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Some features of investing SME-s in Kosovo

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Abstract. Small and medium enterprises play an important role in the economic development of a country, especially for transition countries, since constitute the largest participative economic structure of these countries. Their role is crucial for these countries to resolve problems arising from the transformation process in these countries. Kosovo is a country that is in a process of late transition. Development of SMEs depends on their ability to grow and develop. This paper is based on data collected from surveys of SMEs by BSC Kosovo in late 2012 and aims to provide some features of the investing SMEs in Kosovo by observed them as a whole as well in particular by micro, small and medium category enterprises. The analysis has to do with the features that characterize SMEs which had investment activity. Our analysis suggests that investment as important variable SMEs had positive correlation with the size and age of the enterprise. Also investing SMEs are characterized by recruitment of new employees in the last year, having written a business plan and used of bank loans. SMEs that operate in two or more locations, as well as those with importing activity are characterized by the investment activities. Investments have no significant correlation with the sector in which the company operates, but generally dominate trade SME which dominate the economic structure in Kosovo. Investments of services enterprises have a downward trend with increasing the size of the company, while the manufacturing enterprises shows a positive trend in this regard, since their participation is increasing investment in enterprises with increasing the size of the enterprise.
Keywords. SME, investment, characteristics, group, Kosovo.
JEL. D22, E22, G11, G21.

1. Introduction

Small and medium sized enterprise (SMEs)[i] are considered to be the engine of economic growth through employment generation, contribution to gross domestic product (GDP), innovations, etc. In particular, their important role emerged in transition countries because of their fundamental role in resolving the economic problems arising from the transformation process. Targeted efforts in the sector SMEs are often based on the premise that (i) SMEs are the engine of growth, but (ii) market imperfectives and institutional weaknesses hamper their development. Skeptics would put into question the effectiveness of this policy and focus on empirical evidence either in favor of large firms or to a policy approach blind to the size of firms (Biggs, 2002; Beck & Demirguc-Kunt, 2006). While many studies in the country and microeconomic level have appreciated the importance of SMEs in economic development and the process of industrialization (Snodgrass & Biggs 1996, Beck & Demirguc-Kunt, 2006). In this context, study of SMEs' investment gains greater importance, as investments are crucial to firm's expansion and growth, giving greater impetus to overall economic development.

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However, very little research work has been done to study the firm investment behavior in transitional countries. Most of studies in the field of SMEs' investment are based on survey data collections. For example, Baran & Kegels (1996) in the study of Hungarian firms evidenced the financing (credit) has positive impact on future activities of the firm. Also, evidence from Anderson & Kegels (1997), using Czech enterprise data sets, shows that finance is an important determinant of investment in transitional economies.

Capital intensity of a firm is expected to positively affect the chance of survival and growth. According to the model of Olley & Pakes (1996), the stock of physical capital affects the productivity of the unit award in the future. In this case, capital intensity can act as an output and lower growth for units with low capital intensity.

Theoretically hypothesized relationship between the growth of the firm and its capital intensity is confirmed in all specifications intensive and extensive growth models. Survey results with manufacturing firms in Slovenia support the argument that more capital intensive firms grow faster, and that is in accordance with the model Olley & Pakes (1996).

Other author such as Bratkowski, Grossfeld & Rostowski (2000) using an augmented investment equation in the sample of firms from Czech Republic and Hungary support the view that profitability and age are significant determinants of firm's investment.

For a brief summary of this theoretical part we can say that small enterprises need and the trend for greater growth and that this increase largely determined by their capital intensity. To increase the rate of growth and capital intensity, enterprises should support them by investment activities.

2. The Data

The data presented here were collected as part of wide-ranging survey of 500 SME in Kosovo in cooperation with Business Support Center Kosovo, were I was engaged from the beginning of research aim to use for my PhD research thesis. The firms in the sample were drawn randomly from business register kept at the Business Registration Agency in Kosovo. The sample represents about 2 percent of total population of SMEs. This random sample enables us to draw generalized conclusions about whole population of SMEs.

The sample includes SMEs across all regions of Kosovo. The sample is stratified by three main sectors in order to reflect the differences between trade, production and services. Also, the size of enterprise has been stratification and this includes micro, small and medium enterprises. The interviews were conducted through the face to face method with the key people in each enterprise, mainly general managers. The respondents were asked to provide qualitative (their perceptions about business environment and future prospects plans) and quantitative answer on internal characteristics of the respective firm (years in the business, locations, size of the enterprises in term of the employment, the sector of activity, investments, financing, etc.)

3. An overview of investing firms in Kosovo

In the following it will be presented a profile of enterprises that have invested in Kosovo, analyzed from different angles. From the research conducted, it was found that 37.9% of the surveyed enterprises had made investments 27.1pp[ii] of them are micro, 6.6pp are small, 3.5pp are medium and 0.6pp are large enterprises, as it shown in table 1. If we analyze the context of the type of enterprise size separately result that about 33% (1/3) of micro enterprises, 60% of all small enterprises, 90% of medium-sized enterprises and all of the large enterprises had investment

activities. These data show how increased investment opportunities by increase enterprise, size. It will be seen if we analyze investments by size of enterprise and the structure of enterprises surveyed by size. Micro enterprises have less share in investment structure 71.6% compared with share in the surveyed enterprises 83.6%, while all other categories of investment share in the structure have higher than they had share in the structure of surveyed enterprises.

TABLE 1: *Investments by Size of Firms*

Enterprises		Micro (%)	Small (%)	Medium (%)	Large (%)	Total (%)
Have investment	% by size	71.6	17.5	9.3	1.6	100.0
	Pp of Total	**27.1**	**6.6**	**3.5**	**0.6**	**37.9**
Haven`t investment	% by size	91.3	8.4	0.3	0.0	100.0
	Pp of Total	**54.2**	**5.0**	**0.2**	**0.0**	**59.4**
No responses	% by size	84.6	7.7	7.7	0.0	100.0
	Pp of Total	**2.3**	**0.2**	**0.2**	**0.0**	**2.7**
Total	% by size	83.6	11.8	3.9	0.6	100.0
	Pp of Total	**83.6**	**11.8**	**3.9**	**0.6**	**100.0**

Table 2 shows the correlation between dependent variable and explanatory variables. It shows that investments have positive correlation with the number of workers 0.21, then with enterprises that have positive trend of employment growth by correlation coefficient of 0.147, the enterprises which have a business plan 0.155, operating in the at least two locations in 0.164, with those who import goods and other materials 0.176 and with enterprise age by 0.123. The correlation coefficient of investment is at the level 1% of significance with all these variables, what is especially striking negative correlation coefficient investment enterprises operating in one location, which reinforces the positive connection with the investment undertakings operating in two locations.

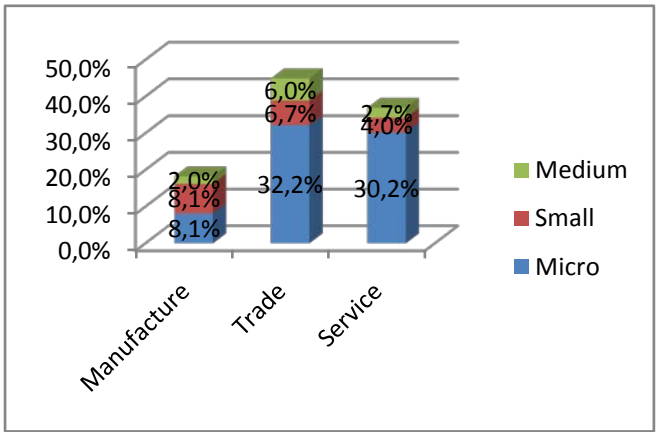
As far as enterprise development activity none of them - manufacturing, services and trade does not present any significant correlation with investments.

TABLE 2: *The Correlation of the Dependent Variable with Explanatory Variables*

Dependent and Explanatory Variables	Number of employees	Employment Trend	Manufacture Sector	Trade Sector	Service Sector	Business Plan	Bank Loan	Business Trend	One location	≥ 2 locations	Age	Export	Import
Investments	0.210**	0.147**	0-.041	0-.052	0.066	0.155**	0.107*	0.085	-0.181**	0.164**	0.123**	0.076	0.176**

Notes: **. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

We also note that the exporting enterprises have no significant correlation with investment, while this relation is expressed by the importing companies, which may be that Kosovo's economy is highly import oriented.



GRAPH 1: *Investments of Firms by Size and Activity*

Graph 1 presents data investment enterprises by size and activities which develop them. 18% of enterprises belong to the manufacturing sector, 45% to trade sector and 36.9% to service sector. A trend noted was the increased participation of manufacturing enterprises in the structure of investment companies shifting from one category to the next size category. By analyzing the figure 1, it is noted that the 11.4% of micro enterprise belong to manufacture sector, this share is increased to 42.9% in the structure of small enterprises, then dropping to 18.8% of medium enterprises[iii]. I think that this is an indication of the growth and expansion of production enterprises. According to this trend is expected in the near future manufacture enterprises will dominate the structure of investment companies in the category of medium-sized enterprises. The share of service enterprises in the structure of investment companies falling from the lowest to the highest level of the size of enterprises. While commercial enterprises once had a decrease of participation from micro to small enterprises, then they increase to medium enterprises.

Analyzing in what activities have invested enterprises, it will be seen that dominate investments in service activities with around 50%, which exceed investment in the trade sector - 34%, although the number of enterprises operating in this sector dominates the overall participation businesses in Kosovo with approximately 50% (or 44% of our sample).Toward the manufacturing sector have gone a considerably lower number of investments, which is not a good indicator for promoting economic development in the country, since it is known that the manufacture sector is the basis for economic development. Compare between the second and third column in Table 3. shows that trading and manufacturing enterprises are expanding in other sectors, that database can be easily concluded that they were made in service activities, since observed that less investment in manufacturing and trade in comparison with the participation of these sectors in investment and more investment in service compared with the participation of enterprises in this sector investments.

Usually enterprises that have a wider organization network operating in two or more locations in Kosovo and acting within and abroad have a greater tendency to increase investment capacities.

Not all companies that invest have written business plan. About 40% of companies that have invested have written business plan, while 60% of them have not. This percentage is roughly the same as the percentage of enterprises that have received investment bank loans, which logically matches for banks when granting loans for investments require companies to submit a written business plan. This shows that entrepreneurs in Kosovo do not have the culture of putting their plans

on paper, in the case planning investment if it is not required by a binding body. It goes with it that only 25% of companies that do not have investment had a written business plan. Even the number of enterprises with business plan may be the reason that in recent years there have been several international organizations which have announced the call for applications for grants, where as the key requirement is seeking submission of the business plan.

TABLE 3: *Investments by Activities*

Sector	Sector by sample (%)	Sector of investment enterprises (%)	Structure of investment by sector which are made (%)
Manufacture	12.7	18.1	8.8
Trade	44.2	45	34.0
Service	24.1	36.9	49.7
Mixed	19.0	-	7.5
Total	100	100	100

4. The impact of external finances to the investments level of firms

Enterprises that invest expected to finance investments do apart from own resources with external sources of financing of which bank loans in Kosovo is the typical form. The research findings are not encouraging. Only 40% of enterprises which have investment have bank loans to finance these investments, 56.6% did not apply and 3.4% of the investment enterprises are rejected by banks in granting credit as shown in Table 4. Our analysis of not applying for loans to enterprises most frequent response is given as the reason of high interest rates and a smaller proportion complain to the impossibility of providing collateral and complex procedures for providing necessary documents that banks require. Even here noted the tendency of declining micro enterprises in the structure of companies that received bank loans compared with the number of enterprises participating in investment structure, while there is increasing participation of small and medium enterprises. This issue raises or strengthens existing theory of access of enterprises by sizes to bank loans.

TABLE 4: *Investing Firms that Used Bank Loans*

Enterprises by sizes	Have gain bank loan (%)	Didn`t applied (%)	Refused on bank loan (%)	Total
Micro	24.6	45.1	2.3	72.0
Small	9.7	8.0	0.6	18.3
Medium	5.7	3.4	0.6	9.7
Total	40.0	56.6	3.4	100.0

The average period of payback loan from investment enterprises is 28.6 months, while the average interest rate for these companies is 14.3% per year. Analyzing the enterprises which have not applied for loans, 54.4% were estimated to have had enough own resources, while 25.3% of enterprises have not applied because of high rates of interest. In our question addressed in the survey targeted enterprises that have received loans, how they estimated loans conditions, they were able to answer many unfavorable interval = 1, until very affordable 5, where the average respond is 2.08, which means that the prevailing trend of complaints since it tended average coefficient 1 that represents the very unfavorable conditions.

Averages values by using investment bank loans, resulted to be statistically significant.

In the analysis of the average volume of investment by accessing bank loans, showed that significant differences in the average volume of investments as shown in the Table 5.

a) The category I: The higher average investments had enterprises that got bank loans. This may result from several reasons: i) there is a tendency in this category include those enterprises that have easier access to bank loans ie enterprises that fall into the category of firms that possess greater value of assets and larger number the employeesiv; ii) the company is expected to automatically have higher value of investments; iii) the ability to provide collateral and greater motivation to exploit loans due to high value of planned investments, and iv) its bank loan can give a boost enhancing the value of investments.

b) The category II: The lower average investments had companies that have not applied for bank credit. This may result for several reasons: i) there is a tendency in these enterprises includes companies that have low value of assets, a small number of employees, of course under 9 employees who pick to be in the category of micro enterprises; ii) the firm is expected to automatically have lower value of investments; iii) have the slightest possibility to offer collateral because of the lower value of the assets that the firm possess, and the difficulty to complete the necessary documentation required by banks, iv) relying only on their own sources of funding and eventually from friends and relatives limits the growth of investment value.

c) The category III: Slightly above average lower investments to enterprises that are refusing to credit from banks. As seen these enterprises have an average investment of nearly those companies that did not apply for loans. Certainly their investments plans were ambitious and much higher value, but the inability to use bank loans has limited that this average value of the investments to below.

TABLE 5: *The average Volume of investments by Accessing Bank Loans*

SME	The average volume of investments (€)	Enterprise structure (%)
Have received bank loans	97,754	40.0
Didn`t applied for bank loan	18,438	56.6
Are refused by banks	21,250	3.4
Total	51,772	100

Based on survey data, an analysis was done for the coefficient of collateral, it shows that micro firms have average coefficient of collateral 1.39, small and medium enterprises 2.99 and 1.39 respectively, which according to ANOVA test results that the differences between the three groups were not statistically significant enterprises, while there is a significant difference between the averages of micro and small enterprises together on one side (3.01) and medium-sized enterprises on the other side (1.39)[v].

This shows that banks are quite conservative and want to be sure when deciding to lend to small firms. This may be the reason that some small firms complain about complex procedures when applying for loan.

5. Conclusions

The correlation analysis shows that investments have positive correlation with the number of employees, with positive growth trends of employment, having to

write a business plan, whether the company conducts in two or more locations, importing activities and with age the enterprise.

A trend noted was the increased participation of manufacturing enterprises in the structure of investment enterprises over a size category in another category, although their investments go more in other sectors where are distinguished investments in service activities that exceed investments in trading activity, although this activity is operated by almost half of enterprises in Kosovo. On the other hand, service enterprises reduce investment activities to increase their size. As regard to sector, for manufacture have gone a considerably lower number of investments, which is not a good indicator for promoting economic development in the country, since it is known that the manufacturing sector is the basis for economic development.

Usually enterprises which have a broader organization branches, operating in two or more locations and operating in Kosovo and abroad have a greater tendency to increase investment capacities.

Not all enterprises that invest have a written business plan. 40% of enterprises that have invested have written business plan, which is approximately the same as the percentage of enterprises that have received investment bank loans, which logically matches for banks when granting loans for investments require by enterprises to submit a writing business plan. There is a statistically significant difference in the mean values of investments depending on access to bank loans. The enterprises that had received bank loans have higher average investment, the enterprises that have not applied for bank loans have lower investment average, while slightly above average lower investment have enterprises that are refusing to credit from banks, which of course was limited investment growth values.

Notes

[i] SME - small and medium enterprises. Their size in Kosovo is defined by Law no. 2005/02-L5 and Law no. 03L/-031 who fit that makes sharing OECD and the European Commission. This is based on the number of employees: 1-9 employees = micro enterprise; 10 to 49 employees = small enterprise; 50-249 = medium enterprise workers and 250 more employees = large enterprise. In most cases, instead of expressing paper will use the term enterprise ore firm and their meaning is the same.

[ii] Pp = Point of percent

[iii] It is analyzing horizontally in graph, i.e. the share of micro enterprises in SME is 70.5%. To find the share of manufacture sector in micro enterprise, it goes 8.1/70.5 = 11.4.

[iv] The number of employees of the enterprise has a positive correlation with access to bank loans. Correlation is statistically significant. For each employee more likelihood of an enterprise to take bank loans increased by approximately 25% `Author`.

[v] In the absence of data for collateral of large firms, it wasn't done the collateral coefficient for them.

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