



# **STUDY OF THE CHALLENGES THAT HINDER MSME DEVELOPMENT IN KOSOVO**

**Report for the British Council  
and Swedish Institute**





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**Country Authors**

**Nigel Culkin & Richard Simmons**

Enterprise & Business Development

University of Hertfordshire

College Lane

Hatfield, Hertfordshire

United Kingdom



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## EXECUTIVE SUMMARY

Kosovo is situated on the Balkan Peninsula, in Southeast Europe. It is spread across almost 11,000 sq. kilometres and is bordered by Montenegro in the northwest, the Republic of Serbia to the north and east, FYR Macedonia in the south, the Republic of Albania in the southwest. The Kosovo plain, which gave its name to the country, was the scene of the Battle of Kosovo between Serbia and the Ottoman Empire in 1389.

Kosovo, self-declared independence from Serbia in 2008, which recognised by the United States and the majority members of the European Union (EU) members. However, Russia, and a significant number of other countries - including several EU members - did not. Most recently, Serbia has, in signing the Brussels agreement in 2013, recognised the legitimacy of Kosovo's institutions.

Kosovo is more densely populated than its Western Balkans neighbours. Over half the population lives in rural areas, primarily in small villages in the central plains and on the lower slopes of the mountains.

According to its Labor Force Survey, Kosovo's unemployment rate is 27.5% and higher among young people and women. Kosovo has one of the youngest populations in Europe with an estimated 40% of its citizens below the age of 20, these individuals enter the labour market each year finding limited employment options.

Kosovo remains one of the poorest, least-developed regions of the Western Balkans. Following the 1998–99 conflict, Kosovo's economy benefitted from an influx of international administrators. The adoption of the Euro has helped to bridle inflation. Although the post-independence government worked to strengthen the market economy, particularly by privatizing state-controlled businesses, Kosovo continues to rely heavily on remittances from Kosovars working abroad, as well as on international aid. In 2016, Kosovo's GDP stood at US\$ 6.65 billion (constant 2010 value) having grown 18% (US\$ 1.0 billion) since independence.

Despite this, Kosovo is in improving economic health and there has been a slight improvement in the ease of doing business domestically. Its major industry sectors are retail and wholesale sector (56% of total business volume), followed by Manufacturing (12%), Construction (10%). The Retail sector is the largest employer (36% of all employees) whereas 15% of the workforce is employed in Manufacturing. Unlike other Western Balkans countries, most of Kosovo's exports do not head toward the EU – their key markets are the CEFTA countries, and most likely to be its Western Balkan neighbours (particularly Albania), to whom 47% of export activity is directed.

We undertook a survey of aspiring entrepreneurs across Kosovo. The sample was largely self-selected based on previous telephone surveys where respondents had expressed an interest in entrepreneurship, plus a review of the commercial register and referrals from respondents. The age distribution of aspiring entrepreneurs was under represented in younger age groups but higher in the 25–34 year old group compared with the population.

For the purposes of this study, we refer to these respondents as entrepreneurs. However, it is pertinent to appreciate how Start Ups actually see themselves, as this may well be an indicator of their own growth perspectives and future success:

- 3% describe themselves as entrepreneurs;
- 26% describe themselves as self-employed;
- 69% described themselves as businesspeople.

In this respect, they are quite different to their peers in other markets, who see themselves either as entrepreneurs or self-employed.

Respondents were also distinctly different from other countries in the research) in that all had a higher education qualification.

The World Bank published its latest 2018 'Doing Business' report in January 2018. This shows that Kosovo is now ranked as high as 40th in the world in terms of ease of doing business - a large improvement of its 2017 ranking of 60th. Kosovo performs particularly well on 'Starting a Business';

here it is ranked 10th globally – on the basis that it takes little time to actually set up, with very little cost involved. It also performs well on the ability for businesses to get credit (12th in the world).

Following President Juncker’s 2017 State of the Union address, the European Commission created a set of flagship initiatives and support (the Western Balkans Strategy) targeting specific areas of interest for both the EU and the Western Balkans countries, which were launched in Pristina, Kosovo on Wednesday 28 February. President Juncker met with Mr Hahim Thaçi, President of Kosovo, Mr Kardi Veseli, Chairman of the national Parliament and Mr Ramush Haradinaj, Prime Minister of Kosovo; he also met representatives of the civil society. The European Commission believes that all Western Balkan countries have the chance to move forward on their respective European paths. In particular, Kosovo has an opportunity for sustainable progress through implementation of the Stabilisation and Association Agreement and to advance on its European path once objective circumstances allow.

## POLITICAL AND GEOGRAPHICAL BACKGROUND

Kosovo is landlocked, and borders Albania to the southwest, Macedonia to the Southeast, Montenegro to the west and Serbia to the north and the west. Kosovo has a population of 1,907,592 (predominantly ethnic Albanians), its capital is Pristina which has a population of 200,000.

Rmush Haradinaj is the current Prime Minister of Kosovo, elected after the June 2017 election. The Kosovan government is a coalition between a number of different parties.

Despite declaring its independence from Serbia in 2008, Kosovo has still only been recognised as an autonomous state by 112 of the 193 member states of the United Nations; Russia and China are two of the eighty-one. In addition, five members of the European Union are yet to acknowledge Kosovan independence, along with Bosnia and Herzegovina and Serbia within the Western Balkans.

However, Serbia has, in signing the Brussels agreement in 2013, recognised the legitimacy of Kosovo's institutions<sup>1</sup>. Unfortunately, talks (brokered by the EU) due to take place between Serbia and Kosovo in early 2018 have been postponed due to the assassination of a Kosovo Serb politician, Oliver Ivanovic. These talks are now due to resume later in 2018.

Even though only 23 of the EU member states recognise Kosovo, it is officially considered as a potential candidate for membership by the European Union, with the current goal for full membership by 2024. It is one of the few countries outside the EU that has introduced the Euro as its official currency. However, the Kosovo parliament is currently under international pressure (from the EU and USA) not to scrap the war crimes court and has been given notice that doing so could adversely affect Kosovo relations with the EU (Reuters, 2018).

The EU has launched a number of policies and initiatives that aim to bring the Western Balkans in line with these standards of entry. Kosovo has made progress against these criteria, though the European Commission has identified that it needs to make further improvements, particularly in the areas of legislative implementation and tougher policies to fight corruption and tax evasion (EC, 2016).

These improvements were reinforced by the latest IMF Review, which concluded:

*“weak external competitiveness, informality, weaknesses in governance, low labour force participation and high unemployment rates particularly among young workers continue to constrain Kosovo's growth potential. Resolving these structural problems is needed to develop a productive, export-oriented private sector to accelerate income-convergence with the European Union.”*  
(IMF, 2017b)

<sup>1</sup> The negotiations for normalisation of relations between Belgrade and Pristina are facilitated by the European Union under Chapter 35 of Serbia's EU accession talks



# ECONOMIC BACKGROUND

## Overall Economic Environment

Generally, Kosovo is in improving economic health and there has been a slight improvement in the ease of doing business domestically, but Kosovo remains the poorest economy in the region and has particular challenges with employment. The largest industry sector in the Kosovan economy is the retail and wholesale sector (56% of total business volume), followed by Manufacturing (12%), Construction (10%). The Retail sector is the largest employer (36% of all employees) whereas 15% of the workforce is employed in Manufacturing (European Investment Bank, 2016; ILO, 2017; World Bank, 2017).

According to World Bank data, in 2016, Kosovo's GDP stood at US\$ 6.65 billion (constant 2010 value) having grown 18% (US\$ 1.0 billion) since independence in 2009. Even so, it is a small nation, second only to Montenegro in the Western Balkans and globally represents just 0.01% of the world's economy (World Bank, 2017a).

However, as **Table 1** shows, growth rates from this small base have always been positive, if rather erratic and 2015-2016 saw growth of more than 3% per annum making Kosovo the fastest growing economy in the region. 2017 has been an even better year for the Kosovo economy; GDP rose 4.4 percent year-on-year in the third quarter of 2017, the same pace as in the previous three-month period, driven by gross capital formation and net external demand as exports jumped 29.4% (16.9% in Q2) more than imports (a softer 6.7% in Q3 2017). In this respect, it is operating at 0.5% above the World Bank forecasts for future growth (World Bank, 2017b).

**Table 1. GDP Growth Rate**

2008	2009	2010	2011	2012	2013	2014	2015	2016
2.6	3.3	3.3	4.6	2.8	3.4	1.2	4.1	3.4

Source: World Bank (2017b)

Kosovo has a uniquely challenging unemployment problem which is by far the worst in the region; unemployment in 2014 was at 35.2% with a net result that only 26.9% of the working age population was actually in employment. To pinpoint the problem even further, in 2016, youth unemployment was running at 61%, exacerbated by the fact that more than 50% of the country is under 25 (ILO, 2017a; Kosovo Statistics Office, 2016).

The informal, shadow, economy in Kosovo is significant, with best estimates sizing it at around 30% of GDP, EUR 1.8 billion (EU, 2017). It is generally assumed that there is a high correlation between unemployment and the size of the shadow economy<sup>2</sup> i.e. most of the unemployed are actually generating incomes 'informally'. Whilst the size of the shadow economy cannot be definitively measured, this level is on a par with Serbia and is recognised as a problem that needs to be tackled at government level. The National Development Strategy (2016) includes a plan of action addressing this - improving workers' rights and working conditions through the Social Economic Council, educating workers currently 'outside the system' of the benefits and rights they are excluded from, and tightening up the mechanisms for identifying those working informally. Indeed, the Kosovan Government has set the objective to strengthen compliance, introduce online invoicing and reporting processes and tighten up on tax avoidance. However most of these measures are targeted at businesses already operating legally and 'on the radar'; whether they will have an impact on the shadow economy has yet to be seen<sup>3</sup>.

Kosovo is the least prosperous (in terms of GDP per capita, PPP) country in the Western Balkans by some margin, c. US\$ 2,000 behind Albania, the second least prosperous. Globally, it stands at about 50% of the World's average on this measure. Adjusted US\$ per capita is shown in **Table 2** below:

<sup>2</sup> A shadow economy is defined as the ensemble of all market-based legal production activities that are deliberately concealed from public authorities in order to evade payment of income, value added, or other taxes; evade payment of social security contributions; evade certain legal labour market standards (e.g. min. wages, max. working hours and/or safety standards); and evade certain administrative procedures, such as completing statistical questionnaires or administrative forms (Schneider et al., 2010).

<sup>3</sup> [http://www.kryeministri-ks.net/repository/docs/National\\_Development\\_Strategy\\_2016-2021\\_ENG.pdf](http://www.kryeministri-ks.net/repository/docs/National_Development_Strategy_2016-2021_ENG.pdf)

**Table 2. Purchasing Power Adjusted Current US\$ Per Capita Income**

2008	2009	2010	2011	2012	2013	2014	2015	2016	9 Yr Growth	4 Yr Growth
7,202	7,439	7,717	8,169	8,486	8,827	9,106	9,706	10,083	40.0%	14.2%

Source: World Bank (2017b)

Exports are increasingly important to the Kosovan economy and boosted by the presence of Global Corporates: for instance, FIAT's decision to set up a production line in Kosovo has underpinned a growth in motor vehicle exports – which now account for 13.6% of exports alone.

Exports in Kosovo jumped 20.2% year-on-year to EUR 29.5 million in December of 2017, mostly due to higher sales of manufactured goods (59.0%) and miscellaneous manufactured articles (31%) (Kosovo Agency of Statistics, 2017). Processed goods (EUR 104,522) and raw materials (EUR 68,934) were the two main exporting categories in 2017. The single largest import category in 2017 was drinks and tobacco at EUR 1,28 million, followed by processed goods of EUR 596,187, machinery and EUR 566,450 transport equipment (IMF (2017a).

Unlike other Western Balkans countries, most of Kosovo's exports do not head toward the EU – their key markets are the CEFTA countries, and most likely to be its Western Balkan neighbours (particularly Albania), to whom 47% of export activity is directed (IMF, 2017). Only 23% of exports are sent to EU countries and it is notable that India has become increasingly more important as an export market, showing a 904% increase in exports there during 2017 (IMF, 2017a). Conversely, 43% of all imports come from the EU, its most important trading partner. 27% of imports come from CEFTA countries. Imports increased 9.5 percent in 2017 to EUR 297 million, mainly due to higher purchases of machinery and transport equipment (19.1%); manufactured goods (9.4%) and food and live animals (7.9%). Among major trading partners, imports increased mostly from Germany (38.2%), China (21.8%) and Serbia (21.7%) according to the European Investment Bank (2016).

The trade deficit in Kosovo widened to EUR 268 million at the end of 2017 from EUR 247 million at the end of 2016 (Kosovo Agency of Statistics, 2017). Table 3 shows the Current Account of the Balance of Payments, which has been widening over the past three years.

**Table 3. Percentage Surplus or Deficit on Balance of Payments**

2008	2009	2010	2011	2012	2013	2014	2015	2016
-16.2	-9.2	-11.6	-12.7	-5.8	-3.6	-7	-8.5	-9.8

Source: IMF (2017a)

According to the IMF (2017a) inward foreign investment stood at US\$ 1,291 million in 2016. Perhaps unsurprisingly given the country's undetermined international and political status, this is smaller than any other countries in the region. The main inward investors are Albania (\$US 296 million), Slovenia (US\$ 198 million), Austria (US\$ 165 million), Germany (US\$ 150 million) and Macedonia (US\$ 7.5 million) Kosovo has invested abroad, albeit modestly; of the total US\$ 275 million in 2016 the main recipient was Albania (US\$ 66 million).

**Table 4** shows the flows of inward investment, which shows an extra-ordinary injection of investment in 2014, with lower levels since then.

**Table 4. Foreign Direct Investment in Kosovo (US\$ billions current prices)**

2009	2010	2011	2012	2013	2014	2015	2016
416	1,291	3,842	1,753	2,367	8,254	416	1,291

Source: IMF (2017a)

Consumption has been growing steadily year on year since 2011, as shown in **Table 5**.

**Table 5. Final Consumption Expenditure in Kosovo (Constant 2010 US\$ billions)**

2009	2010	2011	2012	2013	2014	2015	2016
5.8	6	6	6.2	6.3	6.7	6.8	7

Source: World Bank (2017c)

Gross Capital Formation has stayed quite static over the past five years as shown in **Table 6**, positioned ahead of Montenegro but behind the other countries in the region.

**Table 6. Gross Capital Formation (Constant 2010 US\$ billions)**

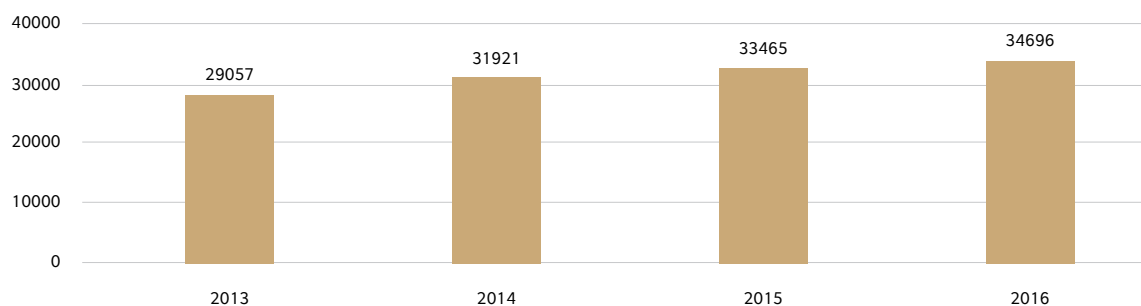
2008	2009	2010	2011	2012	2013	2014	2015	2016
1,563	1,733	1,921	2,073	1,807	1,801	1,708	1,902	2,076

Source: World Bank (2017d)

## Role of Small and Medium Enterprises

The number of enterprises (2016 latest figures) is 34,696, employing 156,504 workers. This figure excludes agriculture (and related activities) for which comparable statistics are not available, and it is likely that the enterprises in that sector far outweigh this number. Although it is difficult to break down the 34,696 enterprises by size, estimates suggest that 99% employ less than 10 people: Kosovo is therefore truly a country of micro enterprises. The SME base has been growing steadily over the past four years, as can be seen in **Table 7**.

**Table 7. Number of enterprises 2013 – 2016**



Source: Kosovo Statistics Agency 2017

The net growth of SMEs is shown in **Table 8** below: the new business start-up: business death ratio is higher than 7:1.

**Table 8. Business Start Ups vs Business Deaths**

	New enterprises	Terminated enterprises
2017-Q1	2,850	445
2017-Q2	2,237	445
2017-Q3	2,215	301

Source: Kosovo Statistics Agency, 2017

According to figures released by the Kosovo Statistics Agency (2016), almost half of all enterprises operate within the trade sector (**Table 9**). Over the 2013-2016 period, all sectors have contributed to the overall growth, with proportionally greater growth in other service activities (248% increase in numbers) and information and communications (35% increase in numbers). Manufacturing has become slightly more important - from 12.5% of all enterprises to 13.5% - but the proportion of employees working in this sector has marginally dropped to just below 16%.

All agencies (United Nations, ETF, EU) and the Kosovan government alike recognise there is a major dual problem of unemployment and mis-matched skills within Kosovo. In their, Country Strategy Paper (2017-2020) the European Training Foundation (ETF) identifies that only 20% of the workforce are classified as low skilled, with the majority working in service related activities and less than 3% work in agriculture (although this may well be an understatement, and not reflecting the extent of shadow economy employment). Only 1.26% of registered jobseekers participated in training programmes whereas almost 60% of jobseekers are low skilled and companies offer limited skills development opportunities to their workers (ETF, 2017).

**Table 9. SME Structure**

Economic sector	No of enterprises	Employees
Total	34,696	156,504
Mining and Quarrying	162	2,780
Manufacture	4,674	24,457
Electricity, gas, steam and air conditioning	44	7,770
Water Supply, sewerage, waste management and land revitalization activities	162	4,560
Construction	2,628	16,687
Wholesale, retail trade, repair of vehicles, motorcycles	16,557	54,609
Transportation and storage	1,291	6,634
Accommodation and food service activities	3,621	11,895
Information and communication	849	8,714
Other Service Activities	4,708	18,398

Source: Kosovo Statistics Agency (2016)

Much of the focus of attention has turned to the VET programmes which, although they are embedded into the education system are evidently dysfunctional: the European Training Foundation notes that even among VET graduates, unemployment is as high as one in three (with prospective employers complaining that their skill sets are inappropriate or inadequate). While VET remains relatively attractive at upper secondary level, with nearly half of upper secondary students enrolled in vocational programmes, only 48% of VET students in grades 12 and 13 pass the final exams (i.e. receive a 'transcription of the grade'), against 93% of Gymnasium students (2013 data, last available). The dropout rate is higher in VET (3.5% compared to 0.8% in Gymnasium), with most pupils leaving school in the first year of upper secondary education.

Another major issue within the Kosovo workplace is the gender gap: only 14% of women are in employment compared to nearly 50% of men. This gender gap is the widest in Europe and there has been no significant progress in recent years; for example, only one woman in five is economically active, compared to three in five men (ETF, 2016).

Stimulating growth and encouraging innovation is also a key priority of government strategy (See **Current Government Policies on Entrepreneurship**). Within the National Development Strategy (2016 – 2021) a series of specific measures and intended actions have been established to improve links between education and the labour market, nurture an environment conducive to innovation and competitiveness and, improve the 'value-added' by SMEs.



## Ease of Doing Business

The World Bank published its latest 2018 ‘Doing Business’ report in January 2018. This shows that Kosovo is now ranked as high as 40th in the world in terms of ease of doing business - a large improvement of its 2017 ranking of 60th.

A number of metrics are used to generate these rankings; starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. Kosovo’s rankings for each of these is shown below, in **Chart 1**.

**Chart 1. Doing Business in Kosovo**



Source: World Bank (2018)

Kosovo performs particularly well on ‘Starting a Business’; here it is ranked 10th globally – on the basis that it takes little time to actually set up, with very little cost involved. It also performs well on the ability for businesses to get credit (12th in the world). On more practical and procedural matters, Kosovo performs relatively poorly on the same index: dealing with Construction permits (122nd globally) and getting electricity supply, it is 106th globally (World Bank, 2018).

With regard to ease of doing business, women (as mentioned previously) constitute a disadvantaged minority group. A recent study “Women’s’ entrepreneurship; an analysis of doing business in Kosovo (Prishtina Insight, 2017) among 313 women entrepreneurs investigated the underlying causes and found an interesting gender disparity. Most of their businesses (micro businesses, predominantly oriented towards services and trade, particularly beauty and hairdressing) had been started with their own capital with little third-party assistance; women were half as likely as men to take out a bank loan from a financial institution. One factor in this may be that only 8% of women have property rights, essentially disempowering them from the ability to apply for loans. The survey also found that apart from tax rates, a small market, and administrative burdens, women faced a major challenge of balancing work with family obligations (47% saying that caring for family constrained their ability to engage in business activities).

This makes initiatives such as the all recent OSCE<sup>4</sup> Mission in Kosovo all the more important to confront this imbalance; the OSCE Mission organised a series of six training sessions in June 2017 on project cycle management, marketing and branding, and drafting business plans. More than 40 businesswomen from different communities in Mitrovicë/Mitrovica and Pejë/Peć regions attended. The Mission also organized a Trade Fair for the women in July 2017 in Prishtinë/Priština.

<sup>4</sup> OSCE – the Organization for Security and Co-operation in Europe – is the world’s largest regional security organization and works for stability, peace and democracy for more than a billion people, through political dialogue about shared values and through practical work that aims to make a lasting difference. It is a forum for political dialogue on a wide range of security issues and a platform for joint action to improve the lives of individuals and communities.



## EDUCATIONAL SYSTEM

One in five adults are classed as low skilled and for these there are few job opportunities. On the other hand, even among the 21% with a university education as many as 1 in 5 are unemployed.

The United Nations Development Project Report (2016) stated that the problem of scale and breadth of the skills gap is systemic, involving both the education system and industry, with a need to create dialogues between the two to help build appropriate skill sets within education and encourage awareness and engagement among employers of VET (Vocational, Education and Training) providers and their graduates (UN, 2016). It is clear that the VET programme has fundamental flaws in content and application (as outlined in the ETF Strategy paper). If, as suggested, the reason for this lies with the quality and relevance of teaching in schools it is clear that, with such a young population, the education system – from school to university level - has to take the brunt of responsibility for tackling and turning around the skills shortage and employment prospects of its students (European Training Foundation, 2017)

The ETF Country Strategy Paper (2017-2020) stated that in 2017 there would be two strands: skills intelligence and youth transition to work and identifies the priorities which need to be addressed in Kosovo's education system and stated that its own support linking education and training to labour market demand.

- Linking education and training to labour demand
  - Kosovo is a weak performer in the Western Balkan region on the SBA indicators on skills intelligence indicator (8.1), and entrepreneurship promotion in VET (1.13). *Making progress on these issues would require developing tracer tools in VET schools and building overall capacity to generate and use skill needs information.*
  - Poor responsiveness of education and insufficient support during school to work transition means many young people end up jobless. *Kosovo needs to introduce more integrated and evidence based employability actions (improved monitoring and evaluation within policy making)*
- Implementation of the National Qualifications Framework (NQF).
  - Kosovo has already put in place many of the elements of a modernized qualification system but the engagement of social partners in the qualification system, through institutions such as skills councils or sectoral committees, remains limited reflecting the wider economic weaknesses of the country. Kosovo joined the EQF Advisory Group in October 2015. Once Kosovo's National Qualifications Framework is referenced to the EQF, expected to happen in 2016 or 2017, this will enhance transparency of its qualifications across the EU
- Governance to strengthen inter-institutional co-operation.
  - In recent years, Kosovo has put a great effort into strengthening this collaboration to ensure joined-up policy approaches across government. However relevant stakeholders do not appear to be empowered to effectively design, implement, monitor and assess policies at national, regional, sectoral and local levels. This will be particularly important in order to effectively implement and manage the newly introduced Kosovo Education Strategic Plan [KESP] for the period 2017-2021. *These bodies need to be supported and legitimated at government level to become fully operational.*
- Enhance the role and contribution of the social partners to national policy dialogue
  - Especially in the area of skills development: although the legislative framework and institutional structures for social dialogue are established, this does not guarantee its proper functioning or development.

(Source: European Training Foundation, 2017)

Alongside new policy initiatives, the Government has introduced projects in collaboration with local Chambers of Commerce to identify the nature of skills required. There are also other initiatives; for example, the Innovations Lab - a UNICEF programme to provide mentoring and social impact workshop events to encourage critical thinking for youth and potential entrepreneurs: a unit of UNICEF Kosovo, the Lab is home to a multidisciplinary team including project managers, software engineers, advocacy practitioners, designers, social entrepreneurs, educators, communications and marketing specialists, and graphic and web designers (Kosovo Innovations, 2018).



## INTERNATIONAL ACTORS AND SUPPORT

Key external key actors include: -

**European Union:** through accession preparations.

**The World Bank:** through dedicated projects, has provided funding to the government of Kosovo, as well as a number of policies and projects active in the Western Balkans Region but these mainly focus on the improvement of various government processes, such as procurement and improvements in infrastructure rather than any policies directly relating to SMEs. The World Bank provided US\$ 62 million to Kosovo in 2017, largely in a large real estate project that aimed to help reaffirm property rights.

**The European Bank for Reconstruction and Development:** has been responsible for a number of funding programmes to support SME growth including the SME Competitiveness Support Facility (EBRD, 2015) by providing support for local lenders in their financing efforts.

**The IMF:** has provided large loans to Kosovo, which are presently outstanding and continues to work with the country to ensure that its regulatory and financial environment is favourable to the IMF. Following a recent visit in December 2017m the authorities issued a statement to say they expect to move shortly to Article VIII from Article XIV (a transitional status available to new member countries in the Fund).



## CURRENT GOVERNMENT POLICIES ON ENTREPRENEURSHIP

Since 2008, Kosovo has benefitted from preferential trade agreements with the USA and the EU but, as acknowledged by the Ministry of Trade and Industry (MTI), businesses have not taken full advantage of these. The MTI Strategy (2013-2017) identified and acknowledged the lack of competitiveness and limited technology or 'know how' within the business base of businesses (and thereby, their lack of competitiveness on an international stage) and the barrier to growth caused by limited access to finance. It also recognised that Government was not providing enough incentives toward businesses; for example, at the time the Government of Macedonia stimulated direct investment by providing 50% investment financing and tax breaks up to 10 years: the Serbian Government was providing stimulation packages up to EUR 10,000 for businesses in disadvantaged areas (Ministry of Trade and Industry, 2012).

In 2016, an overarching National Development Strategy 2016-2021 was proposed, reaffirming the importance of stimulating and supporting the SME marketplace, and the challenges which need to be overcome during this time frame. By way of context, government support for innovation was centred at the time around modernisation of its agricultural sector with subsidies and investment in infrastructure and small SME grant programmes through the Ministry of Trade and Industry, but not specifically geared toward innovation per se (EIB, 2016).

The key pillars of this strategy directly relating to entrepreneurship are:

**Improving links between education and the labour market.** It is well documented that there is a mismatch between the skills held by individuals and the skills required from industry. This is brought into sharp focus by the fact that 25% of companies argue that the work force has inadequate skills for their needs - a key obstacle to employment and ultimately to economic development of the country.

The causes of this situation are chronicled in the **Box 1** below.

### Box 1

According to the Government of Kosovo (2016) in their National Development Strategy (2016-2021), there is no system for forecasting skills requirement in the labour market in Kosovo. The process of developing professional qualification standards is rather slow, just as the implementation of the Framework Curricula. The level of public spending for education and vocational training is very low, while at least half of vocational schools do not provide any possibilities for practical work at schools and beyond. Enterprises have no incentives to hire interns. Schools do not provide career orientation neither any connection to enterprises through product research and development.

Embedded in National Development Strategy (2016-2021) is an objective to strengthen the connection between education programmes and labour market needs by: -

- Expediting the process of professional standards development, in conformity with the European Qualification Framework (EQF) the National Qualifications Framework (NQF) and the revised National Occupations Classification System;
- Determining high priority areas in Vocational Education and Training (VET) through consultation with Kosovo's development policies and priority sectors. Development and implementation of core curricula in modular form, in line with VET priority areas and implementation of VET teacher training programmes for these sectors, based on occupational standards;
- Implementation of the combined VET pilot system with elements of dual learning (combination of learning in schools and in enterprises) starting with VET priority areas and in compliance with core curriculum. Coordinate the pay subsidization system with priority areas, in order to allow better integration of VET graduates into the labour market;
- Development and implementation of the National Skills Forecast System by ensuring meaningful dialogue between schools careers systems and the employment services/lifelong learning services. Create conditions for support services and studies in order to track career progress;
- Relating research work at universities with industry by facilitating access to smart specializations in line with Europe 2020 strategy, including facilitation to RandD funding for specific industrial sectors.

Source: Government of Kosovo (2016)

**Nurturing an environment conducive to innovation and competitiveness:** looking further afield to the experiences and successes of other countries, there is a keenness to learn and adopt the advantages and ‘value-add’ that the establishment of Business Clusters offer. The value of Clusters had also been set out in an independent study in 2014: Natural Born Clusters<sup>5</sup>. Proposed measures, with the objective to create synergy, spur innovation and facilitate growth of new industries supported by the activities of firms already part of clusters, include: -

- Development of a National Competitiveness Strategy to: -
  - identify strategic interventions to enhance competitiveness of SMEs;
  - identify seven competitive and functional clusters to be supported through technical assistance and funding support (via the SMEs Competitiveness Scheme or thematic scheme for Innovation Growth in IT sector).
- An institutional framework to support industrial cluster development with the involvement of government and businesses, including Cluster Associations, with larger firms assuming leadership role.
- Establishing a network of suppliers and sub-contracts to establish and strengthen the ties within the value chains.

To date, there has been limited progress in this ambition. A number of designated Business Parks and economic zones have indeed been identified and are promoted to potential investors/tenants on the Ministry of Trade and Industry (KIAS) website, but they are nothing more than industrial business parks and in many cases, look to be under-utilised and under invested. None are promoted as clusters of excellence or innovation-led technology parks.

Drenas Business Park  
 Mitrovica Business Park  
 Skenderaj Business Park  
 Vushtrri Business Park  
 Dutch Industrial Park (Zinkunie), Prizren

Suhareka Industrial Zone  
 Shtime Technology Zone  
 Gjilan/Kamenica Economic Zone  
 Ferizaj Economic Zone

**Improving the ‘value added’ by SMEs:** upgrading governance and quality standards and developing a framework of business advisory services through Regional Development Agencies in order to make SMES fit for purpose in an international playing field. An emphasis is placed on innovation:

- An innovation support scheme (part of the Employment and Development Fund) to provide incentives (matching grants) for investment of SMEs in scientific research and development;
- Tax exemptions for purchase of new technology;
- Encouraging connections with research institutions abroad.

National government policy relating to SMEs is mainly channelled through the Ministry of Trade and Industry state agency: Kosovo Investment and Enterprise Support Agency (KIESA), mandated to promote and support investments, exports, tourism, SMEs, and special economic zones in the Republic of Kosovo<sup>6</sup>. In practice, this portal acts as a one-stop Chamber of Commerce, trade body and government policy conduit. Through this, SMEs are able to access initiatives such as:

- **Voucher Consulting Scheme** – a subsidised consultancy services to SMEs
- **Public-Private Dialogue** - through “Small Business Days” activities – Conferences to discuss and create policy to be implemented by local government
- **SME Awards** – Given out to SMEs who have contributed the most to citizen welfare
- **Internship business** – Helps to provide newly graduated students with internships
- **“Women in Business” trade fair** – Helping to provide networking opportunities to female entrepreneurs
- **Promotion of young entrepreneurs** - aiming to stimulate young entrepreneurs, through an awards scheme
- **Kosovo Credit Guarantee Fund** - supporting SMES guaranteeing a part of the collateral of bank loans

Source: Ministry of Trade and Industry (2018),

<sup>5</sup> The Report on Competitiveness: Natural Born Clusters, a UNPD report sponsored by the Ministry of Foreign Affairs, Finland, 2014 looks specifically at the economic environment and opportunities for Clusters in Kosovo

<sup>6</sup> <https://kiesa.rks-gov.net/>



## BANKING SYSTEM AND ACCESS TO FINANCE

According to the European Investment Bank, there are 10 banks in Kosovo, and all of which actively engage with SME business (EIB, 2016).

The vast majority of finance lent to/obtained by SMEs is through bank loans. The main obstacle for SME borrowing is the banks' risk averse conservatism around collateral requirements – sometimes they request collateral to the tune of 300% of loan value - somewhat prohibitive for Start Ups, notwithstanding the impossibility of producing the requisite six months trading statements. Potential female entrepreneurs face particular challenges: only 8% of property was in women's names, which makes starting a business or getting a loan difficult for them.

An underlying reason for this conservatism is the lack of any comprehensive and trusted analysis-based risk-management infrastructure in the country to provide the banking industry with financial information; paired with limited financial reporting systems by most businesses, banks are poorly equipped to make sound commercial judgements on lending decisions, hence a high demand for collateral and high interest rates. **Table 10** below summarises the lending environment in Kosovo.

**Table 10. Lending Environment in Kosovo**

	Firms Facing Finance Constraint	Loan Rejected	Too Complex	Interest Rate	Collateral Needs	Poor Loan Terms (Amount / Time)	Expect No For Answer	Collateral Greater Than
<b>Kosovo</b>	45%	4,3%	0,0%	95,7%	0,0%	0,0%	0.0%	200%

Source: Moder and Bonifai (2017)

Early stage entrepreneurs in their first two years face especial barriers as they do not have the trading records for banks to lend against in addition to facing the challenge of posting significant collateral against a loan. The Author's estimate a lending demand for entrepreneurs (SMEs and self-employed) in their first two years of operation of around €70 million per annum. This early stage access to finance issue emphasises the importance of the EU COSME small firm guarantee system for Kosovo.

A further issue, highlighted by the EIB (2016), relates to the lack of appetite of banks to lend to the micro sector who typically need small value loans. 18 micro-finance organisations operate in Kosovo, and although small loans are their core business, cannot handle the volume of demand. They account for only 4% of all SME finance, as their chief target audience is the personal lending market. However, from this small base, microfinance lending to SMEs is increasing: Central Bank Kosovo statistics show a 41% increase year on year to Q3 2017 (Central Bank Kosovo, 2017).

The scale of this problem (i.e. c. 45% of firms identify access to funding is a major obstruction to growth (Moder and Bonifai, 2017)) is recognised within the National Development Strategy 2016-2021 and a series of measures, or objectives, have been established to help remove these barriers. These include (among other measures):

- At enterprise level, to mirror the EU COSME initiative and to establish and support a Loan Guarantee Fund to cover a percentage of the principal amount. The incentive for the government to 'unblock' the loan problem is compelling: it is estimated that if used fully, The Guarantee Fund would support 4,150 new loans for SMEs at EUR 360 million EUR, generating 20,000 work places, generating incremental turnover of EUR 1 billion EUR in the first six years of operation, mainly from national production, improving the trade deficit in the process, generating EUR 10 million EUR corporate income tax revenue, additional EUR 12 millions of pension contributions.
- Encourage and support better financial reporting and accounting structures to allow SMES to demonstrate their financial stability and prospects when applying for loans.
- Institutionally, integration of the Loan Registry's system database with tax administration, public companies and business registry, in order to improve information through which loan risk is assessed by banks and other lenders.

The focus on improving access to finance was showcased by a conference jointly hosted by the Central Bank of the Republic of Kosovo (CBK) together with the Oesterreichische Nationalbank (OeNB) and the European Investment Bank (EIB) in Prishtina on 'Access to Finance, Bank Lending and the Banking Sectors in CESEE countries' in November 2017. The conference provided an opportunity for far-reaching policy dialogue, attracting highly respected speakers from regional central banks, international financial institutions and commercial banks.

Within this context, the financial economic indicators for Kosovo are buoyant: the Q3 2017 outlook from the Central Bank of Kosovo reported a positive situation in terms of key financial indicators, particularly those relating to lending:

- an accelerated increase of lending activity (10.2 percent), mainly as a result of eased conditions of lending by banks, and also the increase of loans demand;
- Interest rates on loans, in September 2017, were decreased to 6.5 percent;
- The NPL (non-performing loan) rate continued to follow a decreasing trend, falling to 3.6 percent until September 2017.

## Alternative Finance Sources

Alternative sources of funding are available to SMEs, although it seems these are neither well known nor sufficiently well-resourced to make an impact. It is possible for SMEs to access a government portal which provides information about the sources of funding available (EIB, 2016).

Sources include:

**Western Balkans Enterprise Development and Innovation Facility:** an EU funded initiative, headed by the European Investment Fund, which aims to increase the finance available to SMEs, it has four main pillars:

- **WB EDIF Guarantee Facility (WB EDIF GF):** providing guarantees to Financial Intermediaries operating in Western Balkan countries to encourage them to increase their lending to SMEs in the region.
- **Enterprise Innovation Fund:** supporting new, or expanding innovative, SMEs in the Western Balkans by providing equity finance through local fund management companies. A full list of the intermediaries supported by the EIF is available on: [http://www.eif.org/what\\_we\\_do/where/rs/index.htm](http://www.eif.org/what_we_do/where/rs/index.htm)
- **Enterprise Expansion Fund:** supporting the expansion of SMEs with high growth potential in the Western Balkans.
- **Support Services Facility:** technical (non-financial) assistance to Western Balkan governments to implement policy reforms that support innovative and high growth SMEs.

**USAID:** The Kosovo Credit Guarantee Fund (KCGF) established by USAID, provides banks and other financial institutions partial loan guarantees to encourage increased lending to qualified borrowers. Within just one year, KCGF granted a total of 1677 loans exceeding US\$ 31million (€26million). In December 2017, the Swedish Government committed to re-guarantee or "back-up" KCGF loans up to a limit of €10million and the KfW (a German Development Bank) agreed to commit €7million for KCGF's capitalization and €450,000 for technical assistance.

**Equity Capital:** there are no examples of institutional equity investment being made in the country, beyond what is provided by international organisations like the EBRD and The Enterprise Expansion Fund. A few attempts to create a climate for risk capital investment in Kosovo have failed (EIB, 2016).

**Business Angels Networks:** There is a small Angel Investors network in Kosovo, but it does not appear to have much in the way of capital or membership. In addition, there are only two investors listed on <https://angel.co/kosovo/investors>.

**Leasing:** whilst awareness of the product particularly low, it is slowly growing; the year to Q3 2017 showed an annual 10.6% growth, interrupting the declining trend marked in the two previous periods (Central Bank of Kosovo, 2017).

## LOCAL SUPPORT ORGANISATIONS

### **European Bank for Reconstruction and Development**

<http://www.ebrd.com/work-with-us/advice-for-small-businesses/fyr-kosovo.html>

The European Bank for Reconstruction and Development works through partners when dealing with smaller companies, especially providing a network of consultants and advisers who can be accessed on a co-payment basis.

### **Balkan Environmental Association**

<http://benaweb.gr/>

As its name suggests, the Balkan Environmental Association is a think tank that advises on ways to improve the environment of the Western Balkans. They do work with SMEs, such as hosting conferences, to help them develop in a more sustainable way.

### **Balkan Small Business Association**

<http://www.mbb-org.eu/en/>

Based in Bulgaria, the Balkan Small Business Association works regionally (including Serbia) primarily with small businesses that have some sort of craft focus, in order to provide training and business support. They publish a number of studies giving a point of view on how businesses should best promote themselves.

### **European Training Foundation**

<http://www.etf.europa.eu>

The European Training Foundation (ETF), based in Turin, is an established European Union agency that focuses on enabling vocational training for both entrepreneurs and workers in developing countries. It provides online resources and runs workshops across several countries and has been operational since 1994. In Kosovo, the ETF has worked specifically to support young entrepreneurs to understand good practices and technological developments in business as well as conducting research to help trace the growth of skills in the country.

### **EU Regional Economic Development (EURED) grant scheme receivers**

[https://eeas.europa.eu/delegations/kosovo/18222/european-commission-grants-eur-705-million-kosovo\\_en](https://eeas.europa.eu/delegations/kosovo/18222/european-commission-grants-eur-705-million-kosovo_en)

Provides grants and training to new start-ups and other organisations that aim to support start-ups.

### **Enterprise Europe Network**

<http://een.ec.europa.eu/about/branches/kosovo>

The Enterprise Europe Network is a co-operative of business centres and foundations supported by the European Commission to disseminate relevant information to SME's. There are a number of branches across Serbia. They are available to help SMEs with advice, support and opportunities for international partnerships.

### **Young Entrepreneurs Program (YEP) / Supported by USAID**

[http://pdf.usaid.gov/pdf\\_docs/PA00KJJM.pdf](http://pdf.usaid.gov/pdf_docs/PA00KJJM.pdf)

YEP supports young entrepreneurs to develop new businesses by encouraging their innovative and entrepreneurial spirit through financial and technical assistance: to date, 290 entrepreneurs have received matching grants from the programme.

### **Social Impact Lab**

<http://socialimpactlab.co/en/programs/sia>

Social Impact Lab run workshops to help attract young people to entrepreneurship, capping interest with a competition for business ideas and innovation that has a EUR 6000 prize fund. They have also recently started working in Serbia.

### **Centre for Entrepreneurship and Executive Development (CEED) / SEAF, USAID, FMO**

<http://ceed-kosovo.org/>

CEED Kosovo is part of an international network operating in South East Europe, to provide entrepreneurs and their executive teams with the know-how and networks they need to accelerate the growth of their businesses and to promote entrepreneurial culture in the broader society. It has 1500 graduate members to date.

### **SPARK / Business Support Centre Kosovo (BSCK)**

<http://www.spark-online.org/wp-content/uploads/2013/05/2010-BSCK-impact-assessment.pdf>

School of entrepreneurship, also providing micro loans and free consultancy to new businesses.

### **Innovation Centre Kosovo (ICK)**

<https://ickosovo.com/>

ICK offers incubator services, mentoring, consulting and training to entrepreneurs and managers in business planning, accounting, finance, product/service development, marketing/ sales, human resources, technology development and transfer and matchmaking with local, regional and international businesses." There are current 17 companies in the incubator.

Innovation Centre Kosovo organises Global Entrepreneurship Week with support from a number of partner organizations, including USAID's Empower Private Sector. The latest event (December 2017 Week showcased the successes of Kosovo Entrepreneurs.

### **TAM / BAS, supported by EBRD**

<http://www.ebrd.com/downloads/research/factsheets/tambas.pdf>

BAS works directly with individual SMEs utilising, whenever possible, the skills of local professional consultants to provide specific and clearly defined, practical business advice to enterprises, assisting them to improve their business performance. BAS also supports Kosovar consultants developing and delivering their service at highest professional standards." Undertaken 449 projects, more than 25 of them fully funded.

### **KOSME / Swiss and ADA**

<http://www.entwicklung.at/en/themes/projects/detail-en/project/show/kosovo-sme-support-programme-kosme>

The project goals are to contribute to job creation and to promote market-oriented private sector development in Kosovo; foster global competitiveness of Kosovo's SMEs in line with sustainable development principles. Its declared project outcome: The framework conditions and service provision for SMEs in Kosovo has improved as a result of extended access to finance and professionalized business development services provided by the SME Support Agency of Kosovo (SMESA), with special emphasis on the creation of opportunities for the poor - men and women, youth and minorities."

### **Innovation Centre Gjakova (MTI)**

<http://www.jic-ks.com/>

Financed by MTI with an initial investment of €200.000. This centre provides a hub and support services to students/aspiring entrepreneurs.

### **Encouraging Young Entrepreneurs (EYE)**

<http://eye-ks.com/>

Based on a Swiss venture capital working model, EYE operates as a Business Angel taking an equity share in Start-up and other companies with a compelling business idea or model. The model works in three phases: (1) Business idea competition, (2) selected ideas receive support and mentoring in preparing a full-blown business plan, (3) the selected winners will receive start-up capital plus that EYE will take 10-30% equity stake in the company. To date, 14 Business ideas have passed Phase 1, with 3 investments already made.

**MDA Foundation**

<http://www.mda-foundation.org/>

The goal of the MDA Foundation is increasing youth employment in Kosovo through supporting the establishment and growth of Start-ups, enhancing youth skills, and promoting competitive business practices. Young entrepreneurs will be made successful through a portfolio of tailored support service offerings in business development, access to finance, educational and learning opportunities, and sustainable development

**UNDP Eurasia, Self-Employment Programme**

A partnership started in 2015, between the Ministry for Foreign Affairs of Finland and Kosovo institutions: an initiative supporting job seekers with skills to launch their own enterprises with a start-up grant and mentoring services. By end 2016, it had assisted 43 Entrepreneurs to set up business.

**TechStars:**

<https://www.techstars.com/>

The Techstars Foundation was founded in 2015 and is committed to increasing diversity in entrepreneurship by investing in organizations with grant money and leveraging the Techstars network to empower these organizations to accelerate their mission forward. It offers grants from US\$ 10,000 – 50,000 as project support but does not fund individuals or businesses directly. It recently funded the Startup Weekend Prishtina 2017: a 54-hour event designed to provide superior experiential education for technical and non-technical entrepreneurs, centred around action, innovation, and education.

**Peer to Peer Networks**

Peer to peer networks are essentially online and newer. It is likely that more will spring up in the near future, but a key network is:

**Start Us Magazine**

<https://magazine.startus.cc>

Start Us is a magazine and online hub that aims to connect entrepreneurs across Europe. The magazine will often write about issues affecting Serbia and allows SME owners and employees to connect with each other. The website also contains a job board.



# SURVEY RESULTS: THE ENTREPRENEUR PERSPECTIVE

## Introduction

A programme of primary research, comprising telephone interviews among potential/New Business Start Ups was undertaken specifically for this project across the six Western Balkans states to provide an overall Regional overview of entrepreneurial activity and explore the experiences and attitudes of setting up and running a business from the point of view of the individuals themselves. The programme allows us to look individually at each market, and also compare the experiences and attitudes of entrepreneurs in Kosovo to those of their peers across the Region. As part of this programme, 100 interviews were carried out in Kosovo mid-December 2017 to early January 2018.

## Profile of respondents

For the purposes of this report, we refer to these respondents as entrepreneurs. However, it is pertinent to appreciate how Start Ups actually see themselves, as this may well be an indicator of their own growth perspectives and future success:

- 3% describe themselves as entrepreneurs;
- 26% describe themselves as self-employed;
- 69% described themselves as businesspeople.

In this respect, they are quite different to their peers in other markets, who see themselves either as entrepreneurs or self-employed.

Respondents were equally split between those intending to start a business in the next 12 months (50%) and those who had set up a business in the last two years (New Start Ups). Of those who already run their own businesses, 22% were employing 5 or more staff.

The survey focused on young entrepreneurs under the age of 45. Within the sample:

- 15% were under 25 years old
- 40% were aged 25 – 34
- 45% were aged 35 – 44

**Table 11** shows age bands and levels of education by self-description.

**Table 11. Age band and level of education, by self-description**

Q1: Which age band do you fall into?	Total	Entre-preneur	Self-employed
<b>Sample size</b>	<b>100</b>	<b>69</b>	<b>26</b>
<b>Under 25</b>	15%	18%	14%
<b>25-34</b>	40%	29%	45%
<b>35-44</b>	45%	54%	41%
Q2: What is the highest level of education you achieved?			
<b>No higher education after school leaving age</b>	0%	0%	0%
<b>Technical qualification or higher</b>	100%	100%	100%

Respondents were also distinctly different from other countries in the research) in that all had a higher education qualification.

Respondents were generally quite e-connected and engaged with the world of business: on a daily basis, they stayed abreast of news/current affairs via smart phones (Q25) via:

- online media via p.c. or laptop 23%
- online via smart phone 56%
- printed media (publications/press) 25%
- online via smart phone 56%
- printed media (publications/press) 25%

However, they were less interested in matters outside their national borders (than their peers in other countries), engaging mainly on issues which concern them directly rather than problems further afield, interested mainly in: news and events relating to their business sector (48%) the local economy (58%) national politics (26%) foreign affairs (2%).

One in four of these new businesses were setting/had set up in opportunity-focused sectors – (defined as technical, professional and creative arenas or sectors requiring large capital investment) compared with household-focused businesses (directly servicing and selling to households, or producing goods which will be used by households). This two-way categorisation does highlight meaningful differences in business models (**Table 12**).

**Table 12** shows age bands and levels of education by self-description.

**Table 12. Opportunity-focused and household-focused businesses**

Business activity	Total	
<b>Sample size</b>		<b>100</b>
<b>Opportunity-focused</b>	Professional, scientific and technical activities	13%
	Manufacturing	10%
	Information and communication	1%
	Electricity, gas, steam and air conditioning supply	1%
<b>Household-focused</b>	Wholesale and retail trade; repair of motor vehicles and motorcycles	26%
	Agriculture, forestry and fishing	12%
	Construction	8%
	Accommodation and food service activities	4%
	Administrative and support service activities	1%
	Transportation and storage	2%
	Education	1%
	Other service activities	18%

## Business scope and operations

Respondents' businesses were largely locally-focused, and the opportunity- focused businesses in the survey only traded domestically (unlike their peers in other markets, who were likely to trade abroad). Less than 10% of businesses were involved in exporting or importing activity (**Table 13**).

**Table 13. Business scope and field of operations**

Q9: Do you (expect to)...	Total
<b>Sample size</b>	<b>100</b>
Operate only within Kosovo	87%
Q9c: Where do you operate within Kosovo? Sub-sample size	87
At a national level	23%
At a local level	77%
Export goods/services to other countries Sample sizes too small for meaningful breakdown of destinations	9%
Import goods/services from other countries Sample sizes too small for meaningful breakdown of destinations	8%

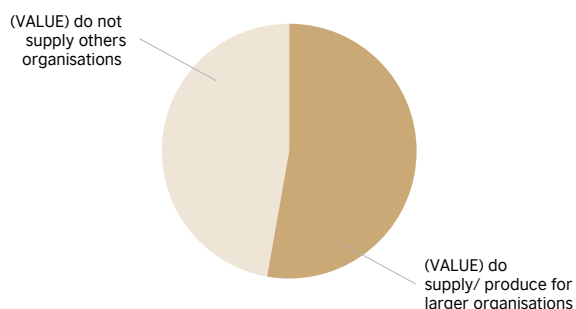


## Working within a supply chain

Just over half (53%) of businesses in the survey supply larger organisations (**Chart 2**).

### Chart 2. Businesses as part of supply chains

Q6: Does your business make products or supply services that will be used by other, larger, organisations?



The key industry sectors in which these businesses operate is set out in **Table 16** below:

**Table 14. Industry sectors of businesses**

Q6a: Which industry sectors does your [intended] business service or supply?	Top 5 sectors
<b>Sample size</b>	<b>53</b>
Business services	19%
Food and beverage processing	17%
Agriculture Perfumes/cosmetics	11%
Construction	8%
Perfumes/cosmetics and Textiles - each	6%

## Business trading models

These Entrepreneurs have in place business models which are more sophisticated than many of their peers elsewhere (in the surveyed countries): although they operate face to face and are very strongly cash-based, 1 in 4 also accept payment cards online/over the phone (**Table 15**).

**Table 15. Accepted forms of payment**

Q7. Does (will) your business ....?	Total
<b>Sample size</b>	<b>100</b>
Have a digital (online) interface with customers	25%
Have a telephone interface with customers	28%
Service your customers face-to-face/in person	98%
<b>Q8: And do (will) you accept payments ...?</b>	
<b>Sample size</b>	<b>100</b>
Online (via payment cards)	20%
Over the telephone (via payment cards/bank debits)	18%
Through automated bank credits/cheques	4%
In cash	91%

## Motivations for setting up a business

A key motivation for setting up one's own business was to offset unemployment and use their skills; long term financial independence, whereas security is quite low down on the list (**Table 16**).

**Table 16. Motivation for starting a business**

Q10a: What are your key motivations for setting up your own business?	Total
<b>Sample size</b>	<b>100</b>
Offset unemployment	59%
Utilising skill sets	50%
Opportunity to make money	29%
To build financial independence	18%
Providing long term financial security for family	14%
Natural progression	6%

It follows then that most will have started up their specific business within a profession they have trained in (81% doing so). It is useful to note that all the respondents in our Kosovan survey who were educated at degree level.

Very few had chosen their business on the grounds of availability of incentives to do so (**Table 17**).

**Table 17. Reasons for choosing a sector and/or business**

Q5b: Why have you chosen to start a business in this specific activity?	Total
<b>Sample size</b>	<b>100</b>
It is my profession/ skill set	81%
It is easy to set up a business doing this	15%
I am seizing a good opportunity	5%
Encouraged by family/ The experience of others	3%
Continuing/ extending a family business	1%
There are incentives available to set up a business doing this	1%

## Perceptions of the Business Climate and Business Confidence

The process of setting up a business was usually swift. Almost 90% respondents had taken less than six months to register their business and obtain any necessary licenses. In total, 22% of respondents felt that the current domestic business climate was very favourable to businesses. Only 17% considered the business climate to be unfavourable. This is the most optimistic outlook across all six countries covered in the research programme (**Chart 3**).

**Chart 3. Perceptions of business climate**

Q11a. From your position, how would you describe the business climate in this country? (five-point scale)



1: Unfavourable

5: Favourable

The key reasons for sensing an unfavourable business climate were:

- Low standard of living and consumer spending power 41%
- No State assistance/incentives/guarantees 24%
- High taxes 18%
- Competition (from larger organisations) 12%

(Q11b: in what way is the business climate unfavourable for businesses? Sample size 17)

This follows through to their perceptions of the barriers to business growth, which relate to government support as much as the market conditions themselves (**Table 18**).

**Table 18. Barriers to doing business**

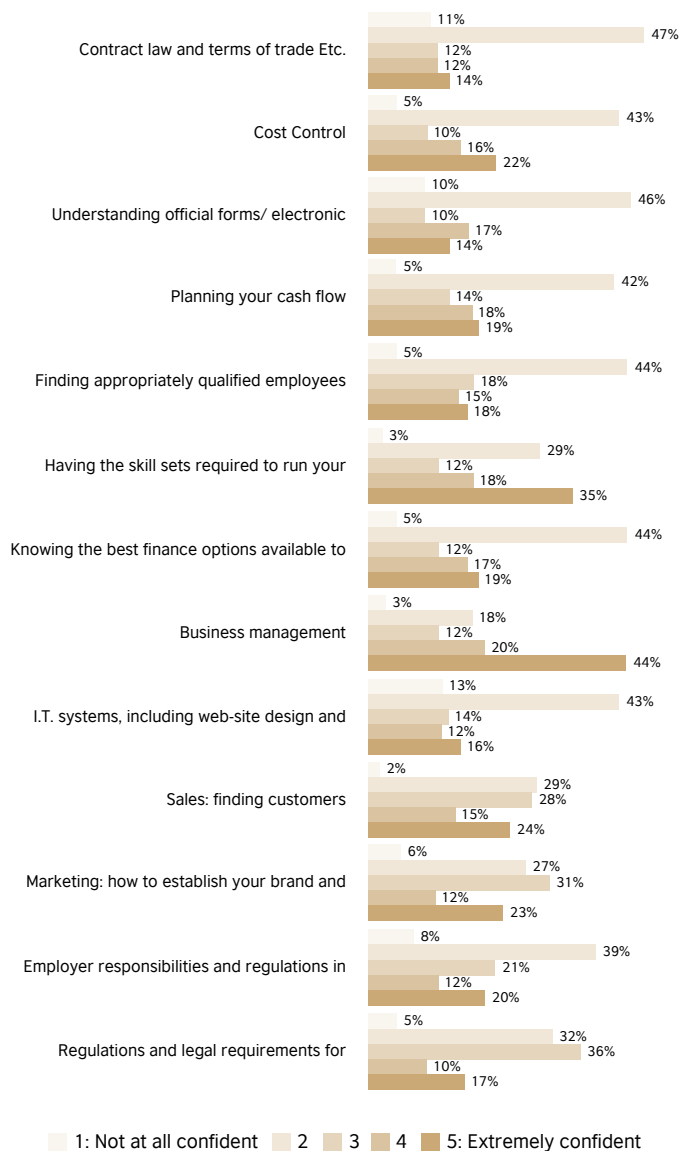
Q12. What do you perceive is the biggest barrier to (setting up) (growing) a business? (open ended, grouped responses)		
Rank	Sample size	100
1	Lack of support from the state and Municipalities	35%
2	Economic situation, crisis, small purchasing power	28%
3	Many competitors	16%
4	High taxes, administration, paperwork	13%
5	Poor market; lack of buyers	2%

## Levels of confidence

**Chart 4** shows, entrepreneurs are not particularly confident about many aspects of setting up/running their businesses, particularly relating to marketing, I.T and how to access finance options. These levels of confidence are the lowest across the six countries within the research programme.

### Chart 4. Levels of confidence in aspects of running a business

Q13. How would you describe your own level of confidence in each of these aspects of setting up/running a business? (Sample size 100)



## Advice and Support

Instinctively, our respondents in the survey were more likely to turn to those around them in the first instance for advice and support and the closer the advisory to their own experiences the better (**Chart 5**). However, they were less likely to turn to family and friends than experts in their business sector. Compared to other markets in our research, Kosovan Entrepreneurs were generally less keen to turn to others for support and advice.

On prompting, 24% were aware of the CEED Business Club in Kosovo, although only one in three of those aware had actually used for any reason. In this context, the proportion suggesting that the Business Club is appealing, is high.

Nonetheless, the appeal of engaging with like-minded individuals resonates strongly with the findings of the British Council's programme: *encouraging youth entrepreneurship in the Western Balkans project September 2015 – March 2016* and suggests a large target audience for local, targeted programmes and resources which, as that report showed - have demonstrably succeeded in improving skill acquisition, preparedness and motivation among young entrepreneurs.

### Chart 5. Sources of advice and support

Q14. Here are some sources that people might turn to for support and advice when setting up and running a business. Please tell me how appealing each one is to you? Sample size: 100



It is likely that young entrepreneurs often work in isolation without ready access to expert business advice. Family members featured very strongly as their most trusted advisers (**Table 19**).

**Table 19. Most trusted advisers**

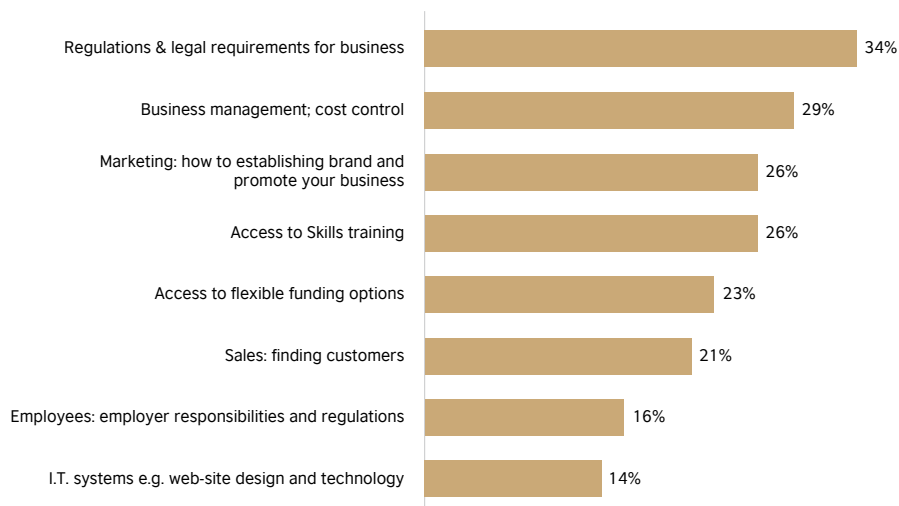
Q18. Who are your most trusted advisers?	Total
<b>Sample size</b>	<b>100</b>
Personal friends and family	70%
Bank Manager/Financial adviser	12%
Accountant	5%
My college/employees	7%
Lawyer	6%

As new/prospective businesses, there is more interest in seeking guidance on negotiating the regulations and business management processes than sales and marketing (which is often top of the list for Entrepreneurs in other countries).

Just under one in four were interested in understanding how best to access funding solutions (**Chart 6**).

### Chart 6. Areas in which support is required

Q16. If you could access training and support on any of the following, which would you be likely to take up? (Sample size 100)



Our respondents demonstrated a preference for informal face to face delivery mechanisms – whether training or networking opportunities including peer to peer support rather than online resources (**Table 20**).

**Table 20. Type of support required**

Q17. What form of advice and support delivery would be helpful to you?	Ranking	
<b>Sample size</b>	<b>100</b>	
Peer to peer support	56%	1
In person training courses	35%	2
Networking	18%	3
On-line resources e.g. downloadable content; online training and chat facility	18%	4
Access to Incubators/innovation hubs	6%	5
Financial incentives	4%	6
Mentoring	2%	7

## Future ambitions

Respondents were the most conservative of all six markets in terms of their growth and development plans: over the next two years (**Table 21**).

**Table 21. Future ambitions**

Q19a. How likely will you be to access the following over the next 2-3 years? % saying likely/very likely		Ranking (most likely)
<b>Sample size</b>	<b>100</b>	
Hiring staff	22%	1
Opening new markets at home or abroad	19%	2
Patenting	18%	3
Legal expenses	15%	4
Premises/ office relocation	16%	5
Product or service development costs	14%	6
Purchase or leasing business assets (equipment, vehicles etc.)	13%	7

Capital injection is perceived to be one of the key prerequisites to success in the future; this may explain, in part, their conservatism over growth plans (**Table 22**).

**Table 22: Key drivers of growth**

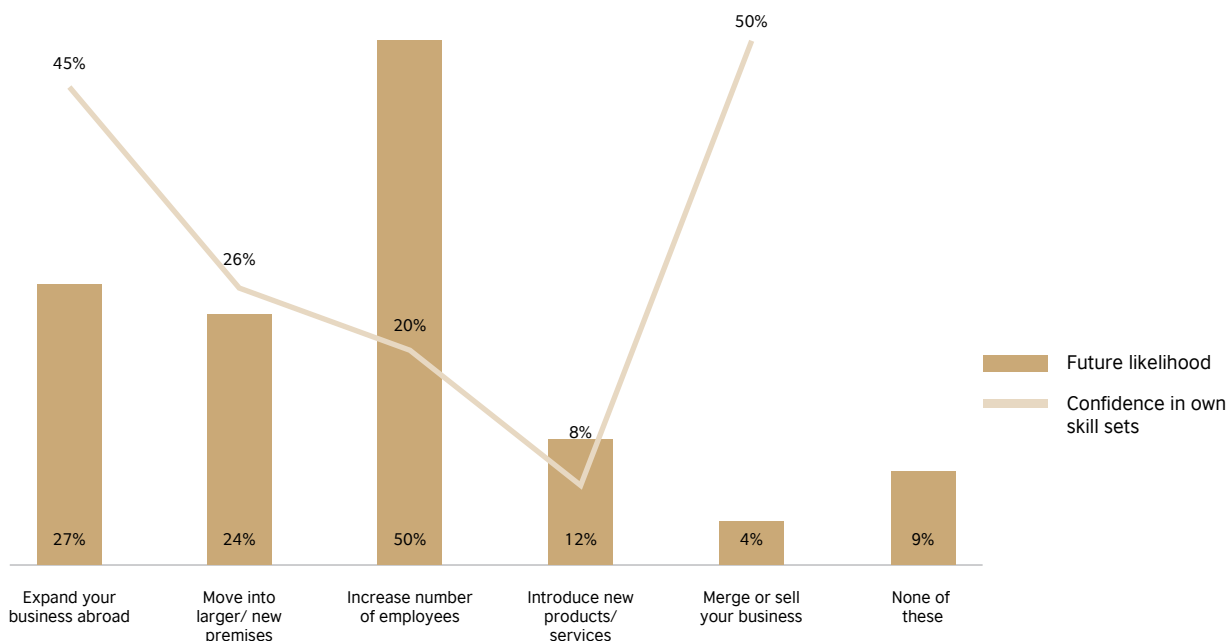
Q23. Thinking about the next 2-3 years, what do you perceive to be the key drivers for success in your business?	Total	Ranking
<b>Sample size</b>	<b>100</b>	
Capital injection	48%	1
More customers	46%	2
Increased skill sets / employee training	22%	3
Product/service development	16%	4
Change of premises	5%	5

In keeping with the conservatism expressed earlier, respondents conveyed quite limited ambitions for their businesses, apart from hiring more staff (**Chart 7**). It is also notable that their levels of confidence are quite low, suggesting a definite need for ambitions to be supported with support, advice and access to finance previously noted.

### Chart 7. Ambitions and level of confidence

Q24a. Thinking ahead 2 - 3 years, it is your ambition to do any of the following?

Q24b. At this stage, how confident are you that you have the knowledge and skills sets to enable you to do this? Sample size 100

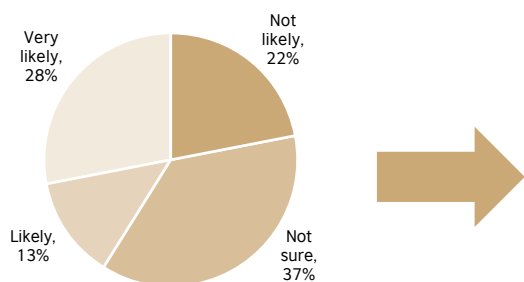


### Access to Finance

Half of all Kosovan entrepreneurs felt it likely that they would be seeking finance in the near future, but more than one third are not sure of their plans. Perhaps worryingly the most likely purpose of funding is for cashflow/working capital rather than growth/development. A total of 51% considered it extremely difficult to obtain funding, and only 13% felt it was easy (Q21c) (**Chart 8**).

### Chart 8. Access to funding

Q19. How likely are you to seek funding in the next 2 3 years? (Sample size 100)



Q19b. What do you envisage you will need funding for? (Sample size 37)		
1	Working capital/cashflow	53%
2	Purchase or leasing of business assets	12%
5	Hiring staff	12%
6	Premises/office relocation	12%
3	Opening new markets at home or abroad	6%
4	Product or service development costs	6%
7	Legal expenses	3%
8	Patenting	3%

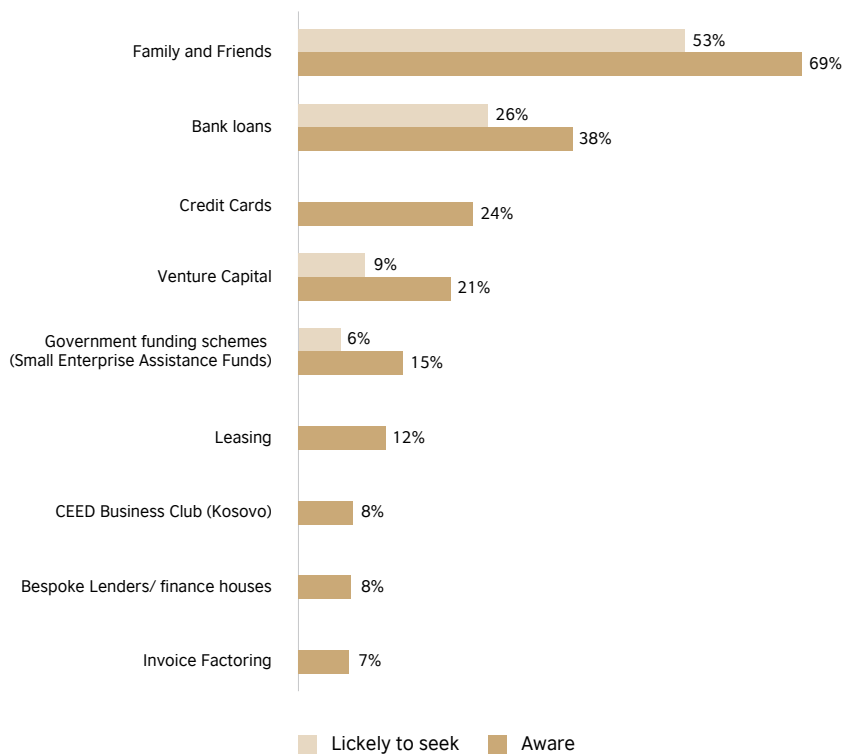


So how do Entrepreneurs hope to finance any business growth and development plans? **Chart 9** shows that awareness of any form of finance other than bank loans is low. It falls to informal sources (family and friends) as the main source for any funding they need. Bank loans are by far the most likely place they would approach otherwise.

**Chart 9. Awareness and use of forms of funding**

Q20. Which of these forms of funding are you aware of? (Sample size 100)

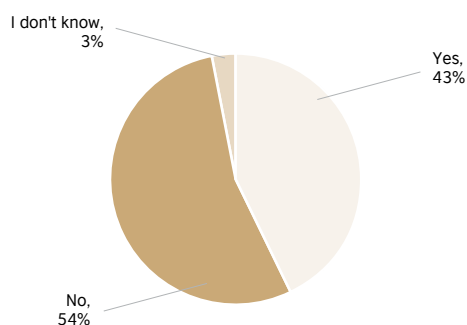
Q21a. Which form of funding would you be most likely to seek? (Sample size 100)



Approaching half of all respondents feel that the ability to offer trade credit would have an impact (and a significant one at that) on their business growth. Given their greatest need for finance was stated to be cash flow/working capital, this is an area in which greater awareness (and take up) would be beneficial to them (**Chart 10**).

**Chart 10. Use of trade credit**

Q8b. Would your business expand if you could offer trade credit? (Sample size 100)



This concludes the findings of the primary research undertaken specifically for this project, involving 100 telephone interviews with new or prospective business start-ups in Kosovo. Fieldwork was undertaken in December 2017 and January 2018.

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# ANNEX I – ESTIMATION METHODOLOGY FOR EARLY STAGE LOAN DEMAND

## Overview

We have sought to separate out the loan demand for an MSME or a self-employed person's first two years of operation. This is often the most difficult and challenging period to fund, because lenders suffer from extreme information asymmetry. These businesses lack an audited trading/tax declaration record, credit rating data is likely to be sparse and the lending officer may have no detailed sector or local environment knowledge. The problems of information asymmetry have been highlighted by Stiglitz and Weiss (1981).

We have sought to estimate this “funding gap” by adopting a “bottom up” approach, estimating funding needs for MSMEs and self-employed people differently, on the basis that their funding needs are likely to differ. Our estimates are very rough and need further research and rigorous testing. We have included them because they are indicative pointers to the sufficiency or otherwise of existing schemes to support entrepreneurs in their first two years of activity.

## Self-Employment

Self-employed people were an important component of our survey results. We assumed that each self-employed person would require seed capital or initial finance equal to three months of the 2015 € current price per capita GDP for their home country. We took the data for this from the IMF (2018). We converted US\$ from the IMF date to € at 1.1998 US\$ = 1 EUR (an approximate 2017 year-end rate). The number of new self-employed people is based upon 5% of the self-employed population joining/leaving self-employment each year. The self-employed numbers were from the International Labour Organisation (2017).

## MSMEs

For new MSMEs, we assumed a blanket requirement of EUR 5,000 for their start-up capital needs in the first year. For the number of businesses being registered, we relied on World Bank data (World Bank, 2017e).

## Year One Seed Capital

Taking these together, we calculated the seed (or first year) capital requirement by country, shown in **Table A.1**.

**Table A.1 Western Balkans seed capital requirement for first year of operations**

Number of New Limited	New Self Employed Estimate	Euro Per Cap GDP 2015	Seed Per Limited Liability	Seed Per Self Employed	Limited Liability Seed	Self Employed Seed	Total Est Seed Req
2,679	30,000	3,280	5,000	820	13,395,000	24,600,790	37,995,790
2,814	7,000	3,489	5,000	872	14,070,000	6,106,259	20,176,259
3,993	4,000	2,922	5,000	730	19,965,000	2,921,811	22,886,811
5,686	9,000	4,046	5,000	1,011	28,430,000	9,102,698	37,532,698
2,818	1,000	5,388	5,000	1,347	14,090,000	1,346,977	15,436,977
8,236	43,000	4,365	5,000	1,091	41,180,000	46,922,483	88,102,483
<b>Total</b>					<b>131,130,000</b>	<b>91,001,017</b>	<b>222,131,017</b>

Source: Authors

## Year Two Calculation

For year two, we assumed that 25% of the new MSMEs would reach the growth phase, and that those MSMEs would require the average SME loan value for their country. The average MSME loan value was taken from Table 11 in Hauser et al. (2016).

For the remainder of companies and self-employed people, we made the blanket assumption that those that survived their first year would have grown but not have reached full cash self-sufficiency. They were therefore likely to require additional finance equal to the entire (for all firms) amount required in the first year. These parameters give the calculated requirement for Year 2 in **Table A.2**.

**Table A.2. Year 2 start-up finance requirement**

Number of New Limited Liability companies	New Self Employed Estimate	Average Loan Size	% Year 2 Full Loan Demand	Total Fast Growers	Total Rest	Grand Total Year 2
2,679	30,000	35,668	25%	23,888,643	37,995,790	61,884,433
2,814	7,000	34,409	25%	24,206,732	20,176,259	44,382,991
3,993	4,000	30,507	25%	30,453,613	22,886,811	53,340,423
5,686	9,000	45,052	25%	64,041,418	37,532,698	101,574,116
2,818	1,000	47,519	25%	33,477,136	15,436,977	48,914,112
8,236	43,000	25,753	25%	53,025,427	88,102,483	141,127,910
<b>Total Year 2</b>				<b>229,092,968</b>	<b>222,131,017</b>	<b>451,223,985</b>

Source: Authors

## Total First Two Year Finance Requirement vs Total MSME Lending By Country

We took these findings and combined them into **Table A.3**, then compared them to overall SME lending in each Western Balkans state. The overall MSME lending figures come from Table 14 in Hauser et al. (2016).

**Table A.3. Total entrepreneur first two-year finance requirement vs total MSME lending by country**

Number No SMEs	Euros Av Loan	%	Millions Euros				
			Total SME Loan Demand	Seed Year 1 Est. Demand	Early Stage Year 2 Est. Demand	Total Early Stage Est. Demand	SME Loan Demand % Early Stage
111,059	35,668	36.0%	1,426	38	62	100	7.0%
186,341	34,409	51.5%	3,302	20	44	65	2.0%
45,985	30,507	52.2%	732	23	53	76	10.4%
70,453	45,052	40.1%	1,273	38	102	139	10.9%
22,313	47,519	52.8%	560	15	49	64	11.5%
280,845	25,753	61.8%	4,470	88	141	229	5.1%
<b>Regional Total In Millions Euro</b>			<b>11,763</b>	<b>222</b>	<b>451</b>	<b>673</b>	<b>5,7%</b>

Source: Authors





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