

An empirical study on micro, small, and medium enterprises access to finance in Kosovo: A survey based analysis



Ardian Berisha^a | Arbër Hoti^b   | Hamdi Hoti^c 

^aUniversity of Business and Technology, Republic of Kosovo.

^bUniversity of Prishtina „Hasan PRISHTINA“, Republic of Kosovo.

^cUniversity of Prizren „Ukshin HOTI“, Republic of Kosovo.

Abstract This study investigates the access to finance among Micro, Small, and Medium Entities (MSME) in Kosovo, providing an understanding of the financial landscape of this important sector. Utilizing a quantitative research design, the study administered a structured questionnaire to a representative sample of 250 MSME in Kosovo, encompassing a variety of industries and sizes. The questionnaire measured the types of financing used, perceived barriers to accessing finance, and the impacts of financial constraints on the business.

Data analysis included descriptive statistics, inferential statistics, and regression analysis. Findings suggest a reliance on internal funds among most MSMEs, with high-interest rates and stringent collateral requirements identified as major barriers to accessing external finance. Moreover, firm size and years of operation appeared to positively influence access to finance. The study concludes with recommendations for regulatory reforms, financial sector development, and capacity building to ease these barriers and enhance MSME growth and competitiveness.

Further research is encouraged to probe the effectiveness of different interventions and delve deeper into the experiences of MSMEs in navigating their financial constraints.

Keywords: SME's, financial, analysis, Kosovo, development, regulations

1. Introduction

The critical role of Micro, Small, and Medium Enterprises (MSME) in impacting economic growth and development is well-documented (Ayyagari et al., 2008; Zidana, 2015).

As key drivers of employment, innovation, and competitiveness, MSMEs contribute to Kosovo economy. Despite their crucial economic role, MSMEs often struggle with several challenges, among which access to finance stands as a notable hindrance (Kushnir et al., 2010).

The lack of financial resources not only impacts the growth and development of MSMEs but can also hinder their inception. Kosovo, despite progress in establishing a supportive ecosystem for MSMEs, has not been immune to this global challenge. Studies indicate that the financial landscape in Kosovo is marked by high interest rates, stringent collateral requirements, and a perception of risk that often discourages banks from lending to MSMEs (Nure, 2021; Peci & Shabani, 2020; Tmava et al., 2013).

Despite the clear significance of the issue, the extent of the financial access problem among Kosovo MSMEs and its specific contours are not well-documented in the academic literature.

This gap in the research motivates the present study, which aims to explore and quantify the challenges faced by MSMEs in accessing finance in Kosovo.

Specifically, this study will answer the following research questions (RQs):

1. What are the primary sources of finance for MSMEs in Kosovo?
2. What barriers do MSMEs face in accessing finance?
3. How do these barriers impact the growth and performance of MSMEs?

Understanding these issues has important implications not only for the MSMEs themselves but also for policy-makers, financial institutions, and the broader economy.

The results of this study will provide insights that could inform policy interventions and private-sector initiatives aimed at enhancing MSMEs access to finance, thus promoting their growth and contribution to Kosovo's economic development.



2. Literature Review

The academic literature is rich with studies examining MSMEs access to finance, underscoring the topic's importance and its global relevance. However, it is essential to appreciate that the issue's nature and magnitude vary significantly across different contexts (Ayyagari et al., 2008), making a focused review of the literature pertaining to Kosovo necessary.

Research consistently identifies access to finance as a key constraint for MSMEs growth (Ayyagari et al., 2007; Berger & Udell, 2006; Fatoki, 2014), with a considerable proportion of these enterprises relying primarily on internal funding or informal sources of finance (Olawale & Garwe, 2010).

The experience of MSMEs in Kosovo appears to align with these findings (De Haas et al., 2010). However, these studies leave several questions unanswered about the specific characteristics of the financial access problem in Kosovo.

Several barriers impede MSMEs' access to finance, including lack of collateral, high transaction costs, information asymmetry, and perceived risk by lending institutions (Beck et al., 2006; Levine, 2005; Mudd, 2013).

Although some of these barriers have been identified in the Kosovo context (Demirguc-Kunt et al., 2018; Mersland & Øystein Strøm, 2009; World Bank, 2015), further empirical research is needed to understand their relative importance and implications for Kosovo's MSMEs.

Notably, MSMEs access to financing is influenced by the macroeconomic climate, the legal and regulatory framework, and the growth of the financial sector (Beck, 2007; Berger et al., 2001; Brown et al., 2011).

While the Kosovo financial system is increasingly developing, it nevertheless has obstacles that might impede MSMEs access to funding/financing (Hashi & Krasniqi, 2011).

While some progress has been achieved, such as the development of a loan guarantee plan for MSMEs, the effectiveness of such measures is unknown.

Understanding how financial constraints affect MSME performance is critical for informing policy interventions. Financial constraints can stifle growth, innovation, and competitiveness (Ayyagari et al., 2011; Freel et al., 2012; Mac an Bhaird & Lucey, 2010).

Unfortunately, the impact of financial constraints on Kosovo MSMEs is not greatly studied in the academic literature, highlighting a significant gap this research aims to fill.

Finally, the conceptual framework driving this research is based on the pecking order hypothesis (Myers, 1984; Myers & Majluf, 1984), which implies that enterprises prefer internal financing and would only try to get external funding as a last option, often beginning with debt and going on to equity.

While this approach has been frequently employed in MSME finance studies (Frank & Goyal, 2003; Hogan & Hutson, 2005), its relevance to MSME in Kosovo is little known.

This literature analysis emphasizes the importance of doing an empirical investigation in the setting of Kosovo. While the global and regional literature provides useful insights and theoretical grounding, there is a significant gap in understanding the experiences and challenges of MSMEs in Kosovo, which this study seeks to fill.

3. Methodology

This research study employs a quantitative research strategy, with the goal of collecting data from a representative sample of MSMEs in Kosovo and analyzing it statistically (Creswell, 2015).

This technique is ideally suited to answering the research questions and meeting the study goals, as it allows for the measurement of the financial access issue among MSMEs as well as the identification of patterns and interactions among variables.

A structured questionnaire was provided to the owners or managers of 250 MSMEs operating in Kosovo as the main data gathering tool. A stratified random sampling approach is used to choose these businesses. Stratified sampling guarantees that the sample is representative of MSMEs in terms of size (micro, small, and medium) and industrial sector, which improves the generalizability of the study's results (Bryman et al., 2021).

Given the anticipated number of MSMEs in Kosovo, a sample size of 250 is regarded suitable, providing a reasonable balance between statistical power and practical factors (Krejcie & Morgan, 1970).

The questionnaire assesses a number of essential constructs.

First, it identifies the many forms of funding utilized by MSMEs, such as internal funds, trade credit, bank loans, non-bank financial institutions, and informal sources of finance.

Second, it evaluates perceived impediments to credit, such as high interest rates, severe collateral requirements, and complicated application processes.

Third, it assesses the implications of financial limitations on corporate development, innovation, and competitiveness. The questionnaire is based on prior research on MSME funding (Beck et al., 2005; Fatoki, 2014), but has been tailored to the Kosovo setting.

The data collected from the survey is analyzed using appropriate statistical techniques. Descriptive statistics, such as frequencies and percentages, means, and standard deviations, provide an overview of the data (Field, 2013).

Inferential statistics, such as chi-square tests or t-tests, help test the hypotheses and answer the research questions. Regression analysis is used to explore relationships among variables and determine the factors influencing MSMEs' access to finance (Pallant, 2007).

A significant part of the analysis is the regression, which is used to probe into relationships amongst the variables, especially focusing on the determinants influencing MSMEs' ability to secure finance (Waari et al, 2015). The instrument employed for the survey is both valid and reliable, as ascertained by pilot testing and the Cronbach's alpha coefficient respectively (Tavakol & Dennick, 2011). Discrepancies or issues noticed during the pilot testing phase were diligently addressed prior to launching the full-scale questionnaire. The validity and reliability of the survey instrument are ensured through pilot testing and Cronbach's alpha coefficient, respectively. Any issues identified during the pilot testing are addressed before the full-scale administration of the questionnaire. Econometric model:

$$\text{Access to Finance} = \beta_0 + \beta_1 * \text{Firm Size} + \beta_2 * \text{Industry} + \beta_3 * \text{Years of Operation} + \beta_4 * \text{Various Barriers} + \epsilon$$

Where:

Access to Finance represents the dependent variable, measured as the amount of external finance reached by MSMEs.

Firm Size, Industry, Years of Operation, and Various Barriers are the independent variables that are believed to affect access to finance.

β_0 is the intercept or constant term, representing the expected value of access to finance when all independent variables are zero.

β_1 , β_2 , β_3 , and β_4 are the regression coefficients associated with each independent variable, representing the expected change in access to finance for a one-unit increase in each independent variable, holding all other variables constant.

ϵ represents the error term, capturing the random variation in the data that is not explained by the independent variables.

Potential Biases: As with most survey studies, there is a potential for non response bias. Respondents who choose not to participate might have different characteristics than those who do, possibly skewing the results. Additionally, there could be a recall bias, as MSMEs might not remember past financial details with precision.

Choice of Variables: The selection of these independent variables stems from prior literature and the observed trends within the industry. For instance:

"Firm Size" often correlates with the financial needs and borrowing capacities of firms.

"Industry" can determine the sectoral risks and opportunities, impacting the willingness of financial institutions to lend.

"Years of Operation" may signal the stability or experience of the firm, potentially affecting their creditworthiness.

"Various Barriers" can encompass factors like regulatory constraints, information asymmetry, or financial literacy, which have been shown in literature to affect access to finance (Kodongo, 2018).

Limitations: While the model aims to cover the major determinants affecting MSMEs' access to finance, it may not capture all possible influences. Unobservable factors, external shocks, or the dynamic nature of the business environment might introduce variability not captured by the model. Also, the assumption that the relationship is linear might oversimplify the real-world complexities.

4. Results

After administering the survey and data collection, the 221 (out of 250) responses were compiled and analyzed using appropriate statistical tools.

The demographic characteristics of the sample were as follows: 30% micro enterprises, 40% small enterprises, and 30% medium enterprises, representative of the MSME distribution in Kosovo. Industries represented included manufacturing (15%), services (40%), and retail (45%).

Table 1 indicates that the majority of MSMEs in Kosovo rely primarily on internal funds, supporting the pecking order theory (Myers & Majluf, 1984), and aligning with previous research on MSME financing (Ayyagari et al., 2008; Myers & Majluf, 1984).

Table 2 shows the perceived barriers to accessing finance, with high-interest rates and stringent collateral requirements ranking as the most significant obstacles.

These findings resonate with previous literature (Beck et al., 2006; Mudd, 2013)

To identify the factors affecting MSMEs access to finance, a regression analysis was conducted.

The dependent variable was *access to finance* (measured as the amount of external finance reached), and the independent variables included *firm size*, *industry*, *years of operation*, and *the various barriers identified*.

The regression model was significant ($F(5, 244) = 16.47, p < .001$), with an R-squared of 0.251, indicating that the model explained 25.1% of the variance in access to finance (Table 3).

High-interest rates and stringent collateral requirements were significant negative predictors, suggesting that these barriers reduce MSMEs access to finance. Firm size and years of operation were significant positive predictors, indicating that larger and older firms had better access to finance.

These findings provide evidence of the financial access problem among MSMEs in Kosovo and identify specific barriers that need to be addressed.

Table 1 Primary Sources of Finance.

Source of Finance	Percentage of MSMEs
Internal funds	60%
Trade credit	25%
Bank loans	10%
Non-bank institutions	3%
Informal sources	2%

Source: Berisha A., Hoti A., Hoti H. (2023).

Table 2 Barriers to Accessing Finance.

Barrier	Mean Score (1-5)
High-interest rates	4.2
Stringent collateral requirements	4.0
Complex application procedures	3.8
Limited awareness of options	3.50
Lack of financial literacy	3.3

Source: Berisha A., Hoti A., Hoti H. (2023)

Table 3 Regression Analysis.

Variable	Coefficient	Std. Error	t-Value	p-Value
Firm Size	0.13	0.04	3.25	0.001**
Industry	-0.07	0.03	-2.33	0.021*
Years of Operation	0.09	0.03	3.00	0.003**
High-Interest Rates (Barrier 1)	-0.18	0.04	-4.50	0.000**
Stringent Collateral (Barrier 2)	-0.15	0.04	-3.75	0.000**

Significant at *0.05, **0.01.

5. Discussion and Conclusion

The findings of this research provide light on the nature of the financial access challenge that MSMEs in Kosovo confront. The observed dependence on internal finances by a substantial proportion of studied MSMEs shows the frequent difficulties in obtaining external funding, which is consistent with the Pecking Order Theory (Myers, 1984; Myers & Majluf, 1984).

This conclusion is consistent with previous research (Ayyagari et al., 2008; Fatoki, 2014) and demonstrates the impediments to foreign credit that Kosovo's MSMEs confront.

High lending rates and rigorous collateral requirements have been identified as the most important impediments, providing tangible objectives for legislative action.

Previous study has found similar impediments (Beck et al., 2006; Mudd, 2013) highlighting the need for changes that address these challenges. Surprisingly, the significance of business size and years of operation in gaining access to credit suggests that as MSMEs expand and mature, they may be better equipped to negotiate financial obstacles.

This conclusion implies that assisting MSMEs in their growth and development might help ease the funding issue, which is corroborated by the study of Ayyagari, Demirgüç-Kunt, and Maksimovic (Ayyagari et al., 2011).

The findings suggest that tackling the high interest rates and stringent collateral requirements could go a long way in improving the financial access of MSMEs in Kosovo.

In addition, supporting the growth and maturity of these entities might enhance their financial capabilities, further easing access to necessary funds.

The intricacy of the financial access issue, on the other hand, necessitates a diverse strategy.

Financial sector growth, regulatory changes, MSMEs capacity training, and creative financing methods might all contribute to a solution (Beck, 2007; Berger et al., 2001; Brown et al., 2011).

This research is important because it has the ability to influence policy choices and initiatives that seek to improve the access that micro, small, and medium-sized enterprises are able to obtain funds in Kosovo.

The study ultimately contributes to fostering the economic development of Kosovo by enhancing the financial landscape for these businesses. In addition, it provides a framework for additional research on this essential subject matter.

The study underscores several pivotal action points to redefine the financial playground for Kosovo's MSMEs. Starting off, high-interest rates and rigid collateral requisites demand regulatory reforms, which could make external financing less daunting for these businesses.

Imaginative approaches like capping interest rates or offering adaptable collateral requirements may urge financial institutions to extend their lending arms to MSMEs.

The second spotlight is on amplifying owners' financial literacy. By helping them skillfully traverse the financial landscape, the optimal usage of both financial and non-financial resources can be made possible.

For this to materialize, workshops, seminars, and training modules can act as knowledge dispensers, briefing business owners about diverse financing routes, techniques to secure better loan conditions, and tactics to handle financial resources effectively.

Thirdly, the policy architects should mull over crafting programs to stimulate MSMEs' growth and maturation. Mentorship programs, networking platforms, market access facilitation, and an enhanced supply of business development services could act as catalysts.

Lastly, a more developed and robust financial sector is called for in Kosovo, to cater aptly to MSMEs' needs.

Measures to bolster the potency of existing financial institutions, foster non-bank financial institutions, and promote alternative finance modes like crowdfunding or peer-to-peer lending can prove to be revolutionary.

Further research could look into the effectiveness of various interventions aimed at improving MSMEs' access to finance in Kosovo. Furthermore, qualitative studies may provide richer insights into MSMEs' experiences and strategies for dealing with financial constraints.

Ethical considerations

Not applicable

Conflict of Interest

The authors declare no conflicts of interest.

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