This assessment presents a general overview of the Start-up market in Kosovo, including characteristics of the Start-up companies, projects and programs in place to create Start-ups and the Business Support structures and organizations in place to support Start-ups and recommendations for future interventions by involved stakeholders. The report was supported by Enhancing Youth Employment Project funded by Swiss Government.
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<th>Description</th>
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<tbody>
<tr>
<td>B2B</td>
<td>Business to Business</td>
</tr>
<tr>
<td>BI</td>
<td>Business Incubator</td>
</tr>
<tr>
<td>BSCK</td>
<td>Business Support Centre Kosovo</td>
</tr>
<tr>
<td>BSO</td>
<td>Business Support Organisation</td>
</tr>
<tr>
<td>CEED</td>
<td>Centre for Entrepreneurship and Executive Development</td>
</tr>
<tr>
<td>EEG</td>
<td>Experience Exchange Group</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>EYE</td>
<td>Enhancing Youth Employment project</td>
</tr>
<tr>
<td>EYE (BA)</td>
<td>Encouraging Young Entrepreneurs (Business Angle)</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FR</td>
<td>Final Report</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GoK</td>
<td>Government of Kosovo</td>
</tr>
<tr>
<td>ICK</td>
<td>Innovation Centre Kosovo</td>
</tr>
<tr>
<td>IPAK</td>
<td>Investment Promotion Agency of Kosovo</td>
</tr>
<tr>
<td>KOSME</td>
<td>Kosovo SME Promotion Programme</td>
</tr>
<tr>
<td>KOSVET 6</td>
<td>Development of Vocational and In-company Training Scheme project</td>
</tr>
<tr>
<td>MAFRD</td>
<td>Ministry of Agriculture, Forestry and Rural Development</td>
</tr>
<tr>
<td>MED</td>
<td>Ministry of Economic Development</td>
</tr>
<tr>
<td>MLGA</td>
<td>Ministry of Local Government Administration</td>
</tr>
<tr>
<td>MLSW</td>
<td>Ministry of Labour and Social Welfare</td>
</tr>
<tr>
<td>MSME</td>
<td>Micro and Small and Medium Sized Enterprises</td>
</tr>
<tr>
<td>MTEF</td>
<td>Medium Term Expenditure Framework</td>
</tr>
<tr>
<td>MTI</td>
<td>Ministry of Trade and Industry</td>
</tr>
<tr>
<td>M&amp;E</td>
<td>Monitoring &amp; Evaluation</td>
</tr>
<tr>
<td>NCED</td>
<td>National Council for Economic Development</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Government Organisation</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PPD</td>
<td>Project Cycle Management Private Dialogue</td>
</tr>
<tr>
<td>PSD</td>
<td>Private Sector Development</td>
</tr>
<tr>
<td>RDA</td>
<td>Regional Development Agency</td>
</tr>
<tr>
<td>REA</td>
<td>Regional Enterprise Agencies</td>
</tr>
<tr>
<td>RED</td>
<td>Regional Economic Development</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium sized Enterprise</td>
</tr>
<tr>
<td>SMESA</td>
<td>SME Support Agency</td>
</tr>
<tr>
<td>TAM/BAS</td>
<td>Turn-Around Management/Business Advisory Services</td>
</tr>
<tr>
<td>TNA</td>
<td>Training Needs Analysis</td>
</tr>
<tr>
<td>ToR</td>
<td>Terms of Reference</td>
</tr>
<tr>
<td>ToT</td>
<td>Training of Trainers</td>
</tr>
<tr>
<td>YEP</td>
<td>Young Entrepreneurs Program</td>
</tr>
</tbody>
</table>
Executive summary

Micro, Small and Medium sized Enterprises (MSME) are the backbone of any thriving economy. MSMEs contribute significantly to both economic growth and employment. Kosovo is no exception. Consequently, a policy that supports the creation of entrepreneurs and Start-up companies means to support the economic development of a country. However, this is based on the assumption that a substantial number of Start-ups survive and grow on the market, creating economic growth and employment opportunities. Unfortunately, this is currently not the case in Kosovo.

In fact, Start-ups in Kosovo appear to reach a certain level of early development, but soon after they stagnate. They do not grow. In turn, this means that they are not contributing to the economic development of the country through economic growth or employment. The Start-ups that do survive are only able do so primarily by receiving financial support from their families. Although many Start-ups are not growing, only few of them close down.

Despite the various reasons Start-ups in Kosovo lack growth, their underdevelopment can primarily be attributed to internal reasons: company owners possess limited business knowledge and experience; the predominate management style is conducive only to very small business operations; the lack of appreciation for the benefits of professional human resource development; the general negative disposition towards learning; and the tendency to favor low risk “me-too” business ideas.

Until now, there is no national Start-up support programme in Kosovo. The policy to support entrepreneurship and creation of Start-ups have been entirely driven, funded and managed by donor agencies. During the last couple of years, more than 4,000 graduates have received technical assistance, and sometimes grants, to start up their own companies. But, while the system to produce new companies is well functioning, the mechanisms to support the Start-ups after graduation, to increase their chances of survival and facilitate their growth, remain under-developed.

The establishment of intermediate structures, such as enterprise agencies, business centers and business incubators to support Start-ups and companies, has also been mostly driven by donors in Kosovo. The success rate of the donor established Business Support Organizations is unknown, leaving a void in the institutional landscape between the MSMEs and local/central institutions responsible for private sector development. The lack of institutional continuity has also left the individual MSME uninformed about where to turn for technical support.

To reverse this trend, in the last 2 years a number of new local business support initiatives have emerged on the market, offering a variety of financial and non-financial services to Start-ups and more mature companies in Kosovo. With a much higher degree of local ownership, and clearer business models, this emerging network of new BSOs may offer the MSME community in Kosovo the tailored services that they require to grow, until now have been in low supply.

In order to meet the increasingly specific and technical demands of the MSMEs in Kosovo, Business Service Providers and individual consultants need to enhance their own capacities. Until now, the large majority of consultants regarded the donor projects as their main clients, not the private companies in Kosovo. This mismatch in client focus has shaped the local consultants’ skills, expertise and experience, making them ‘generalists’ rather than ‘specialists’. This means that while a very large pool of local consultants are qualified to conduct Start-up training, a very limited number of local consultants now have the adequate skills and expertise to serve growing MSMEs with services which they, in turn, are willing to pay for.

The challenges ahead for the private sector in Kosovo are formidable, and starting to work towards overcoming these challenges should be regarded as a national urgency. Only the private sector possesses the capabilities to reduce the unemployment rate in a sustainable and systemic manner, especially youth unemployment, and to set the Kosovo economy on the course of real growth by increasing manufacturing, exports and reducing the very high dependency on imported goods.

Based on the wide range of interviews conducted with Start-up support projects and programmes, donor agencies, business support structures, ministries, agencies and private companies as well as the desk research completed, two distinctive intervention areas have been identified in the field of support to Start-up businesses and Business Support Services in Kosovo:

- Institutionalization of Start-up Support programmes;
- Facilitation of post-graduation support to Start-ups/early growth companies.
Assignment Objectives

The main objective of this assessment was to develop a general overview of the Start-up market in Kosovo, including characteristics of the Start-up companies, projects and programmes in place to create Start-ups, and the Business Support structures and organisations in place that support Start-ups. Based on the findings, observations and research of the current situation, and drawing on past experiences in Start-up support, the second objective of the assessment was to elaborate recommendations on practical interventions that will strengthen the quality and outreach of Start-up support services in Kosovo, with the overall aim of improving the survival and growth rate among Start-ups upon graduation.

1. Assessment

1.1 Institutional and strategic framework for start-up support in Kosovo

The main mission of the Ministry of Trade and Industry (MTI) is to promote industry and economic growth in Kosovo. MTI oversees the development and implementation of policy, regulations, European directives, administrative orders related to private sector development. It has five agencies, which cater to a variety of issues affecting and/or supporting businesses in Kosovo – SME Support Agency (SMESA), Standardization Agency, Business Registry, Investment Promotion Agency (IPAK) and Accreditation Directory. The MTI has recently established a new national platform for Public-Private Dialogue (PPD), the National Council for Economic Development (NCED). The main role of the NCED, which includes both ministries and business associations, is to oversee the implementation of the Economic Development Plan of Kosovo, also known as the Vision 2014. The goals and objectives of Vision 2014 are closely linked to the progress indicators of the World Bank’s Doing Business Index. Through IPAK, MTI is very pro-actively promoting investments in Kosovo internationally, through a series of conferences. The MTI works with SMEs in Kosovo through the SME Support Agency. The main role of SMESA is to provide advisory and information services, being a ‘one-stop-shop’ for all companies. This agency also aims to reduce the barriers for company growth and development and implement incentive programmes to facilitate improved performance among Kosovo SMEs.

MTI is currently in the final stages (third reading in Parliament is pending) of amending the ‘Law on Support to SMEs’. The new draft law is expected to be called ‘Law on the establishment of an agency for the development and promotion of the private sector and investment’, and will bring under one umbrella the SME Support Agency and the Investment Promotion Agency of Kosovo. By bringing together investment promotion, export promotion and SME development under ‘one roof’, there are opportunities as well as challenges to address, but hopefully synergy effects can be achieved and improved capacities among staff built to the benefit of Kosovo’s private sector and economy as a whole.

National Strategies

In April 2010, the Medium-Term Expenditure Framework (MTEF) was adopted, for 2011–2013. A Stand-By Arrangement of €109 million was signed with the IMF for an 18-month programme. It is recognized that, as a priority, conditions should be established for ‘a rapid sustainable economic growth for the benefits of all citizens of Kosovo’. At the same time, the current socio-economic situation is such that rapid economic growth will be a real development challenge for the country. The National Development Strategy, drafted in 2006, appears to have been replaced by the Medium Term Expenditure Framework as the main strategic planning document in Kosovo.

The SME Development Strategy for Kosovo 2012 – 2016 (with vision to 2020), adopted in July 2011, is firmly based on the two main pillars of EU’s SME strategic framework: the Small Business Act (SBA) for Europe, which Kosovo has committed itself to implement; and the EU Competitiveness and Innovation framework Programme (CIP), which Kosovo aspires to become part of in the near future. As a sectorial document setting out the policy framework of the Government of Kosovo on SMEs, this strategy consists of measures (divided into three levels: strategic goals, goals and strategic objectives) needed to be undertaken in order to further advance reforms towards a dynamic SME sector and generate new jobs. Its vision being “globally competitive Kosovo SMEs”, the mission set out by this strategy is the following:
“Improvement of the business environment and entrepreneurship culture with the aim of the creation and rapid growth of sustainable SMEs”.

The Kosovo Economic Vision 2011 – 2014 Action Plan, focuses on the main economic development priorities and sectors, and aims, among others, to improve investment environment and support the private sector. Goals will be achieved by amending and completing legislation that create conditions that attract investment and reduce excessive administrative barriers, with a vision to facilitate the operation of the private sector and thus contributing to economic growth. This entails comprehensive reforms to eliminate 50% of the excessive license and permit requirements. Another aspect in terms of developing this sector is intensifying activities for attracting foreign investments and integration in the international financial institutions.

MTI’s new, Private Sector Development Strategy 2013-2017, in an effort to increase employment and reduce poverty, aims to create a globally competitive private sector in Kosovo. The strategy provides a framework for possible interventions by central and local government, private sector and non-governmental organisations. These interventions will inspire changes necessary in order to achieve social welfare, modern infrastructure, sustainable economic development, as well as providing efficient public services to the citizens of Kosovo.

The PSD strategy is organized into three pillars - (1) The development, support and promotion of investments and businesses, (2) Improvement of the Free Movement of Goods or regulation of the internal market, and (3) Promotion of Trade Policy.

The PSD strategy is based on the pillar of sustainable economic development program of the Government of the Republic of Kosovo (Vision 2014). This program points out that “the main generator of economic growth will be private investment and further development of entrepreneurship”. Under the Strategic goal of improved industry and SMEs, the strategy gives attention to: (1) State and Globally Competitive Enterprise; (2) Orientation in strategic sectors of the industry, giving priority to production and export; (3) Providing tax incentives; (4) Supporting the continued development of technical, innovative and managerial skills; (5) Continuing improvement in access to finance; (6) Protecting Industrial Property; and (7) Fighting business informality.

The Employment Strategy 2010-2012 highlights that limited access to jobs is a major concern, and job creation performance has lagged behind the Ministry’s expectations. In 2005-2007, the employment rate declined, despite annual economic growth accelerating to an estimated 4%, and it remains very low compared to other countries in the region. The employment rate for women is also exceedingly low at around 13%.

Without a favourable investment climate, the private sector cannot flourish. It is widely acknowledged that the development of a vibrant private sector is essential for generating economic growth and tackling unemployment and poverty.

Institutions and support structures

Within the institutional landscape for Start-up and MSME support, policy-making and the strategic framework for private sector development are elaborated by the Ministry. In Kosovo, this responsibility falls under MTI. The design, management and monitoring of programmes, with the overall objective to implement the national private sector development strategy is with an independent agency.

In Kosovo, the SME Support Agency is responsible for the implementation of the SME Development strategy. Most often, the implementation of government and donor funded SME support programmes are done by various types of Business Support organisations, such as Business Centres, Business Incubators, Technology Transfer Centres, Innovation Centres, etc. In turn, the BSOs may engage freelance consultants to implement specific activities.

Business Support Organizations in Kosovo

In Kosovo, almost every single Business Support Organisation (BSO) established until now has its origin from a donor funded project. Few have survived beyond the duration of the project. The reasons for the very high failure rate are numerous, but key factors have been attributed to: unsustainable exit strategies, limited local authority ownership, limited scope, and inadequate business models.

Among the surviving BSOs, very few have stayed true to their original development mission after project financing ended. Rather, they have survived on the market by converting into “for-profit,” or at least cost-recovery organizations, focusing on those clients who can pay for services. In reality this means working for other donor funded projects and grant schemes, and drafting business plans for private companies applying for a bank loan. However, this ‘survival mode’ has left the bulk of the original target groups without support. In a way, this development can be viewed as a break-down in public policy implementation.

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1 Kosovo’s Answers to the EC Questionnaire on the Preparation of the Feasibility Study for a Stabilisation and Association Agreement, pg. 134
In Kosovo, a large number of business support structures were established since 2000, yet very few of them are left on the market offering business support services to Start-ups and MSMEs. In 2001, the European Agency for Reconstruction (EAR), as part of the European Union Integrated SME Development Program for Kosovo, established five Regional Enterprise Agencies (REAs) in Mitrovica, Pristinë, Gjilan, Prizren and Pejë. Today, only REA Pristina is active, but more as a private consulting company targeting mainly donor funded projects and grant schemes.

More recently, there have been various efforts to establish Business Incubators (BIs) in Kosovo. The EAR, in cooperation with MTI, established business incubators in Gjilan, Shtime and Decan, while MTI, on its own, builds a large business incubator in the Drenas Business Park.

At the moment, the BIs in Gjilan and Decan are funded and managed completely by the municipality. This was the actual exit strategy of the project, that ownership and management of the BI is transferred to the municipality. Unfortunately the municipalities have neither the financial nor the human resources to continue operations of the business incubators. Rather, the BI premises are now rented out as workspace. The BI space in Gjilan is rented out to private companies, while the BI premises in Decan are now occupied by municipality departments and different NGOs. The BI in Shtime has seized to operate all together.

Nothing remains of the original purpose of business incubation, which was to foster entrepreneurs and Start-ups through training, consulting and technical support, with the idea of these companies leaving the BI after a set time period. MTI, according to the BI managers in Decan and Gjilan, has offered only ad hoc financial support to the BIs over the years, but there exist no formal relationship between MTI and these business support structures. A platform for horizontal communication and exchange of experiences among the BIs is also non-existent.

While the BIs in Gjilan, Shtime and Decan were once operational business incubators, the BI in the Drenas Business Park never functioned. The BI is over 1000m2, managed by SMESA/MTI, and it was planned to host 15-20 BI tenants, a post office and
utility service providers from Drenas municipality, and a restaurant.

As part of the World Bank's Business Environment Technical Assistance project, a network of 28 Municipal Business Centers has been established. However, it should be noted that these centers are not proper business centers offering technical assistance and business information to companies. Rather they are Business Registration service points, aiming to support the implementation of reforms, modernizing business registration and speeding up the procedure of establishing a company.

In search of business support in Gjilan – a true story

This anecdote tells a symbolic story of the confusion caused by the proliferation of business support structures that often fail and others that sometimes are mislabeled, which in turn leaves the local companies without any options to rely on for support and advise.

When visiting the well-functioning Citizen Information Point (CIP) at the municipality in Gjilan, the consultant asked the question: “What if I, as a company in Gjilan, write a request to you for support with management training, what you would answer on such a request?” The municipality CIP manager replied: “We would refer the company to the Municipal Business Center”. We now know that the Municipal Business Center is really a Business Registration Center, but we decided to follow in the footsteps of the imaginary Gjilan company, and asked the same question to the staff of the Business Registry (Municipal Business Center). The answer was, “You should go to the Business Center located in the Business Incubator”. The status of the Gjilan BI is reported upon above, but the business center that the civil servants at the Municipal Business Center (Business Registry) referred to had also seized to function. In fact, it turns out that this business center was established as part of EU grant scheme won by CARE International (Project title “Regional economic development in eastern Kosovo region”). In line with the BI project exit strategy, the ‘ownership’ of the business center had also been transferred to the municipality, who, again, had no financial resources allocated from its budget to manage and finance a business center. This is where the imaginary company runs out of options for support from the institutions and the donor community.

The five Regional Development Agencies (RDAs) in Kosovo, Centre (Prishtinë), North (Mitrovicë), West (Peja), South (Prizren) and East (Gjilan) were established in 2008. Their mission is to guide and strengthen regional economic development in their respective regions. The EU is supporting the RDAs financially in the startup and consolidation phases through a cost-sharing agreement with the local municipalities. The RDAs do not supply direct support services to SMEs. Indirectly, they offer support to the private sector through their involvement in the management of the EURED grant schemes and in cooperation with SMESA they take an active part in implementing the SME Strategy.

While all the BSOs mentioned above were donor funded, there is a range of new structures entering the Start-up and MSME support market, which are primarily local in both funding and management. These new structures include: the MTI’s incubation initiative, the Innovation Centre in Gjakova, the ICK business incubator for ICT Start-ups located in Pristina, the business angels ventures represented by Encouraging Young Entrepreneurs (EYE) and the MDA Foundation as well as the Business Support Centre Kosovo which builds on the SPARK methodology for support to Start-ups and MSMEs.

The format, scope and activities of these new business support mechanisms are described in more detail below in section 1.4.
Legal framework for private sector development in Kosovo

The Law No. 03/L-031 on Support to SMEs adopted in 2008 aims to regulate government policies and measures on classification, as well as promotion of creation and development of SMEs. It establishes three categories of enterprises (based only on the number of employees): micro enterprises (up to 9 employees), small (10 – 49 employees); and medium enterprises (50 – 249 employees);

The Law No. 04/L-006 on Business Organisations specifies the types of business organisations through which business activity may be conducted in Kosovo. It also establishes the registration requirements for each type of business organisation, lists the legal provisions applicable to each type of business organisation with respect to its legal capacity and structure, as well as their rights and obligations as legal entities, of owners, managers, directors, legal representatives and third parties;

The Law No. 03/L-181 on Market Inspectorate and Inspective Supervision determines the inspective supervisory functions and operations and authorisations of market inspectors, who are in charge of implementing and enforcing legal provisions on inspection supervision;

The Law No. 04/L-00 on Internal Trade regulates requirements for carrying out internal market trade (including wholesale and retail sale), auction, mediation in trade, restrictive practices, as well as protection measures for carrying out trade activity, supervisory measures, and administrative and punitive measures against illegal competition in the context of internal market;

The Law on Foreign Investments is designed to protecting, promoting and encouraging foreign investment in Kosovo by providing foreign investors with a set of fundamental and enforceable legal rights and guarantees, with e view to ensuring that they and their investments are protected and treated with fairness and respect, in strict accordance with the rule of law and widely accepted international standards and practices.

During interviews with stakeholders in the public and private sectors, it appeared that the existing legal framework, governing the establishment and development of start-ups and business support services in Kosovo, is without any significant shortcomings. The only challenge mentioned was the fact that ‘consultancy services’ is not recognised as an economic activity by the Business Registry. This means that companies that provide consultancy services are now registered under some other economic activity, which in turn makes it very difficult to measure and analyse the size, scope and growth of the consultancy sector in Kosovo.

Furthermore, without the consultancy profession being properly registered as an economic activity makes it implausible for MTI or any other state institution to design and manage a viable accreditation system for consultants. Such quality control systems are already in place in neighbouring countries in South East Europe, such as Macedonia and Albania.
1.3 Start-up business in Kosovo – general characteristics

<table>
<thead>
<tr>
<th>Companies according to nr. of employees</th>
<th>Nr. of companies (FY 2011) (Business Reg. Agency)</th>
<th>Nr. of companies (FY 2011) (Tax Admin.)</th>
<th>Δ Discrepancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total →</td>
<td>100,820 100%</td>
<td>18,170 100%</td>
<td>82,600 -82.00%</td>
</tr>
<tr>
<td>Micro (1 - 9)</td>
<td>99,190 98.3%</td>
<td>16,279 89.5%</td>
<td>82,911 -83.6%</td>
</tr>
<tr>
<td>Small (10 - 49)</td>
<td>1,390 13%</td>
<td>1,605 8.8%</td>
<td>-215 15.5%</td>
</tr>
<tr>
<td>Medium (50 - 249)</td>
<td>190 0.1%</td>
<td>286 1.5%</td>
<td>-96 50.5%</td>
</tr>
<tr>
<td>Large</td>
<td>50 0.05%</td>
<td>50 0.3%</td>
<td>0 0</td>
</tr>
</tbody>
</table>

Table 1 Discrepancy on registered businesses

The total number of new companies registered in 2010 was 7,288\(^2\) and slightly less in 2011 at 7,525\(^3\). The large majority of these Start-ups were micro-enterprises:

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>7,288</td>
<td>98%</td>
<td>1.72%</td>
<td>0.22%</td>
<td>0.06%</td>
</tr>
<tr>
<td>2011</td>
<td>7,525</td>
<td>98%</td>
<td>1.38%</td>
<td>0.19%</td>
<td>0.03%</td>
</tr>
<tr>
<td>2012</td>
<td>9,195</td>
<td>98%</td>
<td>1.4%</td>
<td>0.22%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

Table 2 Number of new companies registered

Geographically, Prishtina hosts the largest number of new companies, followed by the larger regional towns, headed by Prizren:

<table>
<thead>
<tr>
<th></th>
<th>Prishtina</th>
<th>Prizren</th>
<th>Ferizaj</th>
<th>Gjilan</th>
<th>Peja</th>
<th>Gjakova</th>
<th>Mitrovica</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>29.5%</td>
<td>8.4%</td>
<td>7.3%</td>
<td>8.63%</td>
<td>4.8%</td>
<td>4.8%</td>
<td>4.2%</td>
</tr>
<tr>
<td>2011</td>
<td>27.6%</td>
<td>9.5%</td>
<td>8.3%</td>
<td>6.49%</td>
<td>4.8%</td>
<td>3.3%</td>
<td>4.4%</td>
</tr>
<tr>
<td>2012</td>
<td>27.6%</td>
<td>9.09%</td>
<td>7%</td>
<td>6.28%</td>
<td>5.1%</td>
<td>5%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

Table 3 Number of companies per region

---

\(^2\) 13 companies did not declare their numbers of employees, a number of companies were recorded as having a very large number of employees, such as Autolaje “Dikla” with 2,414 employees, which probably does not correspond to the real employment numbers of the company.

\(^3\) 24 companies did not declare their number of employees.
According to the quarterly reports of the Kosovo Office of Statistics, the favourite economic activities among newly registered companies are:

<table>
<thead>
<tr>
<th>Economic Activities</th>
<th>2010 (%)</th>
<th>2011 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
</tr>
<tr>
<td>Trade</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>37.2</td>
<td>37.9</td>
</tr>
<tr>
<td>Hotels and Restaurants</td>
<td>10.0</td>
<td>12.3</td>
</tr>
<tr>
<td>Manufacturing, Processing</td>
<td>9.3</td>
<td>9.9</td>
</tr>
<tr>
<td>Transport, depot, telecommunication</td>
<td>12.1</td>
<td>8.3</td>
</tr>
<tr>
<td>Construction</td>
<td>11.2</td>
<td>9</td>
</tr>
<tr>
<td>Real estate, rentals</td>
<td>7.6</td>
<td>6.6</td>
</tr>
<tr>
<td>Social, personal activities</td>
<td>6.1</td>
<td>7.9</td>
</tr>
<tr>
<td>Other economic activities</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Table 4 Economic activities of newly registered companies

Trade is by far the most popular economic activity among Start-ups, which in the context of Kosovo mainly means import of goods and/or selling/distribution on the local market. This trend only adds to the already large trade deficit of the country. Manufacturing and processing, which have been and still remain the main engines of economic growth and employment in many developing and transition countries, remain very under-developed in Kosovo.

**Main observations and findings**

The Start-up and micro-enterprises in Kosovo appear not to be growing, which means they are not generating more sales and nor are they employing more staff. They reach one point of development and subsequently stagnate early on. The reasons for this phenomenon are many, including limited business knowledge and experience, management style conducive to micro operations only, underdeveloped human resource development, the unfavorable disposition to learning, and the overall “me-too” business model, etc. Also, a very small and protected market has a negative impact on overall demand.

Despite not growing, companies do not tend to close, which explains the discrepancies in numbers between the Business registry = 99,000 micros and the Tax Department = 16,000 micros. The reasons for this can be everything from culture (shame-factor) to technical, simply too complicated and time-consuming to close your business.

Consequently, a very large number of poorly performing companies stay on the market, they survive mostly as a result of continuous financial support by their families.

In Kosovo, as in most of its neighboring countries, the core weaknesses among enterprises, independent of size and maturity, are twofold: (1) the predominant management style, which is sufficient to manage only very small business operations, and (2) the lack of understanding among business owners about the benefits that professional human resource development and management can bring to a company.

Additional recent research on the status of MSMEs in Kosovo is in Annex 2.
1.4 Start-up support schemes

A large number of donor agencies, projects and organisations are active (and has been) in the field of Start-ups support in Kosovo. Currently, the following projects offer technical support and sometime financial support to new entrepreneurs:

- Young Entrepreneurs Program (YEP) / USAID,
- Development of Vocational and in-company Training Schemes and Development of Entrepreneurship Skills (KOSVET 6) / EU;
- Centre for Entrepreneurship and Executive Development (CEED) / SEAF, USAID, FMO
- SPARK / Business Support Centre Kosovo (BSCK)
- Innovation Centre Kosovo (ICK)
- TAM / BAS (EBRD)
- KOSME (Swiss & ADA)
- EU Regional Economic Development (EURED) grant scheme receivers

YEP support young entrepreneurs to develop new businesses by encouraging their innovative and entrepreneurial spirit through financial and technical assistance. YEP also provides on-going support and networking for its graduates.

YEP offers 2 training modules:

Fast Track: Focus on young people who have completed some entrepreneurship training, have developed business plans or own newly established businesses. The program staff assists new entrepreneurs to refine their business plans, if necessary, to ensure their fast track to success.

Intensive Track: Focus on young people who need business development assistance, to research business opportunities, marketing, accountancy, and basic management. Each new entrepreneur will receive support in developing a viable business plan.

Once viable business plans are approved by YEP and entrepreneurs identify their own resources of capital (i.e., loans, personal savings), YEP provides matching grants. In addition, technical assistance and coaching continues during the first year of operation to sustain a successful business start-up.

In addition, YEP works to bridge the gap between financial services institutions (FSIs) and micro, small and medium enterprises (MSMEs). Through YEP, young entrepreneurs have access to favourable loan conditions, while FSIs will gain access to a group of well-prepared and therefore low-risk young businesses that offer strong growth prospects.

Results:
Number of entrepreneurs graduated from Fast Track / Intensive Track modules = 325
Number of entrepreneurs that received matching grants: 290

Training curricula, materials and trainers:
YEP has its own training curricula and materials. List of experienced local trainers.
Development of Vocational and in-company Training Schemes and Development of Entrepreneurship Skills (KOSVET 6) / EU (2012 - 2014)

**Component Two: Entrepreneurship Training**

The “Entrepreneurship skills for New Venture creation programme” lasts 20 day (over 6 weeks period), and is suitable for persons who possess viable business idea and are highly motivated to establish and develop a new business venture.

The programme is designed to help trainees to acquire basic, specific and specialized knowledge and skills necessary to develop, launch, promote and manage a viable business idea. Particular emphasis is given to successful marketing and finance of the business. All workshop activities are designed to support the trainee in developing a successful Business Plan. Trainees then present their Business plans to a panel of judges and successful presentation of the plan leads to the award of a project certificate.

**Results:**

Number of persons trained: 500 (includes also KOSVET 5)

**Training curricula, materials and trainers:**

KOSVET has its own training curricula and materials. List of experienced local trainers.

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

CEED Kosovo is registered as an NGO in Kosovo (2009 – 2013*)

*USAID support ends in autumn, 2013

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.

CEED Kosovo offers 4 tailored programs: Top Class, Top Class Plus, Top Class Finance and Top Class Marketing and Sales. Top Class supports young entrepreneurs in their personal, professional and business growth, motivating them to develop the mentality of globally successful entrepreneurs. The program enables members to access the right ideas, knowledge and people. The other three Top Class modules were designed in response to demand from Top Class graduates for more and specialized training courses.

CEED Kosovo focus is mainly on existing companies (0-3 years old) and students. In collaboration with CISCO it designed and implemented a Start-up program in the Prishtina region (under an EU Regional Economic Development grant scheme).

CEED also hosts a Managerial Club for Top Class graduates for networking and exchange of experiences.

**Results:** Approximately 1.500 graduates

Number of persons graduated from a Top Class program: 1500

**Training curricula, materials and trainers:**

CEED has its own training curricula and materials. List of few local trainers, plus use of successful entrepreneurs as trainers.

SPARK / Business Support Centre Kosovo (BSCK)

BSCK is registered as an NGO in Kosovo (2008 - )

BSCK hosts a School of Entrepreneurship - project link to EURED grant scheme), Business Start-up training – 77 businesses that have been established and supported by the BSCK. All these businesses have been officially registered, obtained access to micro-loans and received 100 hours of free consultancy as well as membership in Kosovo Chamber of Commerce.

**Results:**

Number of persons trained: 1.000 (includes all SPARK activities in Kosovo)

**Training curricula, materials and trainers:**

SPARK/BSCK has its own training curricula and materials. List of experienced local trainers.
ICK was founded to support entrepreneurship, innovation and commercially based business development, with a focus on information and communication technology. The ICK supports both start-ups and existing companies with the potential for growth.

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.

ICK offers networking, events and match-making among ICK teams, and personal support upon graduation.

**Results:**
Number of teams (companies) currently in incubator: 17

**Training curricula, materials and trainers:**
ICK has its own training curricula and materials on how to start a business and how to obtain financing (Crimson Capital). List of experienced local trainers.

BAS Programme assists Kosovar small and medium-sized enterprises to develop and grow by enhancing their competitiveness, marketing and financial management, quality management systems and strategic business planning. 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.

**BAS Methodology**
(1) Company meeting with BAS staff, (2) Application by company, (3) Enterprise visit, (4) Internal approval procedure, (5) Discussions with client and potential consultant, (6) Client enterprise selects the consultant (BAS list of consultant companies), (7) Contract signed (BAS covers up to 50% of the project cost), (7) Contract activities implementation (BAS monitor progress), (8) Interim reports and presentations, (9) Following satisfactory project completion, the BAS Programme disburses its subsidy to cover up to 50% of the project cost, (10) Completion report: one year after project completion, BAS staff visit the client enterprise to assess the results of the project and the impact on the enterprise's business as a whole.

**Results:**
Since 2005, BAS Kosovo has received €3.5m in donor funding. This has been matched by €1.6m in enterprise client contributions, as, depending on their annual revenue and numbers of employees, clients pay a portion of the project costs.

Until now, BAS Kosovo has undertaken 449 projects, engaged 155 consultants. Furthermore, 25 fully-funded projects - accredited training courses, workshops, seminars etc. - have been implemented.

**Training curricula, materials and trainers:**
In-company consulting is the TAM/BAS methodology.
Selection of grant scheme receivers, whose projects’ involved training of Start-ups and entrepreneurship, and some also business support structure establishment:
‘Regional economic development in eastern Kosovo region’ by CARE Deutschland (East Region);
‘Facilitating Business Friendly Environment through One Stop Shops and Business Advisory Services’ by Business Support Centre Kosovo (Centre region) – BSCK / SPARK
‘Business Support and Learning for Growth Project’ by CEED Kosovo (Centre region)
‘Increase of economic potentials of Novo Berdo, Klokot, Ranillug and Shterpce’ by SPARK (East Region);
‘Developing and managing the Mitrovica Business Park’ (North region);
‘Entrepreneurship Initiative Support’ by Kosovo Relief Committee (North region);
‘Business support centre – Malisheva’ by Municipality of Malisheva (South region)

Results:
Number of persons trained: N/A

Training curricula, materials and trainers:
Each grant receiver/business support organisation developed and implemented training using their own training curricula and materials.

<table>
<thead>
<tr>
<th>Project</th>
<th>Graduates</th>
</tr>
</thead>
<tbody>
<tr>
<td>YEP / USAID</td>
<td>325</td>
</tr>
<tr>
<td>KOSVET 5-6 / EU</td>
<td>500</td>
</tr>
<tr>
<td>CEED / SEAF, USAID, FMO</td>
<td>1,500</td>
</tr>
<tr>
<td>Business Support Centre Kosovo (BSCK)</td>
<td>1,000</td>
</tr>
<tr>
<td>Innovation Centre Kosovo (ICK)</td>
<td>30</td>
</tr>
<tr>
<td>TAM / BAS (EBRD)</td>
<td>500</td>
</tr>
<tr>
<td>EURED grant scheme receivers (estimate)</td>
<td>160</td>
</tr>
<tr>
<td>Total</td>
<td>4,015</td>
</tr>
</tbody>
</table>

Table 5 Summary of number of graduates from above mentioned start-up programmes
### 1.5 Recently commenced start-up support initiatives

**KOSME / Swiss & ADA (2012 - 2015)**

KOSME is at the final stage of its inception period. 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.

Project main component areas:
- **Output 1**: the SMESA provides effective support to SMEs / the private sector through the implementation of the SME Strategy;
- **Output 2**: A Voucher Counselling Scheme to assist prospective and existing SMEs with consulting and training services offered by local business service providers is in place and functioning;
- **Output 3**: A mechanism for a Credit Guarantee Scheme has been established and local SMEs benefit from improved access to finance.

**Results:**
- No activities yet implemented.
- Training curricula, materials and trainers: N/A

**Innovation Centre Gjakova (MTI) (2013 - )**

Gjakova Innovative Centre aims to support economic growth, reduce unemployment, and in particular the support of start-ups. The center will work with the Public as well as private University to enable students to develop their business ideas. Also, the center aims to provide services to start-up businesses and create facilities for start-up businesses. The Centre is financed by MTI, with initial investment of €200,000.

As an integrate part of this initiative MTI, in cooperation with Dartmouth College and the Balkan Institute, sent 5 student/entrepreneurs from Kosovo to the US to learn, on-site about innovation centers, and business incubation.

**Results:**
- No activities yet implemented.
- Training curricula, materials and trainers: N/A
### Encouraging Young Entrepreneurs (EYE)

(2011 - )

“Encouraging Young Entrepreneurs” is based on a Swiss venture capital working model (venture.ch). EYE works as a business angle, 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.

EYE focuses on ICT and agro-processing sectors.

**Results:**

Until now, 14 business ideas have passed phase 1, and 2-3 investments have already been made in different Kosovo companies to boost competitiveness.

**Training curricula, materials and trainers:** N/A

### MDA Foundation

(2012 - )

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.

MDA Foundation services include:

- **Business Launch Pad** is designed to facilitate processes that accelerate the successful development of Start-ups by providing the entrepreneurs with an array of resources and extension services. Business Launch Pad tenants will receive business skills training, technical and administrative support, advice in management, business development, legal services, and access to finance. The Business Launch Pad will host and support up to seven (7) Start-ups each year.

- **Business Angels Investor Network** facilitates linkages between vested investors and high potential Start-ups in Kosovo for partnerships in financial investment, networking, and technology and know-how transfer for successful deployment of demand-driven products/services. Angel investors will invest capital into Start-ups and in return will be receiving equity shares in the companies.

**Results:**

No activities yet implemented.

**Training curricula, materials and trainers:** N/A

### Main findings on start-up support schemes

- All of the ‘old’ Start-up support programmes/projects are donor funded
- Each project has its own set of curricula and training materials
- A very large pool of people have taken part in Start-up programmes, over 4000 graduates
- Local consultants active as trainers in more than one Start up training project
- Most of the “new” Business Support Organisations are local NGOs

### Key issues for success of Start-up Support Schemes

- Support to companies upon graduation from Start-up programme
- Networking among Start-up graduates
- Networking among Business Support Organisations
- Linking Start-up graduates with Business Support Organisations
1.6 Start-up Business Support Service Providers

Due to the fact that ‘consultancy services’ is not recognised as an economic activity by the Business Registry it is very difficult to estimate the size, scope and growth of the consultancy sector in Kosovo. Companies that provide consultancy services are now registered under some other economic activity. TAM/BAS and CEED have created their own lists of consultants, with whom they have a positive track record working with companies. TAM/BAS has supported a number of local consultants to achieve CMC certification (Certified Management Consultants). Most of the projects, such as KOSVET 6 and YEP, also work with their own databases of experts. An official accreditation system for consultants to ensure that the services are supplied to companies by qualified experts does not exist in Kosovo. The fact that ‘consultancy services’ is not recognised as an economic activity by the Business registry hinders MTI from managing an official and national accreditation system for consultants in Kosovo.

As discussed earlier, the area of support to Start-ups has been and remains very active in Kosovo, with a large number of donor projects offering training and grants to new entrepreneurs. The focus has been less so on supporting graduates from the Start-up programmes and on more mature, growing enterprises. This focus on Start-ups by the donor community, including turning the unemployed into self-employed, has had a direct impact on shaping the characteristics of the Business Service Providers (BSPs) in Kosovo.

One, the donor community has become the anchor client for the large majority of BSPs. Some BSPs also supply market price services to private clients, but most keep one foot solidly in the donor driven business support market, as a reliable income stream. A very small number of Kosovo BSPs operate free of donor support and are entirely focused on supplying private clients with services they are willing to pay for. Among these BSPs, the main services are auditing, tax advice and accounting services.

Two, while serving the donors, there has been no need for the BSPs to be either pro-active or marketing oriented in their relations with private companies in Kosovo (the real clients). Their approach to business and skills development has been reactive, in response to the needs of the donors. The BSPs have survived, even sometimes grown on the donor-driven market, through unlimited diversification, offering training and consultancy in a wide range of areas, from human rights to ISO certification.

Three, as a result of this donor dependent business model, the individual consultants today are more generalists than specialists. They possess basic skills in a wide range of subjects, which until now have been in line with donor projects demands. To run entrepreneurial training sessions for Start-ups or the unemployed does not require more than basic functional skills (management, marketing, etc.) and some practical training skills. However, as companies grow their needs become more specific and more technical. Suddenly, there are very few qualified local experts to do the job. This supply deficiency acts as a direct hindrance on company growth, as growing companies are in great need of technical assistance to overcome internal shortcomings and seize new market opportunities.

Four, there is a very large supply of BSPs who can supply Start-up training in Kosovo. These BSPs have been trained by at least one donor funded Start-up programme, and have access to ready Start-up course curricula, modules, training materials, sup-

![Figure 4 Clients of BSP providers](image-url)
portive materials, hand-outs, exercises, etc. Consequently, the supply-side of the Start-up service market is well saturated, and does not warrant further capacity-building interventions. Rather, the focus needs to be on developing a new generation of local specialists, with adequate functional skills and sector expertise to serve the expanding needs and demands of growth companies in Kosovo.

Five, like most sectors in Kosovo horizontal collaboration among equals have been difficult also among the BSPs. TAM/BAS led the drive to establish the Kosovo Consultants Association back in 2006, but it never achieved any real impact beyond acting as a source of ‘experienced’ consultants for donor funded projects. In April 2013 the Association appears to be off the ground again with the proclaimed financial support of the new KOSME (project ADA & Swiss funded). It remains to be seen if the re-start of the Association can achieve some tangible results this time around, such as: (1) Consultancy becoming a recognised economic activity by the Business registry; (2) Accreditation system to assure quality of services provided; and (3) Financial sustainability of the association without donor support.

1.7 International best practices in start-up policy and support structures

**Macedonia**

The Government of Macedonia funds and manages its own “Self-Employment Programme”, through the Agency for Employment and in close association with the Agency for Entrepreneurship Promotion (APPRM). The programme began in 2007, and annually approximately 500 unemployed persons register their own Start-up companies. In cases where an unemployed person joins APPRM, via the voucher scheme, s/he can receive 100% free of charge consultant services to help develop a business plan and support in registering the Start-up. All costs for consultants are paid by APPRM. Every unemployed person receives business training, a free of charge business plan, and a grant of €3000 EUR to start up a business. The consultants used for training and consultancy services are selected from APPRM’s database of internally certified experts.

**Croatia**

Ministry of Entrepreneurship and crafts (MEC) and the BICRO agency provide support to Start-ups. MEC has one governmental programme supporting financially projects of start-up companies with an annual budget of € 0.77 million. MEC also handles support for “young” companies (at least 2-3 years of existence) with €2 million in total. BICRO has some additional tools to support innovative projects of companies (including Start-ups) but the financial resources for BICRO programmes have been very scarce in the last few years. The RAZUM program ensures initial funding of newly established knowledge based companies, as well as funding research and development of new products for services in existing companies. In addition there is CRANE (Croatian Business Angel Network). The members of this network (private investors) support Start-ups through equity investments. Focus is on innovative projects and business ideas.

**Germany**

EXIST is a university-based Business Start-up support program of the Federal Ministry of Economics and Technology (BMWi) aimed at improving the entrepreneurial environment at universities and research institutions, and to increase the number of technology and knowledge based business Start-ups. The EXIST program is part of the German government’s “High-tech Strategy for Germany” and is co-financed by the European Social Fund (ESF).

The EXIST Business Start-Up Grant supports the preparation of innovative business start-up projects at universities and research institutions. The grant aims to help scientists, university graduates and students to develop their business ideas into business plans and to advance their ideas into sellable products and services. To cover their living expenses, the entrepreneurs receive a grant between €800 to €2,500 per month, depending on their degree, for a maximum period of 12 months. In addition, the Start-ups receive materials and equipment (value €10,000 for solo Start-ups and €17,000 for team Start-ups), funding for coaching (€5,000) and, if necessary, child benefit of €100 per month and child. The university or non-university research institution offers the Start-ups access to infrastructure during the pre-start-up phase and provides technical and start-up-related assistance. EU, UK and US best practice in start-up policies and support structures are presented in Annex 3.
2. Financing for Start-ups and Business Support Services

In the words of Michael Gold, Head of Crimson Capital in Kosovo, “Banks do not lend to Start-ups. The only options available to Start-ups are family savings, donor funded projects with grant schemes and business angles/venture capitalists.” Until now, while the donor community has been very active in offering financial support to Start-ups, mainly in the form of grants, business angles are a relatively new phenomenon on the Kosovo market. The continuous support of family members is one reason why Start-ups, who elsewhere would have failed, linger on in Kosovo and do not close.

In Kosovo, as we have seen, the large majority of structures established to supply business support services were also financed by donor projects, and again their focus was on Start-ups, rather than on more mature companies. While the options are limited for a Start-up to secure finance, there are a variety of options available to companies with longer track-record and/or access to collateral. A recent report by Crimson Capital for Innovation Centre Kosovo identifies and describes the main types of finance available to business in Kosovo and the sources of finance. It also acts as a guide for companies to obtain the most appropriate financing for their specific businesses.

Business finance is divided into two areas – debt finance and equity finance. In Kosovo, the primary form of financing is debt finance (over-draft, lines of credit, loans, leasing, etc.) or grants. Usually, the loan is secured by collateral (mortgage on property), and it will be repaid with interest and fees. The main sources of debt finance are the banks and microfinance institutions:

<table>
<thead>
<tr>
<th>Banks</th>
<th>Banka Ekonomike, Banka per Biznes, ProCredit Bank, Raiffeisen Bank Kosovo, Banka Kombetare Tregtare, TEB, NLB Prishtina (IS Bank)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microfinance Institutions</td>
<td>Agency for Finance in Kosovo, Atlantic Capital Partners ACP, Beselidhja, Qelim Kosovo, FINCA, KEP Trust, KGMAMF, Kosova Aid and development, Kreditimi Rural I Kosoves, Meshtekna, Perspektiva 4, Start, TIMI INVEST</td>
</tr>
<tr>
<td>Non-Bank Financial Institutions</td>
<td>Crimson Finance Fund, Raiffeisen Leasing, Lesna, Factor Leasing</td>
</tr>
</tbody>
</table>

On the other hand, equity finance means that money is invested in the company in return of a share (%) of ownership in the company. Business angles and venture capitalists are forms of equity finance. The new “Encouraging Young Entrepreneurs” venture is an example of a business angle approach to business development and socio-economic development in Kosovo.
Access to Finance in Kosovo - Main findings

- There are very few financial support options available to businesses. The main providers of financial support are family, friends, banks, supplier credit, and money lenders. Apart from family, all are short term;
- There is a lack of well thought through and presented proposals to the banks from businesses, particularly from those that want to enter into processing, manufacturing, exporting, and the agricultural sector;
- Banks do not lend long term. This role is normally assumed by investment banks and equity funds. There are no investment banks in Kosovo, and SME owners are generally reluctant to take equity partners from within their communities. There is a role here for the diaspora and international donors;
- The business owners are not always transparent in their financial dealings with the banks (or the tax authorities). A focus on tax avoidance results in two sets of books being maintained and only part of the business transactions passing through their bank accounts;
- The main collateral that SMEs have is their apartment. Until title can be confirmed and these apartments registered with the Collateral Offices they cannot be accepted by the banks as collateral;
- Collection of debts is difficult and banks have to rely on their own staff in the absence of any credible debt collection agencies or private bailiffs. The two leasing companies established in Kosovo are also experiencing difficulties with repossessing their own assets, and although the Leasing Law recognizes third party enforcers, there are no third party enforcers in Kosovo;
- For all of the above reasons the banks interest rates for lending are higher than in Switzerland and the Euro Zone, although comparable with countries in the region, which experience similar economic conditions and constraints to lending.

“Access to Finance”, prepared for SMESA by EU SME project, 2012
3. Recommendations

Based on the wide range of interviews conducted with Start-up support projects and programmes, donor agencies, business support structures, ministries, agencies and private companies as well as the desk research completed, two distinctive intervention areas of intervention in the field of support to Start-up businesses and Business Support Services in Kosovo have been identified:

- Institutionalization of Start-up Support programmes;
- Facilitation of post-graduation support to Start-ups/early growth companies;

Rec 1: Institutionalization of start-up support programmes

Currently in Kosovo, the mechanisms in place in support of Start-ups and MSMEs, are entirely driven and funded by the donor community through programmes and projects. As a result, the start-up intervention area appears very crowded, with a large number of donor-funded projects and programmes actively supporting entrepreneurship promotion and capacity-building activities.

However, start-up support projects and programmes that are entirely initiated, funded and managed by international donor agencies show limited sustainability, viability and local ownership. The support to entrepreneurs in Kosovo is consequently a reflection of the donor community’s interest in entrepreneurship and its willingness to finance activities, rather than the policies of the Kosovo Government. Individual donor projects start and finish, on a one-off basis, leaving the graduating entrepreneurs with limited awareness about where to turn to for future assistance.

While the Start-up support area may appear crowded this year does not mean it will be crowded every year. KOSVET 6/EU and the YEP/USAID projects will both...
close in 2014, while CEED, SPARK and other NGOs are relying on donor funding in order to run any Start-up training activities. Should the priorities of the donor community change away from Start-ups, it is possible that there will be no or very limited skills development opportunities available to new entrepreneurs in Kosovo in the years to come.

There is a strong need to change the balance of ownership and responsibility for entrepreneurship promotion and Start-up support measures in Kosovo away from the donor community and towards the local institutions responsible for reducing unemployment through increase in self-employment, such as the Ministry of Labour and Social Welfare and its relevant departments. As Kosovo moves further down the road towards EU accession, the internal capacities and ownership for national policies among national institutions (ministries and agencies) must increase in order for Kosovo to effectively absorb the financial funds that will be made available by the EU.

The reduction of unemployment and associated social costs for the state is a public policy objective, and technical and financial support to Start-ups and entrepreneurship is consequently public policy instruments, which in other countries are financed by the national budget. In the region, both Macedonia and Croatia manages and funds their own self-employment programmes.

Rec 2: Facilitation of post-graduated start-ups/early growth companies

At the moment the institutional landscape in support of Start-ups and MSMEs in Kosovo is very empty. The establishment of business support organisations, such as business centres and incubators have until now been mainly driven and funded by the international donor community in Kosovo, with limited contribution by state institutions. As a result, little remains of the donor investments, leaving the entrepreneurs in Kosovo with very limited options of where to go for business support services.

This situation is particularly detrimental for those companies and entrepreneurs that have graduated from the donor-funded Start-up programmes, and who would be in need of regular support, in order to enhance their chance of survival and even growth. Currently, there exist a gap in the market as the few available programmes and projects, such as CEED and TAM/BAS, are more focused on companies with higher levels of maturity.
“Focus Entrepreneurship Policy on Scale-up, Not Start-up”

Would you allocate more of society’s resources to giving birth to more babies or to raising children well? Now, think about enterprise creation and the challenge of economic growth. Societies’ leaders need to rebalance entrepreneurship policy towards scale, not start. In recent years, we have been witnessing a significant global shift in attitudes towards entrepreneurship in countries around the globe. “Start-up” has replaced “Silicon” as the reigning entrepreneurship buzzword: There is hardly a country or city that is lacking a start-up program.

Unfortunately, this is being guided almost exclusively by a narrow conception of entrepreneurship as consisting primarily in the starting-up of an enterprise. Equating entrepreneurship with start-up is not wrong; it is just very incomplete.

Extraordinary value creation cannot occur without growth, and entrepreneurial growth post start-up has numerous challenges which can be an order of magnitude more difficult than simply starting a venture. Growth entails developing a powerful sale and marketing machine, building an organization by hiring and managing diverse groups of people, and knowing how to acquire strategic inputs such as the right kinds of capital and suppliers. Growth requires amazing amounts of energy and dedication, not to mention smarts. Forward-looking policy, as well as culture and the private sector, must support all these skills and resources more than it does at present.

The lesson is: scale-up is so much harder than start-up entrepreneurs (and policy leaders) realize. We need to turn the focus on growth-after-start: growth will not somehow take care of itself.

So it is just now dawning on many in business and government that when these start-up programs are successful in stimulating venture birth rather than venture scale, the tremendous challenges of growth may paradoxically become worse, not better, and can leave many stagnant or overvalued ventures that may have little real prospect of growth.

We can refocus policy on scale-up in a number of ways. One is structural: stop treating venture survival as an indicator of policy success and start looking at those that grow. It is also necessary for policy to facilitate extremely high levels of venture death and recycling in order to avoid a plethora of valueless start-ups. Focus much more attention on enriching the local labor pool, an essential aspect of an effective ecosystem. Entrepreneurs almost universally complain about the paucity of appropriately skilled people and managers to hire. Entrepreneurial ventures can never grow without talent, and the two basic types of talent needed — new employers and new employees — must evolve together.

(Extracts from article by Daniel Isenberg on Harvard Business Review Blog Network, November 30, 2012)

On the other hand, it has been noticed that a range of new and diverse business support mechanisms are emerging on the business support market in Kosovo. These new business support organisations include the Innovation Centre for ICT Start-ups in Prishtina, the MDA Foundation, offering incubator services and access to venture capitalists, the business angle approach by EYE, the MTI’s new innovation centre initiative in Gjakova and SPARK’s exit strategy represented by the local NGO – Business Support Centre Kosovo (BSCK). All of these organisations represent local initiatives, public and private, following their own business models. Some of them receive support by the international donor community, but are less driven by it.

However, international best practice in business support shows that in order for individual business to support organisations to reach higher levels of viability and impact they need to continuously strengthen their own business model and work as a network. On their own, these organisations often act in isolation, are unable to create any economies of scale, and try to survive with limited external support. The failure rate, as can be seen in Kosovo and in the region of South East Europe, is very high.

Within this market failure, where the needs of the large majority of early growth MSMEs remain underserviced, lays an opportunity to effectively and efficiently link the existing pool of Start-up programme graduates (companies graduating from CEED, ICK, SPARK, KOSVET 6, YEP) with the emerging, new business support initiatives (MDA Foundation, EYE Business Angle, BSCK, ICK, Gjakova Innovation Centre).

By the projects’ own estimates, a minimum of 4.000 companies and entrepreneurs have graduated from their Start-up support activities, during the last 5 years in Kosovo. As enterprises in the early growth
stages, these companies are in constant need of consulting support and financial solutions. Effectively linking them with the new business support initiatives, as well as with projects such as TAM/BAS, CEED, KOSME (voucher scheme), could facilitate for rapid improvements in corporate performance and overall economic growth.

Rec 2.1: Networking and B2B support to start-up graduates

When asked to highlight the most positive aspects of the after-graduation, managerial support offered by programmes such as CEED, the large majority of business owners had the same two answers: networking and match-making! The general lack of support to growing companies in Kosovo was confirmed in conversations with project managers at KOSVET 6. In fact, projects such as YEP and SPARK often send their graduates to TAM/BAS for further support.

At the moment, there are some Match-Making activities accessible to Kosovo companies. CEED offers B2B activities to its clients, mainly in relation to businesses in neighbouring countries, while the USAID funded Regional Competitiveness Initiative (www.rciproject.com) hosts regular seminars and B2B events in different sectors throughout South East Europe. Crimson Capital, very active in Kosovo, organises annual B2B and access to finance events, also with a regional focus. In relation to Match-Making services to Kosovo companies, there is a need for collecting and transferring information about upcoming B2B and match-making events to the pool of Start-up graduates using the network hub website.

In relation to networking, the market is even less occupied, and there is need for a more assertive assistance support to initiate and hand-hold a networking approach in support of company competitiveness and growth.

Rec 2.2: Coordination between Public Institutions and BSOs

International best practice and world competitiveness indexes clearly show that corporate competitiveness depends on far more than the internal capacities of enterprises. In order to perform well and compete, the private companies need a supportive state creating a positive environment in which to do business, including health care and education. In other words, there is no direct link between a smaller or weaker state and successful businesses. Rather evidence shows that a supportive state is one of the key variables of a country’s corporate and economic growth.

In Kosovo, MTI is primarily responsible for the development of the private sector and its competitiveness. However, the interaction between MTI and private sector representatives needs further development. Formal and continuous interaction with Business Support Organizations (BSO) needs to be established to ensure flow of information and policy implementation. With the establishment of a range of new Business Support Initiatives in Kosovo, and their development into a network, there is an opportunity to facilitate and support the development of a platform for dialogue and coordination between MTI and the new BSO network. Ideally, a relationship should be developed in which MTI assumes a coordinating role in relation to the new BSO network, providing orientation, information and support to their activities, so as to further improve the capacities of the network members, to the end benefit of the MSME community in Kosovo.
Rec 2.3: Support to individual BSO network members

While establishing a BSO network of equals is essential for the long-term viability of the individual BSO, the network can only be as strong as its weakest link. Each network member will be in need of continuous development support in order to thrive in its mission.

The BSOs were also set up with a development mandate, to correct or reduce the negative impact of specific market failures, and are expected to serve various specific target groups (Start-ups, entrepreneurs, companies). The BSO mission promotes entrepreneurship and innovation as tools for strengthening the infant private sector in Kosovo to take on a more prominent role in Kosovo society, side-by-side to the public sector; and to indirectly contribute towards achieving the overall national development goals, such as economic growth, job creation and improved well-being for the citizens in Kosovo.

The overarching aim of the future assistance to the BSOs would be to improve the sustainability of the BSOs, to strengthen the internal capacities and resources required by the organization to thrive on the market, and generate maximum development results. This is a formidable challenge, which will require a high degree of motivation and hard work on the side of the BSO staff as well as well-tailored interventions on by supportive actors in order to succeed.

Rec 2.4 Specialisation of skills and expertise of consultants

This assessment has shown that while there is a large pool of local consultants with the theoretical background and practical experience in implementing training modules for Start-ups, as companies graduate from the Start-up support programme and they set out on a growth path, the need emerges for external support to become more sophisticated, often technical and more specialised. At this point, the number of capable local consultants decreases dramatically, and the quality of services provided to the companies fall. Consequently, one reason graduating companies do not reach their full potential is the unavailability of quality consultancy services, supplied in a cost-effective manner with locally based consultants.

To overcome the current mismatch between the growing companies’ needs and the local consultants’ capacity to deliver quality services could be to design to strengthen the skills and expertise of the local consultants. This assistance should be tailored in close cooperation with TAM/BAS, as this organization already has experience in working with more qualified consultants, and the re-emerging Kosovo Consultant Association.

The aim of this exercise should be to create a smaller pool of specialists, rather than a larger group of
generalists, to the benefit of companies in Kosovo, not only within the framework of the project but beyond as a sustainability guarantee.

It should be noted that there is much hesitation among private companies to receive consultancy support in other areas other than tax and accounting. However, it became clear from talking to the consultancy companies that while the need is there among their clients, the need has yet to be developed into a demand. Creating this demand for additional services, by making companies understand the potential benefits of management, marketing, human resources development or other soft skills training and consultancy, could be the immediate aim of this intervention.
4. **Annexes**

Annex 1: Meetings and interviews

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
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<tbody>
<tr>
<td>10.04.2013</td>
<td>Logos Project - Merita Barileva</td>
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<tr>
<td>Wednesday</td>
<td>MTI - Shqeri Krasniqi</td>
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<td></td>
<td>TAM-BAS – Leonora Kusari</td>
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<td>MLGA - Flamur Mripa</td>
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<td>11.04.2013</td>
<td>YEP (USAID) – Vjosa Mullatahiri</td>
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<td>Thursday</td>
<td>ICK – Uranik Begu</td>
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<td></td>
<td>KOSVET 6 – Jordan Berginc</td>
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<td></td>
<td>ACA – Armand Osaj</td>
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<tr>
<td>12.04.2013</td>
<td>Visit Business Park in Mitrovica, RDA in North, Municipality of Mitrovica</td>
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<tr>
<td>Friday</td>
<td>(Economic development – Fatmir Halili)</td>
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<td></td>
<td>Group meeting</td>
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<tr>
<td>15.04.2013</td>
<td>CEED – Kreshnik Lleshi, Kaltrina Luzha</td>
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<td>Monday</td>
<td>MTI - Xhemaj Sylja</td>
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<td></td>
<td>Association of Municipalities - Sazan Ibrahimili</td>
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<td>16.04.2013</td>
<td>Field visit to Kamenica/Gjilan</td>
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<td>Tuesday</td>
<td>Municipality Citizen Information Point</td>
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<td>Business Incubator, Municipality Business Center/Business Registry, EURED</td>
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<td>grant business center</td>
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<td>18.04.2013</td>
<td>SPARK – Valentina Qarri</td>
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<td>Thursday</td>
<td>Progress presentation / Marshall Bear – M4P</td>
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<td></td>
<td>Valmir Mustafa EYE (Business Angle)</td>
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<td></td>
<td>ALA Consulting – Violeta Gashi, Ariana Rozhaja</td>
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<tr>
<td>19.04.2013</td>
<td>Field visit to Gjakova</td>
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<td>Friday</td>
<td>MIT funded Innovation Centre, Meeting with Ardi Ponošec (tenant/entrepre</td>
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<td>23.04.2013</td>
<td>MLSW – Lulzim Karaxha</td>
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<td>Tuesday</td>
<td>KOSVET 6 – Nusret Vitija</td>
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<td>D&amp;D consulting - Safet Fazli</td>
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<td>BEEP/USAID – Brian Kample</td>
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<td>Crimson Capital – Michael Gold</td>
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<td>24.04.2013</td>
<td>Darsei Canhasi - Start up ICT company (CEED trained)</td>
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<td>Wednesday</td>
<td>Muharrem Abdullahu Agroduriqi</td>
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<td>Food Processing</td>
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<td>Alban Elshani TekFuze LLC Electronics- Manufacturing</td>
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<td></td>
<td>Kushtrim Bytyqi- NTP Multi PAK EKO Kosova Recycling</td>
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<tr>
<td>25.04.2013</td>
<td>Meeting with Dardan, tenant/entrepreneur at Innovation Centre in Gjakova</td>
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<td>Thursday</td>
<td>Progress presentation / EYE team / Focus on future possible intervention</td>
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<td>30.04.2013</td>
<td>Meeting with Flora Arifi, USAID Kosovo Competitiveness Program Manager</td>
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<td>Tuesday</td>
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<td>02.05.2013</td>
<td>Business Development Institute – Florentina Dushi, Dafina Turkeshi-Ballan</td>
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<td>Thursday</td>
<td>ca, Jehona Lluka</td>
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Annex 2: Relevant research on MSME sector in Kosovo

In 2011, SPARK/BSCK completed a survey of 500 SMEs in Kosovo. The survey shows that entrepreneurs are more concerned with constrains related to external environment rather than with internal factors such as managerial or employee’s skills, which were ranked at the very bottom of the list of perceived constrains. In the BSCK Survey 2011, entrepreneurs perceive strong competition, informal economy, and high taxes as three top obstacles.

Among its main findings, the following are especially relevant to this assessment:

- The main reason to start a business is ‘the need to work independently from the boss’ (42.9%), followed by seizing a business opportunity (12.5%) and being unemployed and had to do something to earn a living (11.5%);
- 94% of the company sample are owned by men;
- 79% of companies are located in urban areas;
- 48% of companies reported falling sales in 2011, compared to 2010;
- 50% of companies expected business to be better in 2012;
- Profit and personal savings is the main source of financing for more than 60% of the companies;
- Only 5% of surveyed companies is involved in export;
- Average employment grew by 1.5% between 2007 and 2010, but fell in 2011 by 0.2%;
- Less than 24% of companies were involved in some kind of capacity-building activities in 2011;
- The main strategy for business in Kosovo is to improve quality of services/products (47.7%) and reduce costs (19.5%);
- Improving staff skills scored only 7%;
- 55% of companies design their business strategy on rational goals and objectives;
- More than 75% of interviewed company owners think that contacts with family, friends and business associations are very important for the development of their business.

CEED Research Findings

In 2005-2005 USAID and FMO funded feasibility studies conducted by SEAF in Bulgaria, Croatia, Romania, and Macedonia. The results are also reflective of the current situation in Kosovo. These studies largely affirmed Organization for Economic Co-Operation and Development (OECD) reports that:

- There is high interest on the part of entrepreneurs and their executive staff for training;
- Little training is ‘getting through.’ Generally, entrepreneurs and their management are either unaware of what is available, or doubt its value;
- There are few training programs focused specifically on small growth companies. That which is available is not practical or ‘needs driven’;
- There are few training programs targeting the ‘high expectation’ entrepreneur running a fast growing company. Their needs are more complex;
- There is an opportunity to develop training programs that ‘reflect the modus operandi’ of entrepreneurs and SMEs, are not as lengthy, and are highly practical;
- The development of networking institutions was growing on the local level, but little was available in terms of regional South Eastern Europe-wide networking.

(http://www.ceedkosovo.org)
In 2012, the SME Support Agency (MTI), supported by the EU funded SME project compiled the first national **Training Needs Analysis** of the SME sector in Kosovo. In total, 109 SMEs were interviewed using a comprehensive questionnaire. The SMEs represented a wide range of sectors and economic activities, and were located across the country. This survey looked entirely on the internal constraints and weaknesses of companies.

In summary, there does not appear to be a strong need for improving business planning and general management skills among the interviewed enterprises in Kosovo. Rather, the focus seems to be on acquiring more sophisticated business management skills, to further increase the quality of job descriptions and motivation systems, as a means of improving human resource performance. There appear to be a general understanding and realization among owners/managers that improved human resource development and management methods constitute a key resource and opportunity for the enterprises to improve their overall competitiveness.

In order to facilitate for increased international trade, there is a need among Kosovo enterprises to: systemize their Quality Management Systems; and to structure and document their business operations, so as to assure an effective transfer of working methods, techniques, control functions, and other operations and technology functions from the owner/manager to other managers and staff. As a second step in the QMS process, Kosovo enterprises need to start the process of implementing and obtaining QMS standards, which are internationally recognized, such as ISO and HACCP. For sectors like food-processing obtaining HACCP is no longer a novelty but a formal necessity to sell to the EU market.

To stay competitive as a manufacturing location, there is an over-arching need among Kosovo enterprises to: make improved use of available accounting and budgeting software as well as to become more sophisticated in calculating costs. Cost analysis allows the enterprise to evaluate if a specific business or product will be profitable for them or not. Through cost control functions and corresponding managerial techniques the owner/manager may take a more proactive approach to reduce costs, take strategic pricing decisions and manage the production and organization more efficiently. In fact, cost control can be regarded as a “link” between production planning and marketing and sales.

To increase the level of import substitution in the local market and for Kosovo enterprises to sell products and services under their own brands, they will need increasingly sophisticated sales strategy and staff to accomplish their business goals. The same is true for those export-oriented enterprises that will attempt to add value and margin to their products and services, and at the same time stay competitive in the international markets.

The need to improve export strategy skills is more predominant among those enterprises, which are either already exporting or have the internal resources to take the step into international trade. A larger pool of enterprises could benefit from the skills necessary to assess one’s own resources and what is actually required from an enterprise to cope successfully with international customers, standards and prices. Unlike the other functional skills areas, (except marketing) export strategy skills are very closely linked to sector understanding, which needs to be taken into account when designing the training programmes.

According to the survey results, the Kosovo enterprise owners/managers regard verbal communication skills as important and that these skills will be increasingly important to them in the future. Negotiation and presentation skills are required in communication mainly outside of the company, and could be linked to marketing and customer relation activities. The other three communication skills are more linked to human resource management issues within the company, including the perceived need to improve discipline within the workforce as a means of raising productivity and competitiveness.

The three currently most important technical skills (operating manufacturing plant or machinery, innovation of operations and technology and spread sheet applications) are all an integrative part of a production management system. This could indicate a level of understanding among Kosovo enterprise managers about future business trends and what is required to stay competitive. The trend is from trade towards manufacturing, from low cost driven development towards innovation driven and to strengthen internal financial management skills, including cost calculations, to achieve a more realistic picture of the internal operations and costs of the company.

The supervisory and managerial “soft skills” reinforce the performance of the owner/manager and staff in the specific functional skills areas, such as sales, marketing, management (QMS) and human resources. The top two needs (customer care and leadership) are linked to marketing and management respectively. There appear to be an emerging awareness of the importance of human resource development and management in running a competitive company, and realization that the managerial skills of the future will be very different than those of today.

The continuous focus on the “one-man-show” man-
management style, especially among smaller companies, reinforced here by the scores on personal effectiveness, may act as a restriction to the overall development of enterprises, as it hinders the enterprises from making full use of available human resources. In a situation where there is a deliberate intention for a smaller company to grow in size and output, the company will need to fundamentally change the way it runs and manages its businesses, by creating a layer of responsible middle managers and further motivating the overall staff to get more pro-actively involved in running the day-to-day business operations. The scores on personal effectiveness confirms the general need among Kosovar SMEs for improved human resource development to motivate staff, quality management systems to manage a growing enterprise and general management skills to accommodate the necessity for a new, more modern management style.

As a result of intensive, in-company consultancy work in 50 SMEs in Kosovo in the autumn of 2012, the team of international corporate consultants concluded that the SMEs in Kosovo suffer from a variety of internal and external barriers to growth:

- **Protected market**

Kosovo SMEs operate within a market that is protected by the fact that it is very small in volume, with high transport and import costs, and as a result it is off the radar of larger international companies. This results in consumer prices that are generally high by EU standards. Kosovo producers, with low wage costs are able to achieve good profit margins despite showing generally low levels of competence, efficiency and effectiveness. The fact that some companies can generate a profit despite inappropriate production facilities and ineffective organisation, leads the companies to believe that they are competitive, while the main reason for their ‘perceived’ competitiveness is the lack of international competition.

- **Low price perception**

In Kosovo, the SMEs almost universally believe that only (relatively) low-priced goods sell, despite the evidence to the contrary on the shop shelves. Most of their products are dull, conservative and “me too”, poorly packaged and promoted. Price is understood by everyone and easy to change, whereas parameters such as packaging, distribution and product quality are much more complex in nature. Using price as the only parameter is very risky and does not create a unique competitiveness about the product, rather the products remain to copy and to out-compete.

- **Family in management**

Structurally, the biggest problem that most companies suffer from is the habit or norm to involve only family members in senior management. The pronounced lack of trust of other people results in the hiring of family members to managerial positions regardless of their professional qualification.

The private sector will never be able to develop competitiveness nor grow if the SMEs do not hire managers because of their professional qualifications, skills and experiences. The principle, “Best man for the job” needs to be introduced to create a certain level of management and corporate professionalism, which in turn will lead to improved corporate performance and competitiveness.

- **Lack of focus**

There is a tendency among Kosovo SMEs, upon achieving a state of relative success, to start a process of diversification into business areas in which the management has very limited or no knowledge and experience, rather than stay true to its original mission and becoming true experts in its core activity. In the end it is not uncommon that SMEs are involved in as wide business areas as furniture production, construction, food-processing, ICT, hotels and agriculture. Spreading the risk into different business areas is not a problem in itself, but trying to intervene into the smallest problem in such very different business areas is a serious problem for management. Management will never develop the required knowledge, skills and competencies if they have to cover such a broad range of business areas. Instead the SME ends up being managed by unqualified managers and will never develop competitiveness.

To develop competitiveness the SMEs need to focus on specific business areas and then distribute available resources into this area. Every business needs the management’s full attention to develop unique competences and consequently strengthen competitiveness.

- **Lack of strategic outlook**

To survive, let alone be competitive, companies need a strategic direction, guiding them towards the future. In Kosovo, there is a tendency among SME owners and managers to develop their businesses without strategic thinking or plans. As a consequence, they leap onto new perceived market opportunities without proper consideration and analysis of the trends and characteristics of the specific market segment, the existing competition, or reflection on their own internal resources and competences in relation to the new business area.

In fact, without a strategic plan guiding next steps, all new, ad hoc opportunities appears acceptable
and compatible to the SMEs original mission. SMEs tend to develop accidently as a result of whom they met with or what they have seen, which give rise to the “copy-our-neighbours” development concept. In turn, too many swimming pool, hotels, gas stations and retail shops in a small, constant market, means the market will quickly be saturated and all those that have invested will find it increasingly difficult to earn back their money.

- Customs duties on imported raw materials
For small countries with small internal markets, export represents an opportunity for almost unlimited growth. However, without the raw material supply assured by internal resources SMEs are required to import materials to manufacture the finished product. In Kosovo today, it was reported by interviewed managers, the companies are subject to a 10% customs duties on imported raw materials that are not recoverable when the final product is exported.

Free Trade Agreements with other countries, such as Turkey, means that some raw materials will be subject to custom duties while finished products, containing the same raw materials but manufactured elsewhere, will enter the Kosovo market duty free.

- International standards and certification
Many SMEs regard international standards and certification as un-necessary (just another diploma on the wall) and as a cost to the company, while quality management systems and corresponding standards offer exactly the organisational and management tools and processes that most SMEs in Kosovo desperately need to manage growth.

Furthermore, international buyers, in particular in the food industry are requiring that Kosovo SMEs fulfil HACCP and other food safety and food security standards, otherwise they will not take the risk to buy their products, no matter the price. It should be noted here that Albania two years ago introduced a law that requires all food products sold in the country to be produced according to HACCP and certified as such. There is a need among many Kosovo food producers to renovate production facilities and invest in machinery and equipment, which are in line with HACCP and other relevant standards.

- Training fatigue
Most of the Owners and managers in the SMEs do not have formal education directly related to managing a company. The need for education and training are recognized but there is a reluctance to participate and invest in training activities. The SME sector in Kosovo does not believe in formal training as an important foundation towards establishing competitiveness. However, at the same time, there are no indications to suggest that the SMEs sector will be capable to achieve competitiveness if they do not change their attitude towards training or life-long learning in general. Until now, Kosovo SMEs have been exposed to far too many general or irrelevant training events and as a result they have developed a resistance towards all capacity-building. In the future, support interventions should be directed towards individual companies, or small groups of companies, and training should be combined with hands-on-consultancy.

- Over-reliance on grants
Among Kosovo SMEs, there is a belief that every company is entitled to receive some kind of donation, from national or international sources, and that this source of financial support is something very normal. In fact, some managers feel cheated and unfairly treated if they do not receive grants. This attitude is common and is a result of the many donor funded projects that have been initiated in the SME sector in Kosovo.

To some extent, one gets the impression that free money and grants are the main drivers of company development. This is a very worrying and dangerous attitude to have in a competitive business environment and might even endanger some of the companies’ future as they apparently are sitting and waiting for free money rather than making investments using their own funds or presenting their business ideas to the banks.
Annex 3: Start-up policy and support structures best practices in EU, UK and US

EU
Currently in the EU there are over 25 million unemployed, and in the majority of Member States SMEs have not bounced back to their pre-crisis levels. The Europe 2020 Strategy sets out the foundations for future company growth and competitiveness that will be smart, sustainable and inclusive.

It is argued by the EU that in order to create growth and employment, Europe needs more entrepreneurs. As a follow up to the Small Business Act review of April 2011 and of the Industrial policy communication, the proposed Action Plan sets out a renewed vision and a number of actions to be taken in support of entrepreneurship. This policy advice is based on three key areas where action is needed to remove existing obstacles impeding business creation and growth: Access to finance; Support for entrepreneurs in the crucial phases of the business lifecycle and their growth; Unleashing new business opportunities in the digital age; Transfers of businesses; Bankruptcy procedures and second chance for honest entrepreneurs; and Regulatory burden reduction.

With special relevance to this assessment is the second area of action on “Supporting new businesses in crucial phases of their lifecycle and help them grow.” At the moment in the EU, 50% of new businesses fail during their first five years. If European entrepreneurs are to be able to deliver growth, there is a need to allocate greater resources towards assisting and supporting them to get through this period. Businesses often lack an appropriate ecosystem or networks to enable them to grow. Tailored business support services and service providers that know their markets are essential in order to significantly increase the success rate of new enterprises. Effective support consists of holistic programmes that integrate the essential elements like management training, R&D, coaching, and networking with peers, potential suppliers and clients. EU best practice shows that in order to thrive and grow, entrepreneurs and SMEs need specific, customized expertise that can help them develop competitive advantages and benefit from global value chains and shared management of human resources. Clusters, business networks and other types of association of companies can provide such supportive environments as they bring together the relevant actors from business, education, research and the public sector.

United States
There are two recent initiatives in the US in support of entrepreneurship through support to Start-ups. One, the White House initiative titled “Start-up America” launched to celebrate, inspire, and accelerate high-growth entrepreneurship. The initiative is driven by a set of entrepreneur-focused policies in five areas: Unlocking access to capital to fuel startup growth; Connecting mentors and education to entrepreneurs; Reducing barriers and making government work for entrepreneurs; Accelerating innovation from “lab to market” for breakthrough technologies; and Unleashing market opportunities in industries like healthcare, clean energy, and education.

Two, leaders in the private sector has launched the Startup America Partnership, an independent alliance of entrepreneurs, corporations, universities, foundations, and other leaders, joining together to fuel innovative, high-growth U.S. startups. The Partnership has mobilized well over $1 billion in business services available through a national network, designed to serve as many as 100,000 startups over the next few years. The Ewing Marion Kauffman Foundation and the Case Foundation provided the initial funding for the Startup America Partnership. Other corporate sponsors include American Airlines, American Express OPEN, Dell Inc., Intuit Inc., NYSE Euronext, and Microsoft. The partnership has not received any funding from government organization.

United Kingdom
In the UK, it is very much the banking sector that encourages entrepreneurs to start their own businesses. In fact, banks such as Barclays offer the new business owner much more than start-up capital. Barclays is also taking on the role as business service provider, offering its clients training (often free of charge) on how to develop one’s business idea into a full-blown business plan. Beyond the more formal training events, the bank offers stand-alone and regular business development seminars, clinics focusing on one particular part of the business operations, such as strategic management, international marketing events and networking among companies. An online library gives the customers access useful business information and further on-line capacity-building platforms.
5. References

“Preparation of the Feasibility Study for a Stabilisation and Association Agreement,” Kosovo’s Answers to the EC Questionnaire, 2012


