro)	-380	-339	-437
Foreign direct investment (FDI) in the reporting economy (million euro)	229.1	280.2	151.2

Source: European Commission, *Kosovo Progress Report*, 2015, p.31; Global Finance, *Kosovo GDP and Economic Data*, 2015, (<http://www.gfmag.com>)

Being an aspirant country for membership in the European Union, Kosovo remains a low-income country which experienced a positive economic progress in after-the-war period, in 1999. Along with Slovakia, Lithuania and Bulgaria, during the recession phase 2008–12 Kosovo have experienced a growth level of an average of 3.7 percent each year. (Lisbon Council, 2014 & WB, 2015).

The private sector in Kosovo is dominated by micro and small-sized firms. Around 99.7% of businesses employ fewer than 50 people, while their contribution to the economy's total turnover is nearly 60%. In Kosovo, SMEs play an important role on the general picture of the economy, thus generating around 65% of jobs.

1 PURPOSE OF THE THESIS

The purpose of this paper is first, to present a picture of SMEs today and second, to analyze the availability and access of SMEs to finance, human resources and new technology as well as regulations, as the main factors affecting sustainability and development of small and medium sized firms in Kosovo.

The relative importance of these factors is also discussed from the international perspective by presenting a comparison between Kosovo and EU Member States. The last part of the master

thesis is dedicated to the review of main findings. Based on the findings and conclusions of this thesis, recommendations related to the business environment in Kosovo are also provided.

2 RESEARCH OBJECTIVE

The **main goals** pursued in this thesis are:

- 1) Discuss the significance of SMEs in economic growth of a country;
- 2) Present the structure of SMEs sector in Kosovo;
- 3) Identify, based on the survey data, the relative importance of the obstacles analyzed for SMEs growth and sustainability in Kosovo;
- 4) Compare the importance of analyzed obstacles in Kosovo to the ones in the EU Member States; and
- 5) Present recommendations on how to improve business environment for SMEs in Kosovo.

These goals are derived from the main hypothesis that present business environment hinders sustainability and growth of SMEs in Kosovo.

2.1 The main hypothesis

There is a substantial relation between the obstacles to sustainability and growth of SMEs and the economic development in Kosovo.

The sub-hypotheses:

- 1) The access to finance has a vital role in sustainability and development of SMEs in Kosovo.
- 2) The availability and recruitment of skilled labor force is crucial for growth of small and medium-sized enterprises in Kosovo.
- 3) Access to new technology is a significant factor in development and sustainability of SMEs in Kosovo.
- 4) Government rules and regulations present an important external factor for sustainability and growth of SMEs in Kosovo.

This master thesis comprises of four parts.

The first part contains a general definition of SMEs and a review of literature regarding the obstacles to SMEs growth and sustainability.

The second part presents relative importance of SMEs in economic structure of Kosovo, analyzed by number of employees, number of firms and value added.

The third part presents an analysis of the impact of SMEs' access to capital, human resources, new technology and the impact of regulations on future growth and sustainability of SMEs in Kosovo. This was based on primary research and comparison of relative importance of these factors between Kosovo and EU Member States in terms of SMEs sustainability and growth.

Part four concludes with a summary of main findings and provides a set of recommendations related to improved business environment in Kosovo.

Primary research was carried out based on a questionnaire sent to the owners/managers of 420 small and medium enterprises, 68 of which responded to the questionnaire. The survey was conducted among SMEs operating in Kosovo. A 25-question questionnaire covers the following obstacles: access to finance, human resources, government regulations and technology. The selected interviewed enterprises were chosen randomly.

The focus of the secondary research was to obtain information from various online resources and relevant domestic and international institutions, agencies and publications. Secondary source information was obtained from relevant domestic institutions, including: Kosovo Business Registration Agency, Kosovo Agency of Statistics, Tax Administration of Kosovo, and Kosovo Chamber of Commerce, American Chamber in Kosovo and Ministry of Trade and Industry. Publications from European institutions, reports from previous surveys conducted by international donor organizations were also considered.

Most of the articles used for the preparation of this thesis have been reviewed and analyzed, and considered to have been obtained from secured sources. Nonetheless, despite the review of the articles used, they might have inconsistencies or mistakes.

As far as the literature used in this paper is concerned, materials and books published in the recent years were referred to and reviewed, in order to ensure updated data and information. Some of the books referred to are from previous years, however the information obtained from these books is very valuable, thus largely contributing to my research. It is worth mentioning that the main literature used in this paper is international literature, given that there are only few local publications and books on obstacles to growth and sustainability of SMEs.

Information used from the internet were obtained from secured and reliable webpage sources.

3 LITERATURE REVIEW

It is broadly recognized that SMEs are the pillar of market-oriented economies, hereupon, they play a vital role mainly in transition countries. In most countries, SMEs constitute the vast majority of enterprises, representing more than 90% of the enterprise population with a significant role in achieving a sustainable development and growth (OECD, 2004). In addition, SMEs also have a substantial role in regional development in developed economies (Potter & Marchese, 2010). According to Khan (2004), SMEs represent the driving engine toward promotion of an economy.

The growth and sustainability of small and medium enterprises in transition countries is crucial, because they play a vital role in the creation of new jobs and poverty reduction. Yet, small and medium enterprises face various difficulties which have a negative impact on their functionality and progress. In particular, these difficulties are mainly important in terms of obtaining funds, human resources, technology and legal framework. Due to such obstacles, many small and medium enterprises are facing difficulties to overcome barriers and sustain their competitive advantage.

In harmony with the aim of this study, after the literature review, a set of barriers which can affect the growth and sustainability of the SMEs is identified. Internal and external factors can be barriers to business growth. In many studies in developing countries, the external factors, for instance: access to finances, legal framework and regulations, corruption are considered far more important than the internal ones, such as: age, size or type of a business.

The below presented sections will elaborate the categories of main obstacles affecting the development of SMEs, as found in the literature review.

3.1 Access to Finance

Growing any business is a challenge (Schwass, 2005). However, the growing of SMEs in transition economies depends on numerous factors. Beck, Demirgüç-Kunt & Maksimovic (2002) argued that firm growth is highly influenced by obstacles in countries with weak rule of law and high level of corruption. This was supported by Govori (2013), who pointed out that the development of small and medium-sized firms is closely connected to the following factors: government regulations and policies, corruption and competition and access to finance.

Lack of finance has been acknowledged by many other studies as a key obstacle for the SMEs, mostly in developing countries. Compared to other segments of the economy, small and medium-sized enterprises are typically more loan restrained, mainly due to the banks' lack of knowledge on widening access to funds, risks associated with lending to SMEs, insufficient information and unfavorable financial policies. (Ganbold, 2008).

As observed by Cook and Nixon (2000), access to finance presents a crucial factor for the growth and sustainability of SMEs. Although smaller enterprises deal with higher transaction costs than larger enterprises in gaining finances, weak business and management praxis and procedures hinder the capability of smaller enterprises to raise finance.

The study conducted by Pissarides (1999) pointed out that the lack of funds is the main barrier for the development of SMEs in the developing countries because of the poor capital market. His conclusion was reached using research data from the EBRD.

Becchetti & Trovato (2002) also argued that the growth of SMEs depends on access to funding. This opinion was supported by Fatoki & Garwe (2010), who underlined that the absence of finances appears to be the main cause for businesses failure.

Beck, Demirgüç-Kunt, Maksimovic and Laeven (2003) on their study found out that small sized enterprises are more affected by financing obstacles than medium-sized enterprises, while both sides experience greater funding obstacles than large-sized enterprises.

Other authors also concluded that SMEs are frequently challenged by market insufficiencies, hence often face problems when applying for financing in banks; this occurs mainly in the initial stages of operating with their businesses. Lee (2014) conducted a research using data for 4,858 UK SMEs to investigate the obstacles of enterprises in periods of high growth and enterprises with potential chance of growth. According to the findings, high growth businesses were mainly constrained by finance, recruitment, government, premises and management.

3.2 Human Resources

Another important factor to growth and sustainability of SMEs is the human capital. Many authors have argued that SMEs have a higher level of failure, mainly due to human, financial, and technological limitations.

Besides to the lack of management skills of SME entrepreneurs, the shortage of skilled employees presents a significant limitation and constrain to growth of SMEs (Southiseng & Walsh, 2010). While, Hew & Loi (2004) pointed out that small and medium firms struggle to hire skillful individuals with proper education and experience.

Martin & Staines (2008) underlined that the deficit of skilled workforce and lack of experience in management positions can be listed as key causes why new enterprises cannot succeed. Other studies also pointed out that limited human resource capabilities present a significant limitation in growth of SMEs in transition countries (McElwee and Warren 2000, Batra and Tan 2003).

In addition, (Szira, 2014) concluded that the restricted human resources of SMEs could limit the latter's capacity to approach and obtain the latest technology. Moreover, shortage of

qualified human capacities is an essential restraint to innovation for the private sector (WB, 2013).

According to Kuratko and Welsch (2004) study, the most frequent cause for small businesses failure is the absence of management capability.

3.3 Technology

Technology is the key for maintaining competitiveness in the market. The latest technology updates and trends are of a great importance for enterprise development and modernization. Thus, it presents another precondition for remaining competitive in national and regional levels. Particularly, technology has an important role in enterprises which are engaged in production and processing sectors. This is because the quality and competitiveness of the products produced by these enterprises rely mostly on the innovation and level of technology they possess.

Regardless of the levels of technological inventions, SMEs always aim at achieving cost effectiveness, continuous quality perfection, improved current products or services, or new product development and launch. In this context, Tidd, Bessant, and Pavitt 2005 noted that lack of technological updates, which enable SMEs to constantly update their products and processes, can seriously threaten their survival.

Many other researchers have written about technological constraints the SMEs face. A research conducted by Schwartz & Hornych, 2010 found that SMEs frequently face problems while accessing adequate technology updates.

According to Hussain, Si & Wang (2010), lack of technological skills restrains small and medium enterprises from using the advantages that new technology provides, such as: limitations in knowledge, training and resources.

Romijn (2001) noted that lack of technological capabilities might delay and limit SMEs from achieving their potential largely.

3.4 Legislation and Regulatory Framework

It is largely recognized that institutional environment could considerably affect the economic performance or growth level of private firms (Bartlett & Bukvić, 2001). In recent years, a number of authors have contributed to elaborating institutional barriers to SMEs. Several researchers argued that the institutional environment has a considerable effect on growth and sustainability of small and medium firms.

Existence of a weak and often unfriendly institutional environment in transitional countries was also underlined as a constrain to growth of private businesses by Smallbone and Welter (2001). This was supported with a study conducted by Barlett & Prasnikar (1995) which argued that the weak performance of institutions may hinder the progress of the SMEs to a considerable extent.

According to Estrin, Meyer and Bytchkova (2005), institutions affect the enterprises in two ways: they may initially obstruct the creation of new start-ups, and they can also impose barriers which affect the performance of an enterprise, in terms of growth or earnings. In addition, Aidis and Sauka (2005) argued that poor implementation of rules and business laws as well as tax system are considered the main barriers for enterprises in developing countries. This finding was also supported by Krasniqi (2007), who added that laborious administrative procedures and unnecessary requirements are obstacles hindering existing enterprises from achieving their growth potential in transition countries.

As Morrison (2006) points out, private firms are affected by many external factors which are out of their control, such as the political situation, legal, economic, technological and environmental factors.

Out of several external factors that hamper the development and growth of SMEs, high levels of taxation present a serious obstacle to growth of SMEs (Barlett & Bukvic, 2001). Moreover, Hashi (2001) argued that high level tax rates can seriously constrain the growth of businesses, since they tend to lower the financial potential of enterprises.

Estrin and Mickiewicz (2010) recognized that small enterprises are affected by ineffective regulatory frameworks and corruption, while taxes are another complaint of enterprises globally. An ineffective scheme for collecting taxes could considerably be an additional cost for managing an enterprise. Furthermore, as Koci (2013) added, if the regulatory framework is poorly designed, the regulations can become obstacles to doing business.

As observed by Sleuwaegen & Goedhuys (2002), the success and sustainability of SMEs can significantly be constrained by legal and regulatory framework, particularly by taxes and pricing. A survey conducted by Rosen (2005) supports the fact that taxes are a common complaint by entrepreneurs all around the world. According to Clement et al., (2004), the presence of an unfavorable business climate has adverse effect on the progress of SMEs.

According to Aidis (2005), obstacles influencing the progress of SMEs in transition economies can be divided into formal (business legislation and taxes) and informal (weak and corrupted legal system). Aterido et al. (2009) concluded that contrary to large firms for which the impact of regulations is irrelevant, for small firms, regulations may produce barriers to growth.

4 SMALL AND MEDIUM-SIZED ENTERPRISES

This chapter presents the definition of SMEs, the characteristics of small and medium-sized enterprises in Kosovo, their function and relative relevance in the economic structure of Kosovo, legal framework including policies, and the government support to SMEs development.

4.1 Definition of SMEs

It is not easy to define small and medium enterprises (SMEs), because there are diverse definitions regarding SMEs. Currently, there is no universally accepted definition of SMEs; usually they are defined by the number of employees or annual turnover. Globally, it is only European Union that has adopted a shared recognized definition of SMEs, yet discussions are present between member states. The European definition for SMEs is introduced through the Commission's Recommendation concerning micro, small and medium-sized enterprises quoted in the following paragraph:

“Micro, small & medium-sized enterprises (SMEs) with fewer than 250 employees (the annual turnover should not exceed 50 million EUR; the annual balance sheet should not exceed 43 million EUR)”. (EC, 2003)

A **micro** enterprise is a business organization which employs fewer than 10 persons (while the annual turnover and balance sheet should not be greater than 2 million EUR).

A **small** enterprise is a firm which has fewer than 50 employees (the annual turnover and balance sheet equals or is less than 10 million EUR).

A **medium** enterprise is a business entity which employs up to 250 persons (the annual turnover and annual balance sheet in total should not be greater than 43 million EUR).

Table 2. Categorization of Enterprises by Size

Enterprise category	Employees	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: EU Commission, *Recommendation 2003/361/EC*, 2003, p.4

Small and medium-sized enterprises (SMEs) are a very important part of the EU economy. Their importance can be seen in the aspect of providing source of entrepreneurial skills, innovation and employment. In the enlarged European Union of 28 countries, around 23 million SMEs provide around 75 million jobs. In 2014, around 99.8% of all enterprises belonged to the non-financial business sector (EC, 2015).

Nearly all small and medium enterprises (93%) are represented by micro firms which employ fewer than 10 individuals. Around 75% of SMEs are currently operating in the main sectors, such as: manufacturing, construction, wholesale and retail trade, accommodation and food services and business services. (EC, 2015).

The size of SMEs in Kosovo is defined by two laws, namely the Law no. 2005/02-L5 and Law no. 03 / L-031 on Small and Medium Enterprises. An important factor based on which the enterprises are classified is the **number of employees**. The categories of size are defined according to the EC recommendation, however only the annual turnover is taken into consideration.

A definition of SMEs, similar to the one recommended by the European Commission, can be found for example in Albania and FYR Macedonia.

In the neighboring country, Albania, SMEs are defined by the Law No. 957, which was adopted in 2002 and determines as follows:

Micro-sized firms are the business entities which employ less than 5 persons.

Small enterprise is a business organization that employs 6-20 employees, while its annual turnover equals or is less than 285.000 EUR.

Medium-size firms are the companies with an annual turnover not exceeding 570.000 EUR and employ 21-80 individuals (Gjini, 2014).

The definition of SMEs **in the FYR of Macedonia** can be found in the Law on Trade Enterprises (2004). The National definition of SMEs is broadly, but not entirely, compatible with that of the EU.

According to the Law on Trade Enterprises (2004), *micro* enterprises are classified as the enterprises which employ 1-10 individuals, with yearly turnover fewer than € 50.000, and which overall income has to be generated less than 80% from one client.

Small-sized enterprises are those with annual turnover < € 2 million, which employ up to 50 employees, while medium enterprises are the firms that can employ less than 250 employees, with yearly turnover fewer than € 10 million (SMEDP, 2007).

4.2 Small and Medium Enterprises in Kosovo

Small and medium enterprises were a substantial component of the industrial structure of Kosovo before independence. In 1991, the number of private businesses increased considerably. During the 90s, firms in Kosovo have been primarily established as family businesses, restaurants, agriculture enterprises, crafts and artisanal businesses (Mustafa, Kutllovci, Gashi, Krasniqi, 2006). By the end of 90s, in total 9,198 new private enterprises were registered in Kosovo, while in the end of year 2004 there were 40,917 new registered enterprises. (KAS, 2004).

In the end of 2008, the year when independence was declared, the number of SMEs in Kosovo increased significantly. According to the **Kosovo Business Registration Agency**, there were a total of 67,950 registered private businesses.

Comparing to year 2004, in 2008 around 66% more registered private enterprises used to operate in Kosovo. In 2008, 31,444 or 46% of the registered businesses were trade enterprises, 3,818 or 5.7% were construction enterprises, while 1,284 or 1.88% enterprises were registered in the agriculture and fishery sectors.

In 2011, 7,879 new enterprises were registered; out of which 2,974 were trade enterprises, while 812 were hotels and restaurants. At the end of 2011, there were a total of 91,063 registered private enterprises in Kosovo.

The current picture of the registered firms accompanied with the number of employees is presented in the following table:

Table 3. Number of SMEs in Kosovo* as of December 31, 2015

Classification by Size	Number of employees	Number of Enterprises	Percentage	Number of Employees	Percentage
Micro	1-9	132,351	98,49	199,870	67,01
Small	10-49	1,549	1,15	24,929	8,36
Medium	50-249	487	0,36	73,469	24,63
	Total	134,387	100	298,268	100

Note. * This table is prepared based on the Registered Businesses 2000-2015 database, obtained from Kosovo Business Registration Agency.

Source: Kosovo Business Registration Agency, 2015, *Registered Businesses 2000-2015 database*.

In harmony with the latest data provided by the Kosovo Business Registration Agency (as at December 31, 2015), in Kosovo there are 134,387 registered enterprises. As the table shows, over 98% of firms in Kosovo are micro-sized enterprises, employing 1-9 employees, and they are also the main employers in Kosovo.

Only 1.15% of the registered enterprises in Kosovo are small-sized enterprises, with 10-49 employees, while around 0.36% of the enterprises are medium enterprises.

Out of 134,387 registered enterprises in Kosovo, 114,796 or 85% of them are individual businesses, 15,001 are limited liability enterprises, and 424 of them are joint-stock enterprises, while 726 of them are foreign enterprises. Out of 726 registered foreign enterprises, 89.25% or 648 of them are micro enterprises, 51 are small enterprises, while 21 of them are medium-sized enterprises.

According to the Kosovo Business Registration Agency (KBRA), in 2015 there were less new registered enterprises than in 2014 and consequently, the number of enterprises closed out was higher. The number of new enterprises registered in the first quarter of 2015 was 2,582, i.e. 329 fewer enterprises than in the first quarter of 2014; while compared with the same quarter of the preceding year, a total of 501 or 65 more enterprises were closed out. (KBRA, 2015).

Table 4: Number of Enterprises Registered and Closed in Quarter 1 of 2015 and Quarter 1 of 2014

Activity	2015 (1 st Quarter)	2014 (1 st Quarter)
New enterprises registered	2,582	2,911
Enterprises closed	501	436

Source: Kosovo Business Registration Agency, 2015, Registered Businesses 2000-2015 database

Regarding the structure of the new registered enterprises, it was broadly dominated by enterprises registered in the trade sector with 784 new enterprises, followed by manufacturing sector with 276 new enterprises, agriculture with 255, and hotels with 253 enterprises.

As per potential challenges and obstacles to growth and sustainability of SMEs, in many developing and conflict affected countries like Kosovo similar obstacles can be found. For example, in Kosovo, Bosnia, Macedonia and Montenegro, the main obstacles found are access to credit/finance, lack of adequate equipment, practices of informal sector, and finding

competent/qualified personnel. Further, it was found that access to credit/finance in Montenegro and Macedonia presents a moderate obstacle for more than 25% of the SMEs, while in Kosovo and Bosnia for around 20% of the SMEs (SPARK, 2013).

In addition, the lack of adequate equipment/machinery was also identified as one of the biggest barriers in Kosovo. It represents a severe obstacle for around 25% of the SMEs, while in Bosnia and Herzegovina and Montenegro it represents a moderate obstacle for around 30% of the SMEs (SPARK, 2013).

4.3 Relative Importance of SMEs in Economic Structure of Kosovo

Majority of today's operating enterprises in Kosovo belong to trade sector (29.9% of enterprises), followed by accommodation and food services (11%) and industry (10.4%, up from 5.2% in 2013). Weak penetration to foreign markets and shortage of investments in latest technology have resulted in low productivity levels. (EC, 2015).

Table 5. Structure of operating enterprises in Kosovo in 2015

Type of businesses	Percentage
Trade	29.9
Accommodation and food services	11
Industry	10.4

Source: European Commission, *Kosovo Progress Report*, 2015, p.38

Most of the SMEs in Kosovo, 33,867 or 25%, are concentrated in the capital city of Pristina. More than half of them are located in the industrial zone of Pristina - Fushe Kosove highway and Skopje highway. Prizren is ranked the second Kosovo town with highest number of registered enterprises, 11,195 or 8,33 %, while Ferizaj is the third place with a total of 9,981 or 7,42% registered enterprises (KBRA, 2015).

4.4 Legal Framework and Policies

The legal framework and policies for the development of the Kosovo's private sector is regulated with the following laws and regulations:

The Law No. 03/L-031 on Support to SMEs was adopted in 2008, and its objective is to regulate the necessary government policies and procedures to support the establishment and development of small and medium enterprises. The law categorizes the enterprises based on a single criterion: number of employees. According to this criterion, the following categories

have been established: micro-sized enterprises (1 - 9 employees), small-sized enterprises (10 - 49 employees); and medium-sized enterprises (50 - 249 employees).

The Law No. 04/L-006 on Business Organizations determines the types of business entities that may be established and the business activities allowed to be carried out in Kosovo. Moreover, this law sets the necessary requirements for registration of each type of business entities, determines the legal provisions applicable to each type of business entity, and also the rights and obligations that legal entities are subject to. (MTI, 2013).

The Law No. 03/L-181 on Market Inspectorate and Inspective Supervision establishes the roles, responsibilities and authorizations of the market inspectors, who are responsible for enforcement and implementation of the legal provisions on supervising inspection;

The Law No. 04/L-00 on Internal Trade determines the necessary criteria and requirements for conducting internal market trade (retail and wholesale), auction market, trade arbitration, protective steps for conducting trade activities, surveillance mechanisms, restrictive practices, as well as protection measures for carrying out trade activities, supervisory measures, and also punishing and administrative measures to combat unlawful competition;

The Law on Foreign Investments aims to protect, support and encourage foreign investments in Kosovo through provision of the required legal rights to the foreign investors, with the objective to ensure investors that their investments will be fully preserved and treated properly, in full conformity with the current legal system, recognized standards and best practices.

Although some progress has been achieved, the implementation of legal rules that fall on enterprises remain unsatisfactory. The business climate has remained obstructed by poor level of capacity and performance of law enforcement institutions associated with extensive corruptive examples. On the other side, the legal system is characterized by ineffectiveness, limited approachability, prolongations and a backlog of cases unresolved. The autonomy of the judicial system has been restrained by the political interferences during appointment of judges and prosecutors (EC, 2015).

An unfavorable business environment continuous remaining in Kosovo. As per market entry, numerous obstacles are still present: a poor and irresponsible administration; limited access to funding; an outdated infrastructure, extensive informal economy, poor rule of law; and unsatisfactory academic and vocational education (EC, 2015).

As per the regulatory reform, even though regarded to be acceptable and harmonized with the EU legislation, the development and implementation of the existing policy framework in Kosovo does not give optimistic indicators toward creation of a helpful business climate regarding development of SMEs (NCEI, 2016).

4.4.1 Customs System

There has been a substantial improvement in regard to the processes for clearance of the goods in Kosovo. Trade Information Management System is an electronic platform, which is used for the declaration of goods. More than 90% of goods are declared within the Direct Trade Input. Percentages for custom duties in Kosovo are as following:

- 1) The goods imported from CEFTA countries - 0%
- 2) The goods imported from other countries - 10%
- 3) Different excise taxes on: alcohol, petroleum, tobacco and so on.

Certain changes to the custom duties in Kosovo were made, and consequently a decrease in custom duties for certain items:

- 1) Certain materials in agro-business and production
- 2) Capital assets.

Certain products and entities are exempted from customs duties, such as:

- surgical equipment's
- pharmacological products
- products for consular and diplomatic missions
- products for charitable activities
- the Kosovo Force
- the office of the United Nations High Commissioner for Refugees in Kosovo
- the Red Cross
- non-Governmental Organizations with main objective of charitable activities and rebuilding activities (the Government of Kosovo, 2016).

4.4.2 Tax System

Tax system in Kosovo is regulated by Tax Administration of Kosovo. The tax system is one of the systems with the lowest tax rates in the region.

The Kosovo Tax System has the following taxes:

- 1) Corporate income tax – CIT
- 2) Value added taxes – VAT
- 3) Personal Income tax – PIT.

4.4.3 Corporate Income Tax – CIT

As per the Law No.05/L-029 on Corporate Income Tax, the corporate income tax is declared and paid on quarterly basis. The rate of the corporate income tax for turnover greater than Euro 50,000 is 10%.

4.4.4 Value Added Tax – VAT

From September 1, 2015, the VAT Law and rates for the products and services applicable in Kosovo were amended. As such, the VAT rate increased from 16% to 18%. In addition, for certain product a lower VAT rate of 8 % (for products such as: supply with water, supply with electricity, oils used for cooking, dairy products used for consumption, text books, etc.) is applied.

4.4.5 Personal Income Tax – PIT

The personal income tax is applicable to incomes from wages, interest, royalties, rent. Personal income tax has been also subject to amendment. From September 1, 2015, the changes were made at: the definition of the employer, gross income definition, exempt income, etc. Currently the personal income tax is considered the lowest tax in the region.

As such, income tax rates are divided as per the following:

960 Euro ≤, 0%

960-3,000 Euro, 4%

3,001-5,400 Euro, 8%

5,400 Euro ≥, 10% (Government of Kosovo, 2016)

4.5 Government's Support to SMEs Development

The Government of Kosovo has approved two strategic documents related to economic development, thus considering the private sector as the main creator of new jobs and future development, namely “New Vision of Economic Development” (Vision 2014) and “SME Strategy”. The document “Vision 2014” established the strategic targets to be accomplished, in order to achieve economic growth of 7-8% and reduce the unemployment rates by 8-10%, while the “SME Strategy” provided proper instructions on what actions and measures need to be taken toward promoting the private sector and increasing competition.

The SME Development Strategy for Kosovo 2012 – 2016 (with vision to 2020), was prepared by taking into consideration the two key columns of the EU's SME strategic framework “The Small Business Act” (SBA) for Europe and the EU Competitiveness and Innovation Framework Program CIP. Kosovo is fully committed toward implementation of these acts. CIP has been replaced by COSME – The European program for the Competitiveness of Enterprises and SMEs (MTI, 2013).

This strategy is a sectoral paper which establishes the core framework of the Kosovo Government on Small and Medium Enterprises, and it includes targets categorized as goals, strategic goals and objectives. Their accomplishment aims to further advance the reforms toward job creation and a modern SME sector. The vision statement stands for “globally

competitive Kosovo SMEs”, while the mission is: *“Improvement of the business environment and entrepreneurship culture with the aim of the creation and rapid growth of sustainable SMEs”*.

Speaking of strategic goals within this strategy, they aim at strengthening the current legal system; improve access to funding for SMEs; develop and promote entrepreneurial culture; foster domestic and international competitiveness of SMEs; advance communication among public institutions and private enterprises and non-governmental organizations as well, and improve further the environment for women in business, minority groups and provide assistance to enterprises in deprived areas.

The implementation of the Strategy on Private Sector Development (2013-2017) and the EU supported initiative ‘Small Business Act’ are progressing very slow. The government should present regulatory impact evaluations, in order to reduce administrative barriers for SMEs, while action plans should be time-framed and monitored properly (Ministry of Finance, 2015)

Kosovo Investment and Enterprise Support Agency is a governmental body which operates under the umbrella of the Ministry of Trade and Industry and its role is to:

- 1) protect and promote investments,
- 2) support implementation of policies and programs for SMEs and
- 3) develop procedures and guidelines regarding creation and development of free economic zones.

KIESA is operational however it is functioning with an incomplete staff, therefore its results and impact are limited. Even though the online registration system of enterprises is not yet launched, the process for registration of an individual business or enterprise is very fast (1-3 days). So far, the major barriers to development and growth of small and medium enterprises are access to funding, poor implementation of laws, policies and regulations, informal economy, widespread corruption and ineffective judiciary, and unfair competition. (EC, 2015).

The Government of Kosovo recently launched The Kosovo Credit Guarantee Fund (KCGF) which will provide banks and other financial institutions with partial loan guarantees to encourage increased lending to qualified borrowers. KCGF, established by Kosovo law in January 2016, will cover up to 50% of the risk of the loans. KCGF guaranteed loans will help farmers, entrepreneurs, women-owned businesses, and minority-businesses to expand, increase domestic production, create jobs, and improve the national trade balance. This fund is expected to facilitate \$400 million in increased lending and 20,000 new jobs in the next 6 years. The KCGF will be capitalized with funding from USAID, and Kreditanstalt für Wiederaufbau – KfW (German Development Agency) and the Government of Kosovo, through sponsoring the Ministry of Trade and Industry (MTI) (USAID, 2016).

4.5.1 Enterprise Support

As a governmental agency, Kosovo Investment and Enterprise Support Agency (KIESA) has taken several initiatives over the last years in regard to supporting enterprises in Kosovo, which is briefly described below:

4.5.1.1 South East European Centre for Entrepreneurial Learning (SEECCEL)

South East European Centre for Entrepreneurial Learning - SEECCEL was founded in 2009 by 8 South East European countries and it is headquartered in Zagreb, Croatia. Key objective of the SEECCEL center is provision of entrepreneurial education to all member states and Kosovo is one of the members with the full rights. The strategic goals of SEECCEL are as follows:

- 1) promote entrepreneurship at early, secondary and higher education, particularly in non-business disciplines,
- 2) support development of policies and actively involve local authorities in development of lifetime entrepreneurial learning,
- 3) provide assistance to policy and procedure design and promote best policies for female entrepreneurs.

4.5.1.2 Small Business Days

The campaign “Small Business Days” was organized with the aim to raise the citizens’ awareness on the role of the SMEs toward stable development and boost public to private dialogue, with the purpose to adapt the policy to the needs of businesses. The goals of KIESA are synchronized and coordinated with the European Commission goals within the outline of the European SME’s Week, such as:

- 1) Public to private dialogue
- 2) Entrepreneurship Promotion, and
- 3) Recognition to SMEs contribution.

4.5.1.3 SMEs Grant Scheme

SMEs Grant Scheme is financed and managed together with the EU Office in Kosovo. The main objectives of these grant schemes are to stimulate businesses that are oriented toward the export, by subsidizing products imported by grants. Currently, there are two Grant Schemes in place:

- 1) Grants to Micro businesses, and
- 2) Grants to SMEs.

4.5.1.4 SMEs Promotion in Kosovo

The SMEs Promotion in Kosovo is a project financed by the Austrian Development Agency and Swiss Agency for Development and Cooperation. The project aims at supporting directly the Kosovo Agency for Investment and Private Sector Development through implementation of activities, such as:

- 1) Re-designing and implementing the Voucher Counselling Scheme for SMEs,
- 2) Development of Credit Guarantee Scheme, and
- 3) Provide technical help to the agency.

4.5.1.5 Competitiveness Program

This two-year Competitiveness Program was launched on September 2014, while it was founded by the EU Office in Kosovo. Its main objective is to enhance the competitiveness in Kosovo business environment through enhancing competition abilities among the SMEs as well as to design and implement the export policy for SMEs.

4.5.1.6 Center of Entrepreneurship and Executive Development

The project “Center of Entrepreneurship and Executive Development “was financed by the USAID. The main objectives of the project were to promote the entrepreneurial growth by providing the entrepreneurs with the practical capacity building trainings, in order so they can take their SMEs “to the next level”, to form and build the local and regional community of entrepreneurs by providing a real and virtual networking platform. Such platform will help the entrepreneurs to:

- 1) make connections with peer entrepreneurs who take similar risks,
- 2) connect the providers of funds with the entrepreneurs,
- 3) conduct bilateral and regional meetings of compatible entrepreneurs, and
- 4) assist personally multinational entrepreneurs in finding partners and clients that they need in order so they can expand.

5 METHODOLOGY

This section of the thesis provides information on the tools used for the data collected to carry out the primary research on the obstacles to sustainability and growth of SMEs and economic development in Kosovo and it also points out the main limitations.

5.1 Design of the questionnaire

With the purpose of identifying the main barriers which affect the performance and development of Small and Medium Enterprises in Kosovo, a questionnaire has been designed. With a total of 25 questions, the questionnaire is divided into the following five categories:

- 1) General information
- 2) Finance
- 3) Human resources
- 4) Regulations and
- 5) Technology.

5.2 Data collection tools

Data collection is based on the following procedure: First, the review of the literature on obstacles to growth of SMEs, a necessary aspect of research in an attempt to understand in depth my thesis subject, and second, interviews with Kosovo enterprise owners/managers, to obtain their views on the relevance of different obstacles identified in the literature.

5.3 Primary research/interviews

I used interviews as a data collection tool, including verbal interviews with respondents, individually or in groups. Prior to conducting interviews, the respondents were firstly approached by phone. They were informed about the purpose of the phone call and the objective of the interview request. The respondents received information about the purpose of the thesis and types of questions.

The initial idea was to arrange meetings with enterprise owners/managers and to conduct the survey in person. However, majority of the respondents preferred to receive the questionnaire electronically and fill it in, while only 30% of respondents accepted to conduct the interviews in their enterprise premises.

The reason I chose to interview only enterprise owners/managers was that I was interested to obtain information from persons who had a broad experience in managing an enterprise generally. Certainly, it is of a great importance to have respondents that are competent and have a good knowledge of the enterprises they represent, therefore the information provided by the interviewees who had a considerable experience was very useful to this survey.

5.4 Limitations

In undertaking this study, I experienced several limitations either during the process of conducting the primary research/interviews with targeted enterprises, or while attempting to find relevant information from domestic institutions. Moreover, I suffered time limitations in conducting the interviews; this due to long awaited appointments with respondents, for many days, weeks or sometimes even months, prior to conducting the interview or receiving back the filled questionnaire via email. Many of the targeted enterprises refused or hesitated to participate in this survey and to fill in the questionnaires, due to their limited time and availability. The honesty of interviewees and genuineness of the research are also among

limitations experienced during this study. Furthermore, it was also difficult to get up-to-date data from relevant national institutions, given that most of their webpages or reports are usually outdated.

6 ANALYSIS OF RELATIVE IMPORTANCE OF OBSTACLES TO SMEs SUSTAINABILITY AND GROWTH BASED ON THE PRIMARY RESEARCH

This section presents findings from primary research, testing the validity of the main thesis's hypothesis, i.e. that there is a substantial relation between the obstacles to sustainability and growth of SMEs and the economic development in Kosovo.

With the purpose of testing and validating the above hypotheses, qualitative information was provided and a primary research was conducted, based on the questionnaire sent to owners/managers of 420 small and medium enterprises, however only 68 or 16% of them responded.

The data collected on current obstacles and challenges that SMEs in Kosovo have, identified through interviews, was analyzed and presented through tables and diagrams. It is worth mentioning that respondents provided more than one answer to some of the questions in the questionnaire.

6.1 Analysis and Findings based on Data from Primary Research

The following part provides questions and answers of SMEs owners or representatives interviewed. The first two questions are general ones, followed by questions regarding access to finance, role of technology, legal framework and policies and human resources. All the following questions and answers are divided into sections accordingly.

6.1.1 General Information

This section elaborates questions and answers regarding general information of the interviewed enterprises. It includes questions on enterprise size and their legal form of registration.

Q1. What is the size of your enterprise?

Respondents were asked to provide a single answer about the size of their enterprises. Out of 68 SMEs interviewed, 6 of them or 9% were micro-sized enterprises, 46 or 68% small-sized enterprises, while the remaining 16 were medium-sized enterprises.

Table 6. Enterprise Size of the Interviewed SMEs

Enterprise Size	Number of interviewed enterprises	Percentage
Micro	6	9
Small	46	68
Medium	16	23

Q2. What is your enterprise's legal form of registration?

Out of 68 SMEs interviewed, 49% were limited liability enterprises, whereas 51% were individual businesses. However, according to the latest data provided by the Kosovo Business Registration Agency, 85% of the registered enterprises in Kosovo are individual businesses.

Concerning the size of the registered enterprises, according to the latest database of the enterprises registered in Kosovo, more than 98% of them are micro-sized enterprises.

6.1.2 Finance Section

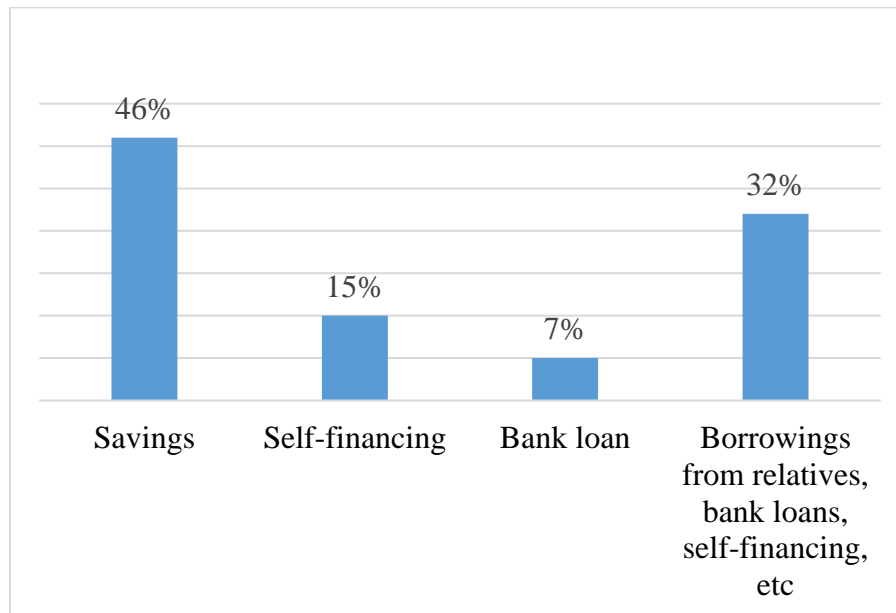
The following section provides questions and answers regarding access to finance available to interviewed enterprises and the barriers they face. It includes questions on preferred financing methods to finance the operation and growth of their enterprises and difficulties when applying and obtaining a bank loan.

Q3. How did you finance the start-up of your enterprise?

As far as a start-up enterprise's financing is concerned, the interviewees were requested to give an answer on one of these options: a) Savings, b) Relatives, c) Friends, d) Other.

According to the survey results on how they had financed the start-up of their enterprises, out of the total number of the interviewed SMEs, 46% of them claimed that they had financed their businesses by savings, 15% out of 68 interviewed enterprises answered that their start-up businesses had been self-financed, 7% of them by bank loan, and the remaining 32% of the enterprises had used a mix of financial means/sources to finance the start-up of their enterprises, including: borrowings from relatives, bank loans, self-financing, etc.

Figure 1. Financing start-up enterprises



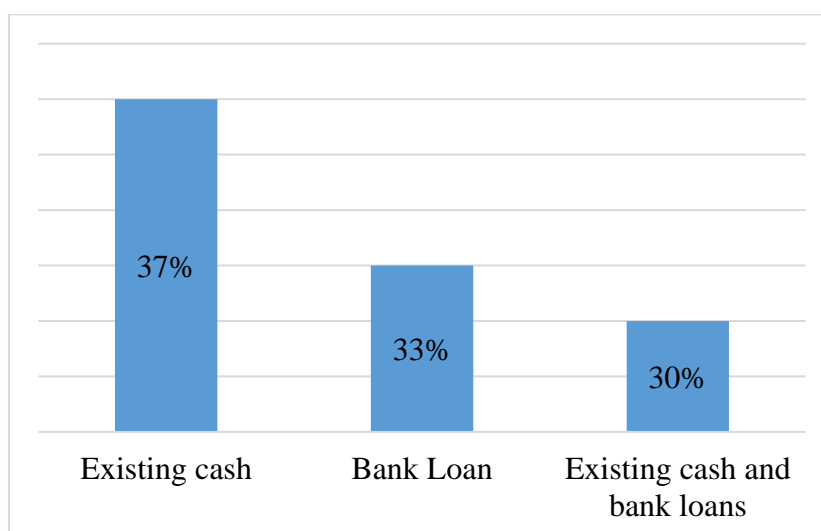
Q4. What kind of financing methods you use to finance your operating business?

SMEs in Kosovo use different financial methods to finance their businesses. With regard to financing methods for their existing businesses, interviewees were instructed to choose one of the following options:

- 1) Existing cash (savings)
- 2) Bank Loan (Letter of credits, letter of guaranties, etc.),
- 3) Relatives,
- 4) Other.

As the data show, out of 68 interviewed small and medium enterprises, 37% of them claimed that they use the existing cash to finance their businesses, 33% of them finance their businesses through bank loans, while the remaining 30% of the interviewed enterprises use both existing cash and bank loans to finance their businesses. These figures show that the existence and operation of a considerable number of SMEs in Kosovo has remained dependent on bank loans to a considerable extent.

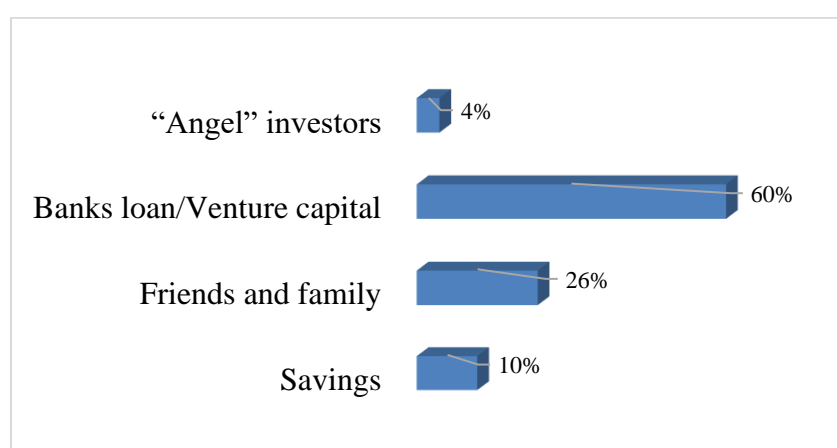
Figure 2. Financing Methods to Finance an Operating Business



Q5. What financial means would you use to fund the growth of your enterprise?

The survey results presented in the below figure indicate that the dominant way of financing the growth of the enterprises is bank loans/venture capital, while only 4% of respondents said that they would use angel investors. This finding shows that most of the interviewed enterprises prefer to use bank loans to achieve growth of their enterprise, rather than using other financial methods.

Figure 3. Financing Means to Fund the Growth of Enterprises



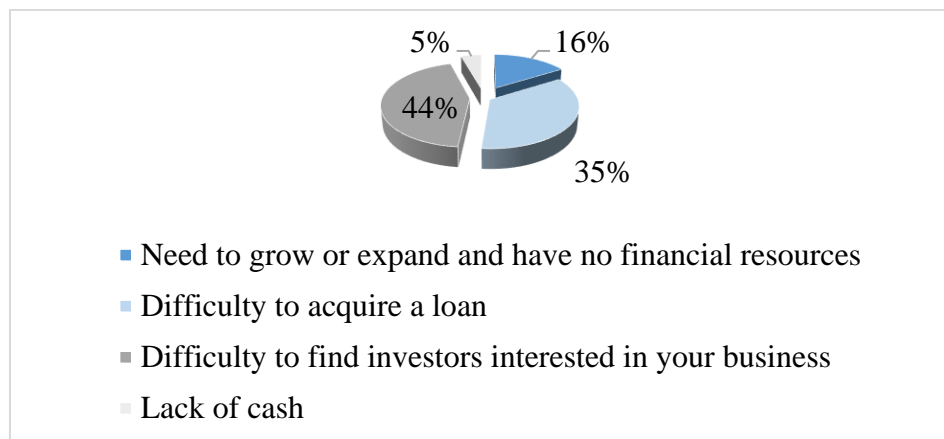
Q6. What are the financial problems that your enterprise faces?

Regarding financial problems that SMEs in Kosovo are facing, difficulty to find interested investors resulted to be the top problem for 44% of the interviewed enterprises; out of this number 35% claimed that they face difficulties to acquire bank loans, 16% declared that they are in need of growing or expanding their businesses but lack finances to do so, and the

remaining 5% argued that the lack of cash in the market presents a serious problem for them in daily operations.

According to the below findings, the lack of interested investors and the process of acquiring and obtaining bank loans are considered the main financial problems businesses currently have. The results from the obtained answers are presented in the diagram below:

Figure 4. Financial Problems Enterprises Face



Q7. Have you ever obtained a loan from a bank?

The purpose of this question was to find out whether the respondents had obtained a loan from a bank and if so how many of them. As the survey data show, 94% of 68 interviewed small and medium-sized enterprises obtained a loan from a bank, while the remaining 6% responded negatively to this question. This finding shows that more than 90% of the interviewed enterprises needed to acquire bank loans in order to finance their business operations. Still, bank loans are the most used financial mean for running or expanding a business in Kosovo.

Q8. If yes, what were the problems that you have faced while obtaining the loan?

As per the problems faced while obtaining the loan, interviewees were directed to choose one answer from the following:

- 1) Very high interest rate,
- 2) High volume of documents required,
- 3) Long time taken to obtain the loan,
- 4) Non-flexible payments conditions.

Regarding the problems that the interviewed SMEs have faced while obtaining the bank loan, 75% of them declared that the interest rates are very high, while the remaining 25% of them mentioned non-flexible payment conditions as a problem in obtaining a bank loan. This shows

that for majority of the interviewed enterprise owners/managers, high interest rates remain an issue and a serious obstacle to their businesses.

Q9. If no, what were the obstacles that you faced when you applied for the loan?

Interviewees, who did not obtain a loan, were asked to provide one answer from the following:

- 1) Large list of collaterals/pledge required,
- 2) No proper financial statements (not prepared in accordance with local accounting standards/IFRS),
- 3) Other.

The results of the survey indicate that 75% of the respondents who could not obtain a loan did not provide any answer, while 25% of the respondents did not apply at all because of, according to them, unfavorable interest rates and difficulties in the application process.

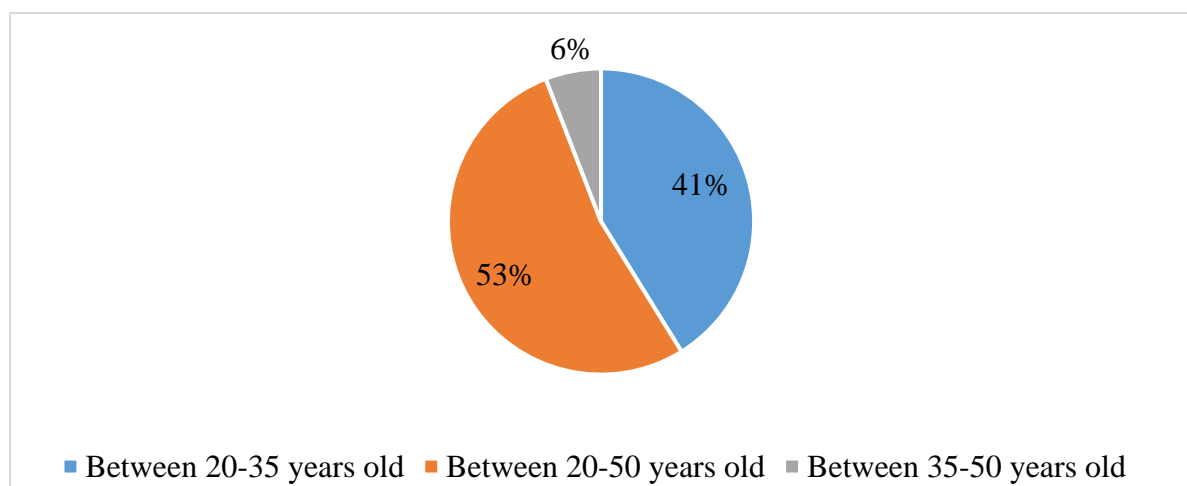
6.1.3 Human Resources Section

This section elaborates questions and answers on the availability of skilled human resources and difficulties in hiring professional staff. It includes questions on age structure of employees, recruitment methods used and the difficulty to hire skillful people.

Q10. What is the age structure of your employees?

The aim of this question was to obtain information on the age structure of the employees at the interviewed enterprises. The survey results show that 41% of the 68 SMEs interviewed declared that their employees were relatively young, between 20-35 years old, and 53% of the enterprises had employed individuals from 20 – 50 years old, while the remaining 6% of the enterprises interviewed stated to have employed individuals between 35-50 years old.

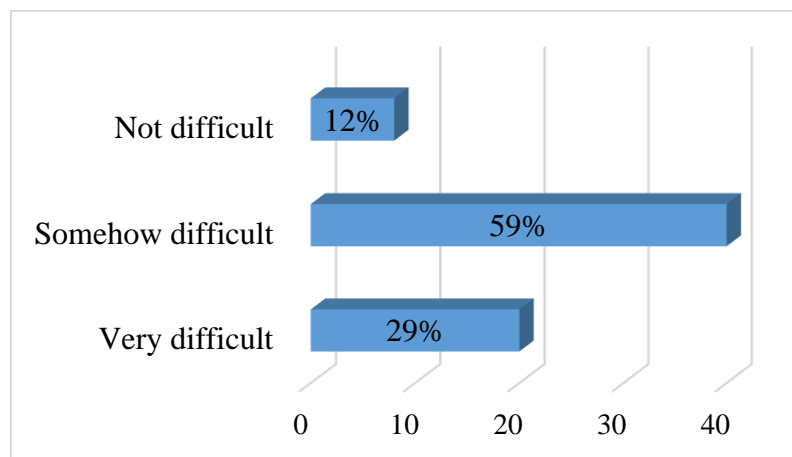
Figure 5. Age Structure of Employees



Q11. Is it difficult to hire skilled employees?

Respondents were also asked about the level of difficulty to hire skilled staff. With regard to hiring professional and skilled employees, 29% out of the 68 surveyed enterprises find it very difficult to hire skilled and professional employees; 12% of them said that it was not difficult at all hiring the former, while 59% of the 68 interviewed SMEs claimed that hiring skilled and capable employees was somehow difficult.

Figure 6. Difficulty to Hire Skilled Employees



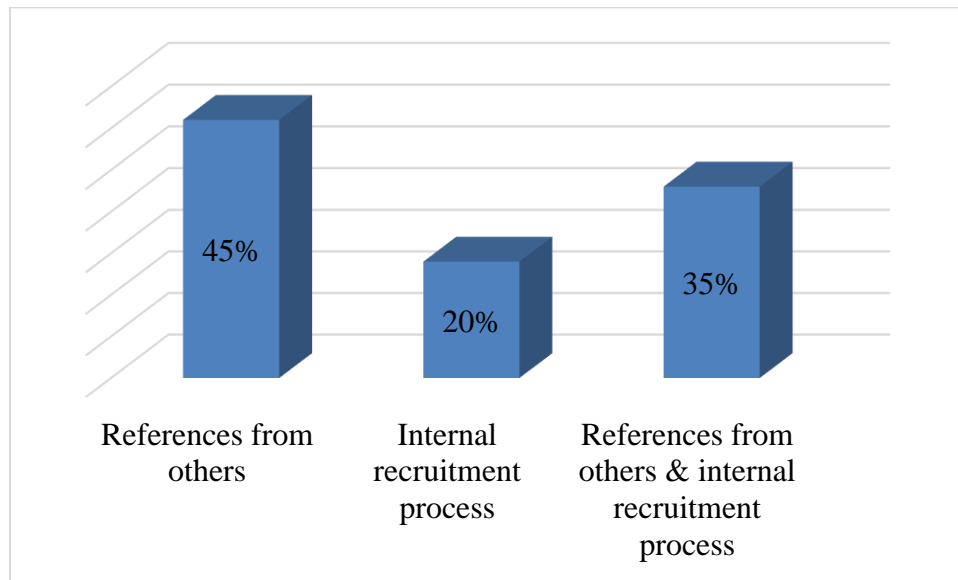
Q12. How do you recruit new staff?

Interviewees were asked to provide answers to this question from the options below:

- a) Reference from others
- b) Internal recruitment process
- c) Participation in job fairs
- d) Other.

In relation to recruitment of new staff, businesses were asked about methods they use to hire new employees in their enterprises. As data show, 45% of the 68 interviewed small and medium enterprises recruit new staff through references from others, 20% of them through internal recruitment process, while the remaining 35% of the enterprises recruit new employees using both, references from others and through internal recruitment process.

Figure 7. Recruitment of New Staff



Q13. Do you have an employee skills assessment process in place?

According to a great part of the interviewed SMEs they have an employee skills assessment process in place. This finding shows that most of the interviewed enterprises consider the identification of skills gaps and training needs in their enterprises of an utmost importance.

Q14. Do you have an employee performance evaluation process?

Annual performance evaluations are an important element for career development. This assessment method is considered to be a merit based and fair evaluation of the job performance of an employee.

From the survey results, 77% of the 68 businesses claimed that they have an employee performance evaluation process in place. This shows that the majority of the interviewed businesses evaluate their staff based on their performance. Moreover, performance review is considered to be a key component for employee's development in each enterprise.

Q15. Do you face problems in attracting capable labor force and skilled business managers?

Interviewees were asked also to provide an answer on whether they face problems to attract skilled workers and skillful managers. The results of the research indicate that 60% of the interviewed small and medium enterprises face problems in attracting skilled managers and capable individuals.

With regard to qualifications of the employees, out of the 68 enterprises surveyed, 42 of them declared that proper education and work experience in similar positions are very important; therefore, individuals with such backgrounds have more advantages to getting hired.

Table 7. Importance of Employees' Qualifications and Skills

Description of skill	Level of importance		
	Very important (in percentage)	Important (in percentage)	Of average importance (in percentage)
Proper education	62	31	7
Experience of working in similar positions	62	21	17
Knowledge in using equipment	47	12	41
Communication skills	54	18	28
Managerial skills	53	13	34

The survey results indicate that proper education and work experience in similar positions were evaluated as very important by 62% of the respondents. Knowledge in using working equipment was also evaluated as very important by nearly 50% of the enterprise owners/managers interviewed.

Relating to importance of 'soft skills', more than 50% of the interviewed enterprises claimed that communication and managerial skills are of a high importance for them.

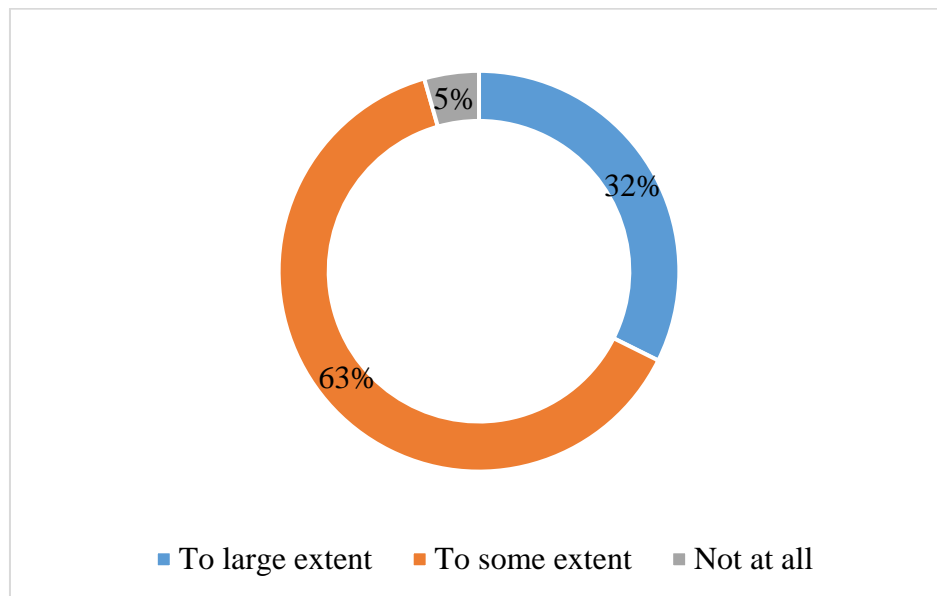
6.1.4 Regulations' Section

The following part presents information and results of the research done on the legal aspect. It contains questions on the impact of the current legislation and regulation framework as well as potential governmental law restrictions to interviewed enterprises.

Q17. To what extent system barriers, policies and procedures affect your service delivery and production /sales process?

According to the results from the survey, in relation to the extent system barriers, policies and procedures affect their service delivery and production/sales process, 32% of the 68 interviewed enterprises declared that the current system policies and procedures affect their businesses to a large extent, 63% to some extent, while the remaining 5% of the enterprises responded that system barriers do not affect their businesses at all.

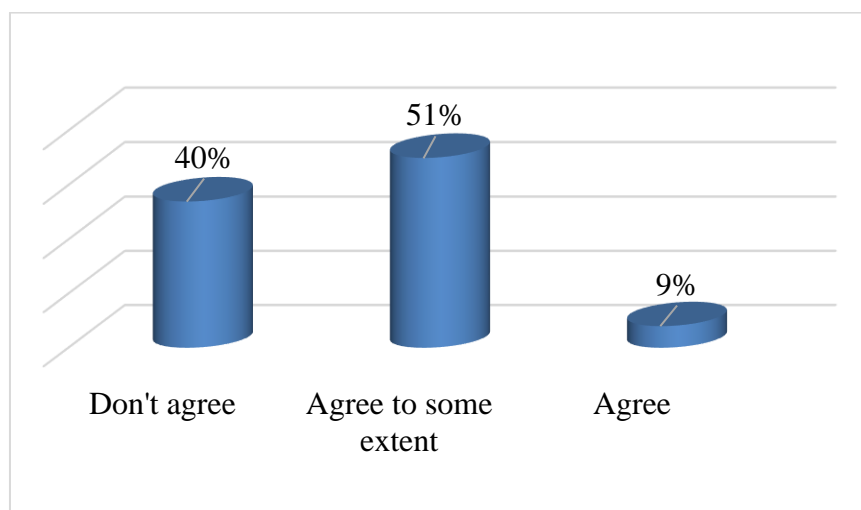
Figure 8. The Extent System Barriers, Policies and Procedures Affect Service



Q18. Is the current Kosovo legal framework favorable to SMEs in Kosovo?

Regarding the current Kosovo legal framework, owners/representatives of small and medium enterprises were asked whether the existing legal framework is favorable to SMEs in Kosovo. Results of the survey point out that only 9% of the interviewed SMEs fully agree that the current legal framework of Kosovo does provide advantages to small and medium enterprises in Kosovo, while 51% agree on this to some extent. This shows that the current legal framework in Kosovo should be further improved in order to provide a prosperous environment for the development and growth of SMEs in Kosovo.

Figure 9. Current Kosovo Legal Framework Toward Small and Medium Enterprises in Kosovo



Q19. Which of the following issues presents an obstacle for your business development, growth and sustainability?

The respondents were asked to give their answers on the issues that present an obstacle to their business development, growth and sustainability, from the following options:

- a) Tax level,
- b) Import fees,
- c) High level of corruption, and
- d) Court non-efficiencies.

On the question regarding obstacles for their business development, growth and sustainability, majority of the respondents provided **more than one answer** to this question. However, majority of the surveyed enterprises complained on current taxes as an issue that affects their businesses, 42% of them complained on current import fees, and high level of corruption was mentioned by 45% respondents.

On the other hand, court non-efficiency presents a serious issue and an obstacle for the development, growth and sustainability of 28% of the interviewed SMEs.

The following table shows the issues that present obstacles to SMEs.

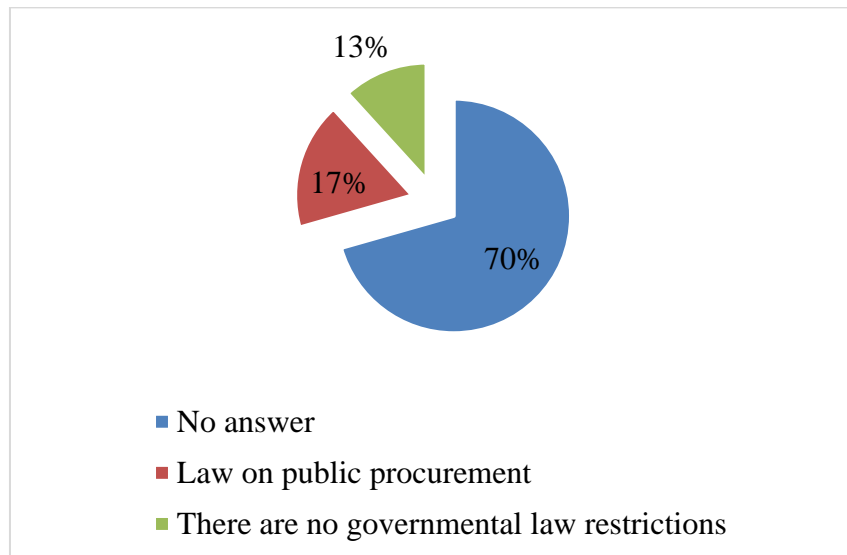
Table 8. Issues that Present Obstacles to SMEs

No.	Issue	Respondents in percentage
1	Tax level	66
2	Import fees	42
3	High level of corruption	45
4	Court non-efficiencies	28

Q20. Are there any governmental legal restrictions that impact the growth of your enterprise? If yes, can you mention some of the restrictions?

Respondents were asked also about the impact the law restriction has on the growth of their enterprises. 70% (48 respondents) of the interviewed SMEs did not provide any answer to this question, 17% of the respondents blamed the current Law on Public Procurement as a restriction, and only 13% of the interviewed SMEs consider that currently there are no governmental law restrictions in place, which could affect the growth of their enterprises. Consequently, further efforts should be made toward amendment of the current Law on Public Procurement, and the government should also undertake serious steps to lower the current tax levels, which presents a serious obstacle to businesses.

Figure 10. Governmental Legal Restrictions



6.1.5 Technology Section

This section elaborates the questions and answers related to the technology of SMEs. Mainly, it includes questions on current technology used by the interviewed enterprises; obstacles in obtaining latest technology.

Q21. How would you evaluate your current technology?

The results indicate that the dominant percentage of the interviewed enterprises, or 80% of the 68 evaluated their current technology as a new technology, while the remaining 20% enterprises claimed they possess old but functional technology. This shows that majority of the interviewed enterprises possess new technology, which implies that they are determined to provide qualitative and innovative products and services to their customers.

Q22. How do you follow technology trends and advances?

Interviewees were asked to provide an answer to the above question from the following:

- 1) Magazines,
- 2) Study,
- 3) Internet,
- 4) Training,
- 5) Other.

Majority of the respondents provided **more than one answer** to this question, thus 75% of them follow technology trends and advances through internet, 45% through training courses, 17% of the enterprises through trade fairs, while only 7% of the interviewed SMEs follow the

technology trends and advances through magazines. These figures show that small and medium businesses in Kosovo follow the latest technology trends and advances, moreover they aim to be updated with the latest technology in order to be competitive.

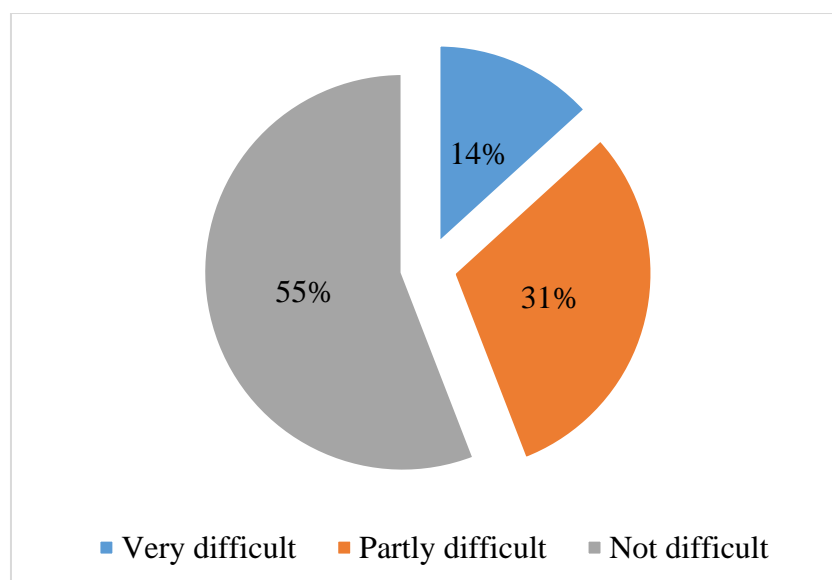
Table 9. Keeping Up with Technology Trends

No.	Method of keeping up with technology trends	Respondents in percentage
1.	Internet	75
2.	Training	45
3.	Trade Fairs	17
4.	Magazines	7

Q23. Is it difficult for you to get new technology?

Interviewees in this survey were asked also about the difficulties they have to get new technology. 55% of the 68 surveyed SMEs declared that it was not hard for them to obtain new technology, 31% considered it partly difficult, while only 14% of the enterprises find it very difficult to obtain new technology. As this data shows, more than 50% of the respondents find it easy to find and attain new technology.

Figure 11. Difficulty in Getting New Technology



Q24. What are the obstacles to purchase new technology?

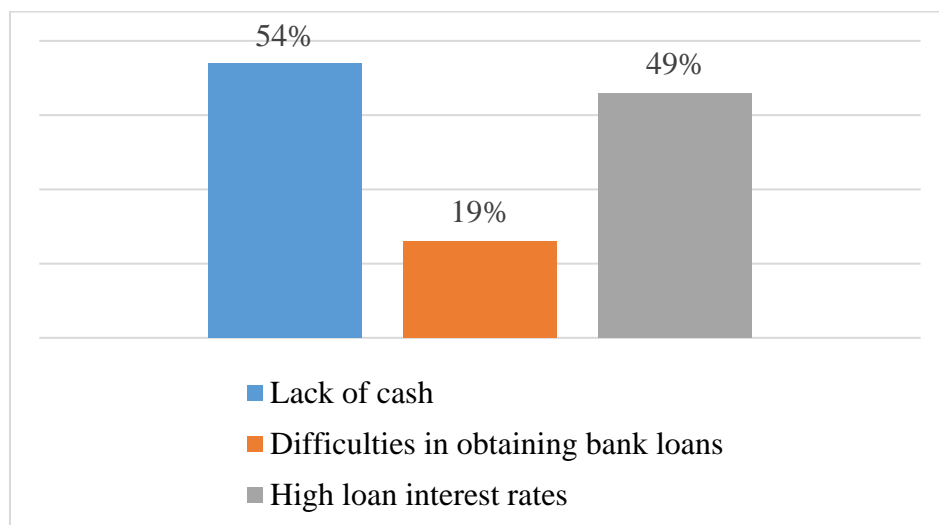
Concerning this question, respondents were asked to provide answers from these options:

- 1) Lack of cash,
- 2) Difficulties in obtaining bank loans,

- 3) High loan interest rates,
- 4) Other.

To this question, some of the respondents provided **more than** one answer. The results point out that 54% of the interviewed enterprises mentioned the lack of cash as the main obstacle to purchase new technology, 19% complained about difficulties in obtaining bank loans, and 49% of the enterprises consider high interest rates as an obstacle to purchase new technology. These findings show that many enterprises in Kosovo struggle to purchase new technology mainly due to lack of cash in the market. Furthermore, many interviewees underlined that the lack of cash causes additional difficulties to their enterprises due to late payments and delays in their daily operations.

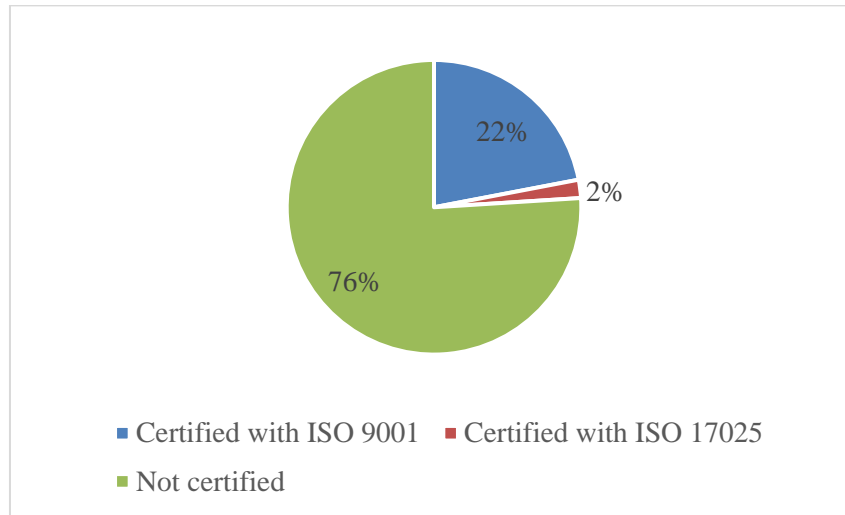
Figure 12. Obstacles to Purchase New Technology



Q25. Is your enterprise certified with any of the international quality standards (such as, ISO standards)?

Respondents were asked also about internationally recognized quality standards certifications. The results indicate that only 22% (or 15 respondents) of the 68 surveyed SMEs are certified with ISO 9001 standard for quality management, 1 enterprise was certified with ISO 17025 for testing and calibration, while the dominant number of 76% of the enterprises are not certified with any of the international quality standards. This shows that, at this moment, majority of Kosovo small and medium enterprises are not interested in obtaining such certifications.

Figure 13. Enterprises Certified with Quality Standards



6.2 Summary of main Findings

The analysis of SMEs included in my sample show that most of them use the existing cash (savings) to finance their operating businesses, while they continue to rely on external financial means, mainly bank loans, to fund the growth of their enterprises. Also, when applying for bank loans, besides high interest rates, non-flexible payment terms present another headache for them. The difficulties to acquire banks loans and finding potential investors interested in their businesses are among the main financial problems noted by the SMEs today in Kosovo.

From the human resources perspective, the results indicate that around one-third of the respondents have difficulties in hiring skilled employees, while 60% of them have experienced problems so far in attracting capable labor force and skilled business managers. This finding is a strong fact that the qualifications of current labor force do not match with the real market needs.

The responses provided by the interviewees show that the current legal framework has a considerable impact on the service delivery and production/sales process of enterprises, while 40% of the respondents consider that the existing Kosovo regulations do not provide any advantage to SMEs in Kosovo. Tax level, import fees and high level of corruption remain the most pressing problems to small and medium enterprises included in my sample. Furthermore, current Law on Public Procurement was mentioned among the key governmental legal restrictions that affects the growth of enterprises.

While analyzing the answers from this section, a contradiction of results was noticed when they were compared to the answers on the importance of regulations as a hindering factor. The minority of respondents (13%) declared that there are no governmental law restrictions.

The current technology used by interviewed enterprises is new, which means that Kosovo SMEs strive to remain technologically advanced and competitive. This is a very positive finding. Majority of the respondents consider that it is not difficult to find and get new technology, however lack of cash and high loan interest rates continue to present a barrier to purchasing latest technology.

7 COMPARISON OF THE IMPORTANCE OF THESE FACTORS BETWEEN KOSOVO AND EU MEMBERS

The development of Kosovo's private sector has been restrained by an unfavorable business climate and limited investments in the past two decades. Deficiencies in management know-how and corporate governance, weak access to funding and ineffective legal system have led to weak competitiveness and minimal growth (EBRD, 2013). The growth and sustainability of small and medium enterprises continued to be hampered by various barriers, which present real obstacles to the prosperity of the existing firms.

As it was explained in the previous chapters, the main obstacles to growth and sustainability of Kosovo SMEs remain: access to finances, availability of capable workforce, regulations' framework and availability of new technology.

Several studies have indicated that the existence of barriers to growth has affected negatively SMEs in the EU member states as well. Consequently, they produce weaker results, such as lower profitability, higher staff turnover, lower rate of survival, less success in the field of innovation, lower capacity to invest in staff development and training (EPRS, 2016).

The comparison of the importance of these factors between Kosovo and EU members is interesting. Many studies conducted in the recent years indicate that there are a lot of similarities and differences among EU countries, and between Kosovo and EU countries. That is elaborated further in the following part of this thesis.

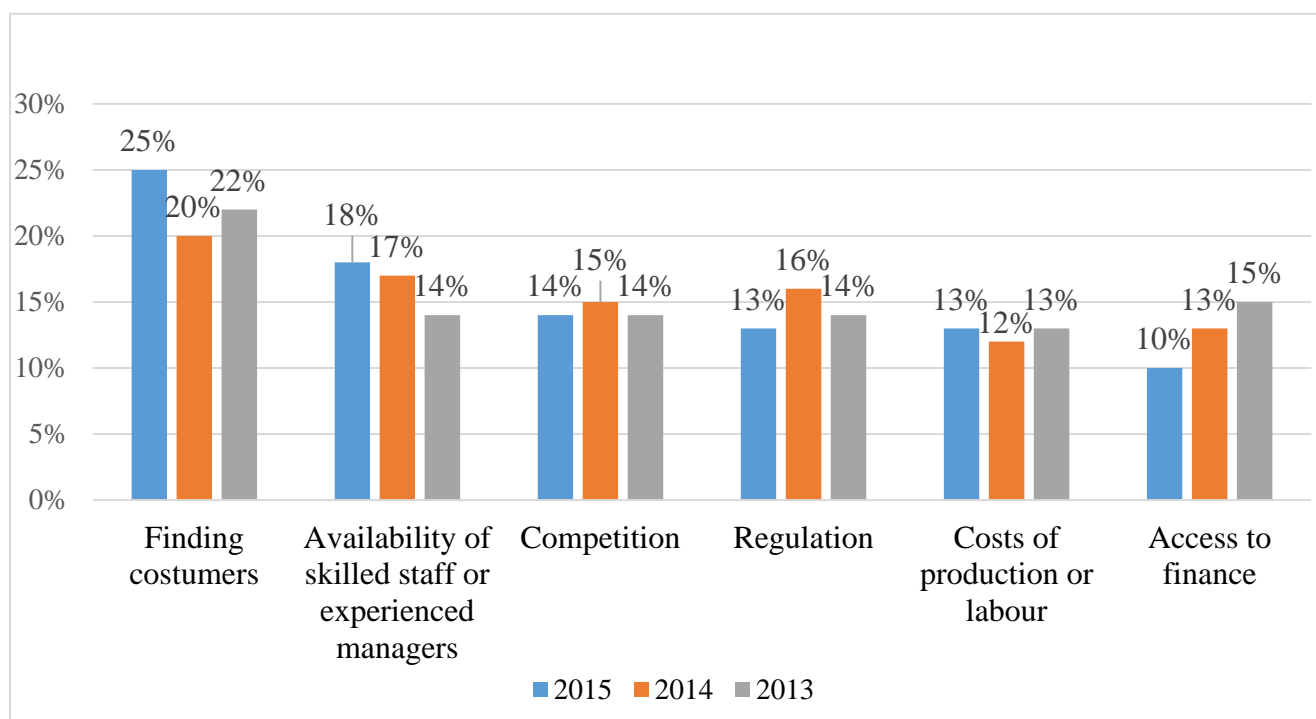
In accordance with the results from the survey conducted by European Central Bank and EC DG Growth in the third quarter of 2014, the main obstacles faced by SMEs in the EU member states are:

- **Finding customers** continued to be the main barrier for small and medium enterprises. However, it has decreased over the last years in importance. The reason could be that some firms may hesitate to invest money and hire new employees although they have sufficient financial sources to spend for that purpose.
- **Access to finance** has dropped significantly in importance, and only 13% of the interviewed SMEs across EU member states elected this obstacle as the main headache for their businesses during 2014.

- **Availability of skilled staff or experienced managers, and regulations**, was chosen by a higher percentage of firms as the most pressing **problem**.

According to the research conducted by European Commission (EC) and the European Central Bank (ECB), the biggest obstacles identified by small and medium enterprise in the EU countries for the period 2013-2015 are as follows:

Figure 14. Most Pressing Issues Signaled by EU SMEs during 2013-2015



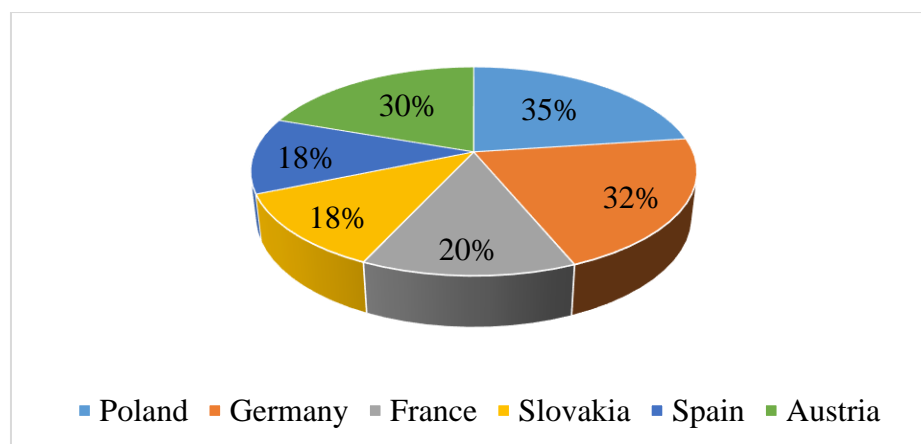
Source: EPRS, *Barriers to SME growth in Europe*, 2016, p.2; European Commission, *SME Annual Report*, 2015, Table 5.

As it can be seen from the above figure, some of the most pressing problems faced by SMEs in EU member states have changed in importance during the last three years. **Finding costumers** has become the most pressing problem among all other obstacles shown above. This barrier has increased in importance for 5% in 2015 compared to 2014. That was chosen the main obstacle from only 20% of the small and medium enterprises in the EU member states.

Speaking on individual states, as it can be seen from the figure below, finding or winning new customers has been considered the main problem and the main obstacle to growth for 35% of the SMEs in Poland, 32% in Germany, 30% in Austria, 20% in France and 18% for SMEs in Slovakia and Spain (DB, 2014).

It is worth mentioning that according to the latest Survey on the Access to Finance of Enterprises in the Euro Area – October 2015 to March 2016, conducted by the European Central Bank, **finding customers** continues to be the primary concern for SMEs (ECB, 2016).

Figure 14. Finding Costumers as a Growth Obstacle to SMEs in EU Member States

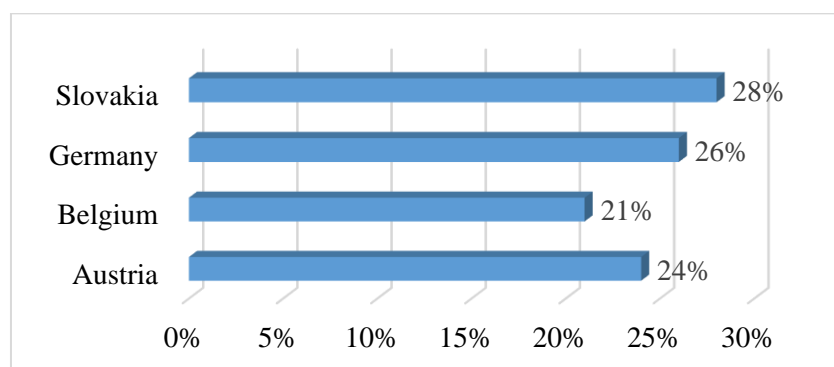


Source: European Commission, *SME Annual Report*, 2015, Figure 83.

The availability of skilled staff or experienced managers has been considered the second highest important obstacle to growth by 18% of the EU SMEs in 2015, only one percent more than in 2014, and 8% more than in 2009.

Concerning skill shortages among EU member states, speaking on individual states, according to the figure below, the findings from ECB Research on the Access to Finance of Enterprises show that **the availability of skilled staff or experienced managers** remains a pressing concern for EU countries, such as Austria, Belgium, Germany and Slovakia, with the percentages standing at 24%, 21%, 26% and 28% correspondingly (ECB, 2016)

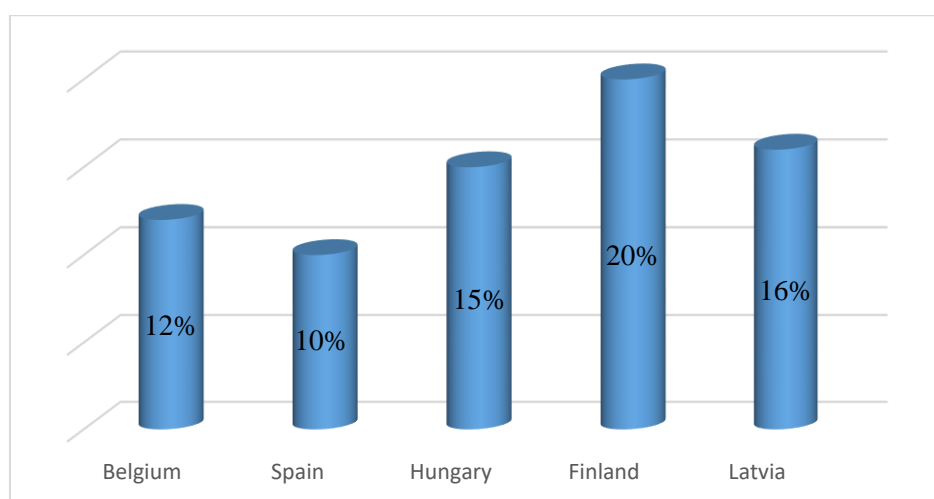
Figure 15. Availability of Skilled Staff or Experienced Managers as a Growth Barrier to EU SMEs



Source: European Commission, *SME Annual Report*, 2015, Figure 83.

Competition has continued to remain one of the main obstacles to SMEs in EU member states, while it has not been subject to any major important change in recent years. In 2015, same as in 2013, it represents a pressing growth problem only to 14% of the EU SMEs. In particular, as it can be seen from the figure below, in 2014 competition was a pressing issue to 20% of SMEs in Finland, and only to 10% of SMEs in Spain.

Figure 16. Competition as a Pressing Issue to SMEs in the EU Member States



Source: European Commission, *SME Annual Report*, 2015, Figure 83.

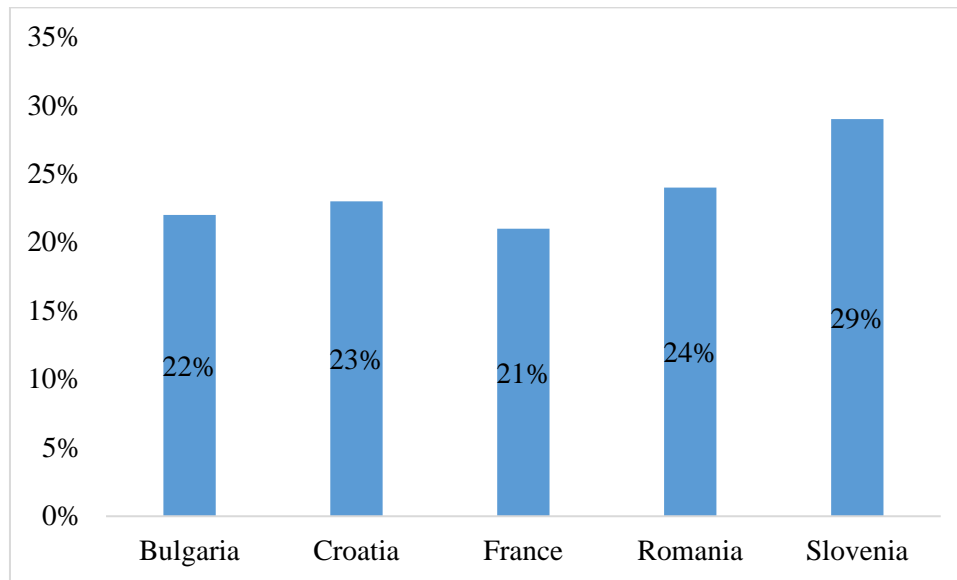
Another important obstacle to EU SMEs is the **regulation** framework. Although it has dropped in importance from 2014, when the regulation framework was a barrier to 16% of small and medium enterprises in the EU countries, in 2015 it represented an obstacle to only 13% of them. Speaking on individual states, in Bulgaria, Croatia, France, Romania, and Slovenia, over 20% of small and medium enterprises considered regulation framework the foremost obstacle for them. (EC, 2015).

In Western Europe, namely in Portugal, small and medium enterprises have also experienced negative effects due to regulatory obstacles, including restrictive institutions and unfavorable taxes, during the period 2009-2013.

Taxation remains one of the most pressing problems from the **regulations** aspect. Many private firms in the EU consider taxation to be the most burdensome policy area affecting them. Tax regulations, along with inefficient government bureaucracy and corruption, continued to remain among the most pressing issues for SMEs in 2015, in most of the countries located in Central and Eastern Europe, particularly for doing business in Poland (Roman & Rusu, 2015).

Nonetheless, contrary to large companies, which have a total tax compliance cost ratio to all taxes paid at only 1.9%, the European SMEs pay the same ratio of more than 30%.

Figure 17. Regulation Framework as a Growth Barrier to the SMEs in the Euro Area States



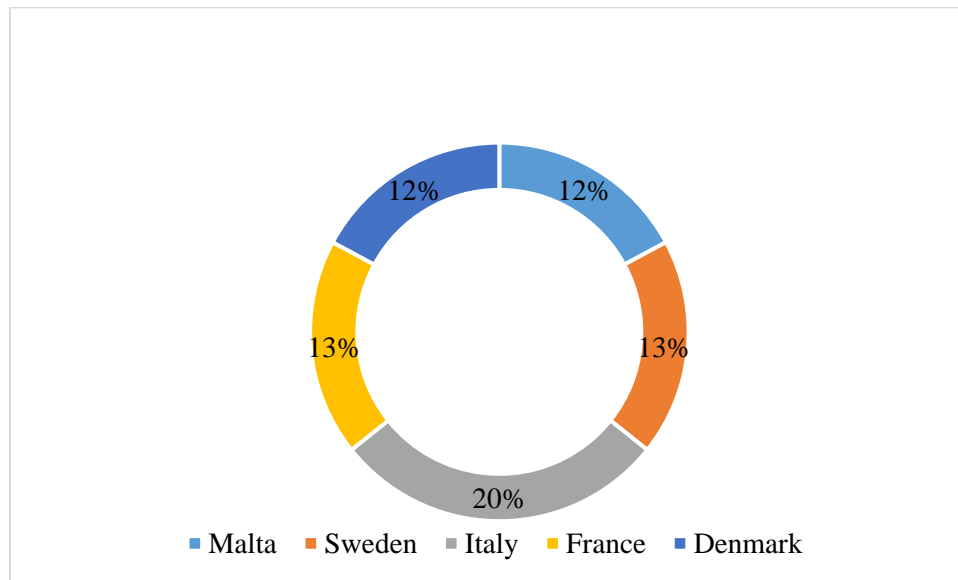
Source: European Commission, *SME Annual Report*, 2015, Figure 83.

Besides tax regulations, **administrative burden** is another problem for the euro area SMEs. A study on the total costs of the administrative burden as a percentage of GDP, conducted in 2015 by EC, indicated that Italy, Spain, Poland, Greece and Hungary experienced the highest levels of administrative issues (between 4.6% and 6.8%), while Finland, Sweden, the UK, Denmark, and Ireland had the lowest rates (between 1.5% and 2.4%). The report also found that in most countries the smallest enterprises are charged with higher administrative burden (EC, 2015).

Based on the EPRS study results, a firm with less than ten employees has to deal with a regulatory burden (which is measured per employee) that is nearly double the burden of an enterprise with more than ten but less than twenty employees, and around three times as high as the burden of firms with more than twenty but less than fifty employees. On the other hand, the burden per employee for bigger companies is only one fifth or less of that of the small enterprises. (EPRS, 2016).

The costs of production or labor, as another pressing problem, has not experienced any significant change in importance in terms of the growth of the EU SMEs. Same as in 2013, in 2015 only 13% of the European SMEs have chosen this issue as an important obstacle, while based on the recent ECB research, in total 14% of euro area SMEs considered the cost of production as their main problem. Specifically, despite the fact that some of the Eastern European countries recorded a labor cost increase higher than 5%, Germany experienced the fewest growth levels among EU, with nearly 2%, while Poland on the other side recorded the highest labor cost growth of 5.3% in the period 2005-2014 (GTAI, 2015).

Figure 18. The Cost of Production or Labor as an Obstacle to EU SMEs



Source: European Commission, *SME Annual Report*, 2015, Figure 83.

And last but not least important factor, according to the figure below, **access to finance** remains among the main barriers for development, even though it has decreased in importance for 5% in the last three years, where a total of 10% of the EU SMEs considered it as a barrier to growth in 2015.

In line with the findings from the study conducted by the European Banking Authority in March 2016, in the last years, access to finance has continued to present a barrier to SMEs rather than to large enterprises.

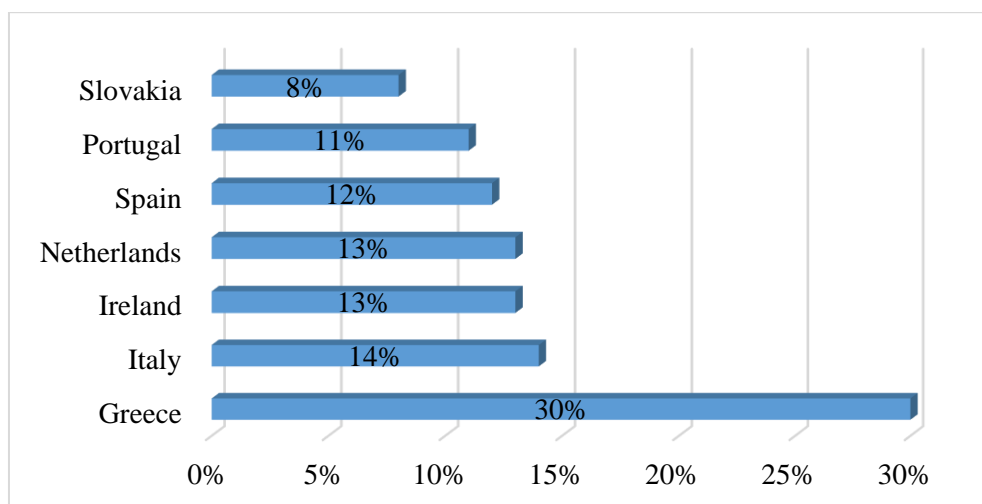
The survey results show that approximately 16% of SMEs experience some issues with bank loan financing (discouraged to apply, rejected, too high cost, or getting only partial loan), compared to 10% of large corporates.

The obstacles to finance vary also by the firm size within the SMEs sector, with micro and small firms being most affected (EBA, 2016). In particular, around 30% of SMEs in Greece, and 13% of SMEs in Ireland, Italy and the Netherlands indicated that access to finance was their most pressing problem, compared with around 7% of SMEs in Austria, Finland and Germany.

The situation in Greece is elaborated also by a survey conducted by Deutsche Bank in 2014, where lack of funding continues to be a serious challenge and a problem for Greek SMEs. Access to finances is a major concern to 43% of their medium firms, 53% of their small firms and 59% of their micro-sized firms (Deutsche Bank, 2014).

Additionally, according to the same study conducted by Deutsche Bank in 2014, in Germany interest rates for SMEs are low and access to finance is comparably easy, even for SMEs. Similar to Germany, access to credit, at least investment credit, remained quite easy for French SMEs over the past years.

Figure 19. Access to Finance as a Growth Obstacle to SMEs in EU Member States in 2015



Source: EPRS, *Barriers to SME growth in Europe*, 2016, p.4

Opposite to SMEs in Germany and France, in Italy 14% of SMEs lamenting the low access to finance as the main concern for them. (Salimi, 2015).

Other affected countries, such as Spain and Portugal, reported 12% and 11%, respectively. In the Central European countries, in Hungary, Romania and Slovenia, the access to finance remains the main obstacle for businesses, while Slovakia, as the only eastern-central European country, showed a level of 8% of SMEs being constrained by this barrier.

In addition, in the Eastern European countries and in the Baltic States, Lithuanian SMEs are facing difficulties in obtaining credit, Estonia has improved the access to finance and Latvia is considered to have a better access to finances than the average of EU's, while for SMEs in Romania access to finance remains difficult (Roman & Rusu, 2015).

Furthermore, SMEs in Ireland, Spain and Portugal consider that the availability of loans is higher than their needs, while Greece is the only crisis country declaring the opposite.

Moreover, based on the research carried out by Deutsche Bank back in 2014, the lack of finances during the recent years in Spain caused a change to the status of the SMEs, from SMEs to larger enterprises, which might continue in the period ahead.

It is worth mentioning that according to the latest Survey on the Access to Finance of Enterprises in the Euro Area, October 2015 - March 2016, conducted by the European Central Bank, **access to finance** was ranked as a barrier of a little importance for euro area SMEs.

Similar challenges and barriers to growth of private enterprises are evident also in the neighboring country of Albania, a candidate state for joining the EU, where among main obstacles to growth and sustainability of SMEs are: obtaining loans from the banking sector, legal system, the informal economy, getting electricity, etc. (Doing Business, 2016).

The comparison of importance of these factors between Kosovo and EU members, as it is presented also in the table below, indicates that there are many similarities and few differences on obstacles to growth as found in this research. Although access to finance has been viewed as the smallest obstacle for European small and medium enterprises, it still remains among the obstacles to growth and sustainability of SMEs in some EU member states.

While for Germany and France access to finance is easy, it continues to be an obstacle to SMEs growth in Spain, Italy, Greece, Portugal, Ireland, Netherlands and Slovakia.

Table 10. Comparison of Importance of Growth Factors between Kosovo and EU Member States

Country	Factors				
	Access to finance	Availability of skilled staff/experienced managers	Regulation	Finding customers	The costs of production or labor
Kosovo	Obstacle	Obstacle	Obstacle	Not an obstacle	Not an obstacle
EU member states	Obstacle (for Spain, Italy, Greece, Portugal, Netherlands, Ireland and Slovakia)	Obstacle	Obstacle (for Bulgaria, Croatia, France, Romania, Slovenia)	Obstacle	Obstacle to only 13% of the EU SMEs

Similar to Kosovo SMEs, which have been analyzed in this study, the **availability of skilled staff/experienced managers** is still a barrier for the EU member states to a high percentage, particularly in UK, Austria, Czech Republic, Estonia, Germany, and Luxembourg. Legislation and regulation framework is another similarity with the Kosovo SMEs, which presents an obstacle to SMEs in the following EU member states, such as: Bulgaria, Croatia, France, Romania, and Slovenia, while in the other member states it presents no obstacle.

The main differentiation between Kosovo and EU member states is **finding costumers**. While for SMEs in the EU countries this factor remains the most pressing problem (even though it has decreased in importance in the recent years), according to this research, it does not present an obstacle to SMEs in Kosovo at all.

To end, one may conclude that Kosovo SMEs have more similarities with SMEs from countries located in Central, Eastern and South Eastern Europe, and more differences with SMEs from Western and Northern European countries.

CONCLUSIONS

It is considered that the contribution of SMEs to economic development is undeniable. Many studies and researchers, particularly among developing countries have made efforts to identify the main obstacles which influence the performance of SMEs.

According to these studies, main obstacles affecting growth and sustainability of the small and medium enterprises are: access to funding, hiring skilled and capable workforce, access to modern technology and legal barriers, which derive from current legislation and regulation framework.

The aim of this research was to analyze, study and present the key barriers affecting the performance and success of SMEs in Kosovo. With regard to the research, questions from **access to finance** section, difficulty to find interested investors and difficulties to acquire bank loans, are top obstacles to the dominant percentage of interviewed enterprises.

On the question “problems they have faced while obtaining the loan”, most of the interviewed enterprises declared that interest rates are very high. According to this finding, for the majority of interviewed enterprise owners/managers, interest rates remain high and this presents a serious obstacle and burden to businesses. While, with respect to financial means they would use to fund the growth of their enterprises, most of the interviewed enterprises prefer to use bank loans to achieve growth of the enterprise rather than using other financial methods.

Based on these findings, we can draw the conclusion that the SMEs included in my sample continue to rely on bank loans, while in the meantime they are exposed to various difficulties to access financial means for the growth of their enterprises.

Human resources present the most valuable and most important asset for each organization or enterprise – regardless the size of the organization. In order to operate successfully, each enterprise should hire capable and competent people who will run the activities and achieve the goals and objectives of the business.

Concerning the questions under human resources section, when it comes to recruitment of new staff nearly half of the interviewed enterprises recruit new employees through references from others. In accordance with these findings, we can conclude that the interviewed SMEs in Kosovo mostly prefer to hire staff relying on references rather than internal recruitment process.

With respect to hiring skilled and competent staff, majority of interviewed enterprises find it somehow difficult to hire skilled workforce, while for a considerable percentage it is very difficult. In the view of the research question on problems enterprises face in attracting capable labor force and skilled business managers, the majority of enterprises analyzed in this survey, face problems in this regard. Therefore, based on the findings presented in this thesis, we can conclude that private enterprises in Kosovo are also exposed to limitations in finding, attracting and hiring skillful and capable employees and managers for their enterprises.

In light of **laws and regulation framework** section questions, majority of the surveyed enterprises declared that the current system policies and procedures affect their businesses to some extent, while for a significant percentage, that is evaluated to a large extent.

With respect to the research question “Does the current Kosovo legal framework provide an advantage to small and medium enterprises in Kosovo?” few of the enterprises interviewed fully agree that the current legal framework of Kosovo provides advantages for SMEs in Kosovo. On the other hand, with reference to the research question “Which of the following issues present obstacle for your business development, growth and sustainability?”, the dominant percentage of the interviewed enterprises complained on current taxes and current import fees.

In accordance with the findings presented, one can conclude that most of the private enterprises which were part of this survey feel that the current legal framework and regulations do not provide a favorable environment for the success, growth and sustainability of their enterprises.

As for **technology** section questions, majority of the interviewed enterprises in this survey declared that they are in possession of new technology. This is a very encouraging finding leading to the conclusion that the surveyed SMEs have a basic condition for growth in place. However, for the operationalization of this technology, enterprises should also invest in upgrading capacities of their staff. In view of the question “Is it difficult for you to obtain new

technology?”, majority of the interviewed enterprises find it easy to find and obtain new technology.

Nevertheless, with respect to obstacles on purchasing new technology and equipment, lack of cash is the main obstacle for more than half of the interviewed enterprises. This finding shows that the surveyed private enterprises in Kosovo struggle to purchase new technology, mainly due to lack of cash.

Furthermore, in order to lead and operate an enterprise successfully, be more competitive and to increase the trade with regional and international enterprises, Kosovo enterprises should start implementing and obtaining internationally recognized Quality Management Systems (QMS) standards, such as: ISO and HACCP. Based on this study results, only few of them have applied quality standards so far. By applying such standards, the SMEs in Kosovo would be able to structure, document and monitor their daily business operations. Also, QMS helps to determine how well the enterprise operates across different departments and whether improvements are needed in certain enterprise operations to enhance customer satisfaction and enterprise performance.

Lastly, it must be noted that other obstacles mentioned by few respondents in this study are: high level of corruption, inefficiency of the judicial system, existence of the informal economy, electricity prices and lack of permanent electricity supply.

The survey results presented in this thesis are in favor of the majority of findings from other studies and researchers, who have analyzed the obstacles affecting the growth and sustainability of SMEs¹.

RECOMMENDATIONS FOR IMPROVEMENT OF THE BUSINESS ENVIRONMENT FOR SMEs IN KOSOVO BASED ON THE MAIN FINDINGS

Consistent with the above-mentioned findings and conclusions, I propose the following recommendations for improvement of current small and medium enterprises, and also to the main relevant institutions and authorities in Kosovo.

It was proven in this study that lack of finances continues to have a tremendous influence on the development and sustainability of SMEs. Therefore, banks and other micro-financial institutions should consider new possibilities in providing easier loans with affordable interest rates and flexible terms to SMEs. Relating to this, the recently launched Kosovo Credit

¹ According to the study conducted by AMCHAM in 2014, the main barriers to growth of SMEs in Kosovo are, cited by the order of magnitude: high tax rates, difficulties in obtaining loans, and the weak rule of law.

Guarantee Fund and other potential future guarantee schemes could be an important mechanism for supporting this recommendation.

From the findings and conclusions presented in this study, it was confirmed that legal framework and regulations are among the major factors affecting the success and growth of SMEs. Thus, it is recommended that government should introduce laws and regulations favorable to private businesses, thus promoting and enabling a stimulating business climate for the private sector. Moreover, the government has to be more proactive in development of policies and regulations to support the growth of SMEs in Kosovo by introducing incentive packages to private enterprises, such as grant or subvention schemes, pro-active policy interventions, etc. In addition, government institutions and agencies should strengthen communication and relationship with all SMEs, in order to receive continual feedback with the purpose of identifying problems and fields of intervention.

According to the results from this research, the difficulty to attract and hire skilled workforce and experienced managers was also recognized as an obstacle to growth of small and medium enterprises. This presents another fact that education system and courses taught across public and private education institutions in Kosovo do not correspond to real market needs, due to inappropriate education system, which is mainly based on theory and less in practice. It is recommended that educational providers introduce the “Theory to Practice” approach, where besides lectures students will also have the opportunity for internship during their study program.

Finally, yet importantly, vocational education and training should be promoted further, given that finding skilled people remains a challenge for small and medium enterprises, especially for those enterprises engaged in production or processing sectors. Thus, cooperation among VET schools and enterprises should be enhanced further in order to reduce the skills gap in the market.

In accordance with the results of this survey, I came to the conclusion that majority of the SMEs are in possession of new technology. This is a very encouraging conclusion since surveyed SMEs have a basic condition for growth in place. However, for the operationalization of this technology, enterprises should also invest in upgrading capacities of their staff.

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APPENDICES

LIST OF APPENDICES

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Appendix 1: List of abbreviations

Abbreviation	Meaning
AMCHAM	American Chamber of Commerce
CEFTA	Central European Free Trade Agreement
CIA	Central Intelligence Agency
CIP	Competitiveness and Innovation Framework Program
CIT	Corporate income tax
COSME	Europe's Program for Small and Medium-sized Enterprises
EC	European Commission
ECB	European Central Bank
EPRS	European Parliamentary Research Services
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GTAI	German Trade and Invest
HACCP	Hazard Analysis Critical Control Point
IMF	International Monetary Fund
ISO	International Organization for Standardization
IT	Information Technology
KAS	Kosovo Agency of Statistics
KBRA	Kosovo Business Registration Agency
KCGF	Kosovo Credit Guarantee Fund
KIESA	Kosovo Investment and Enterprise Support Agency
KCC	Kosovo Chamber of Commerce
OECD	Organization for European Co-operation and Development
MTI	Ministry of Trade and Industry
NCEI	National Council for European Integration
PIT	Personal Income tax
PPP	Purchasing Power Parity
QMS	Quality Management System
SBA	Small Business Act
SEECCEL	South East European Centre for Entrepreneurial Learning
SME	Small and Medium Enterprises
SMEDP	Small and Medium Enterprises Development Program
UK	United Kingdom
USAID	United States Agency for International Development
VAT	Value Added Tax
VET	Vocational education and training
WB	World Bank

Appendix 2: Questionnaire for SMEs

GENERAL QUESTIONS

1. What is the size of your enterprise?
 - a) Micro [up to 9 employees]
 - b) Small [10 to 49 employees]
 - c) Medium [50 to 249 employees]
2. What is the legal form of the registration of your enterprise?
 - i. Individual business
 - ii. Partnership
 - iii. Limited Liability Enterprise
 - iv. Joint Stock Enterprise
 - v. Other, specify

FINANCE SECTION

3. How did you finance the start-up of your enterprise?
 - i. Savings,
 - ii. Relatives,
 - iii. Friends,
 - iv. Other, specify_____.
4. What financing methods you use to finance your business in operation?
 - a) Existing cash
 - b) Bank Loan (Letter of credits, letter of guaranties, etc)
 - c) Relatives
 - d) Other_____.
5. What financial means would you use to fund the growth of the enterprise?
 - i. Savings
 - ii. Friends and family
 - iii. Banks loan/Venture capital
 - iv. “Angel” investors
 - v. Other, specify_____.
6. What are the financial problems that you are facing?
 - a) Need to grow or expand and have no financial resources
 - b) Difficulty to acquire a loan (Cash flow – Collaterals)

- c) Difficulty to find investors interested in your business
 - d) Other; _____
7. Have you ever obtained a loan from a bank?
- a) Yes
 - b) No.
8. If yes, what were the problems that you have faced while obtaining the loan?
- a) Very high interest rate
 - b) High volume of documents required
 - c) Long time taken to obtain the loan
 - d) Non-flexible payments conditions
 - e) Other _____
9. If no, what were the obstacles that you faced when you applied for the loan?
- a) Large list of collaterals/pledge required
 - b) No proper financial statements (not prepared in accordance with local accounting standards/IFRS)
 - c) Other _____

HUMAN RESOURCES SECTION

10. What is the age structure of your employees?
- a) Under 20 years old
 - b) Between 20-35 years old
 - c) Between 35-50 years old
 - d) Over 50 years old
11. Is it difficult to hire skilled employees?
- a) Very difficult
 - b) Somehow difficult
 - c) Not difficult.
 - d) Explain your answer.
12. How do you recruit new staff?
- a) Reference from others
 - b) Internal recruitment process
 - c) Participation in job fairs
 - d) Other _____

13. Do you have an employee skills assessment process in place?

- a) Yes
- b) No

14. Do you have an employee performance evaluation process?

Yes/No.

If no, what is the reason?

15. Do you face problems in attracting capable labor force and skilled business managers?

- a) Yes
- b) No
- c) N/A
- d) Explain your answer.

16. Regarding qualifications of your employees, how important are the following characteristics. Please indicate their importance as well.

	Description	Unimportant	Of little importance	Of average importance	Important	Very important
a)	Education background	1	2	3	4	5
b)	Experience of working in similar positions	1	2	3	4	5
c)	Trainings and certifications	1	2	3	4	5
d)	Knowledge in using equipment	1	2	3	4	5
e)	Language skills	1	2	3	4	5
f)	Communication skills	1	2	3	4	5
g)	Management skills	1	2	3	4	5
h)	Ability to teach/advise other employees	1	2	3	4	5
i)	Team work skills	1	2	3	4	5
l)	Other: [_____]	1	2	3	4	5

REGULATIONS SECTION

17. To what extent system barriers, policies and procedures affect your service delivery and production /sales process?

- a) To large extent
- b) To some extent

- c) Not at all.
- d) Explain your answer

18. Does the current Kosovo legal framework provide an advantage to small and medium enterprises in Kosovo?

- a) Agree,
- b) Agree to some extent
- c) Don't agree.
- d) Explain your answer.

19. Which of the following issues present obstacle for your business development, growth and sustainability?

- a) Tax level
- b) Import fees
- c) High level of corruption
- d) Court non-efficiencies
- e) Other, _____

20. Are there any governmental law restrictions that influence the growth of your enterprise? If yes, can you mention some of the restrictions?

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TECHNOLOGY SECTION

21. How would you evaluate your current technology?

- i. New technology
- ii. Old technology, but functional
- iii. Old technology and not functional.
- iv. Explain your answer

22. How do you follow technology trends and advances?

- i. Magazines,
- ii. Study,
- iii. Internet,
- iv. Training,
- v. Other, please specify_____

23. Is it difficult for you to obtain new technology?

- a) Very difficult
- b) Partly difficult

- c) Not difficult
- d) Explain your answer

24. What are the obstacles to purchase new technology?

- a) Lack of cash
- b) Difficulties in obtaining bank loans
- c) High loan interest rates
- d) Other_____

25. Is your enterprise certified with any of the international quality standards (such as, ISO standards)?

- a) YES specify which ones [_____]
- b) NO