Republic of North Macedonia

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THE ROLE OF THE BANKING SYSTEM IN THE DEVELOPMENT OF SMEs

Comparative analysis between Kosovo and Macedonia

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Abstract

The aim of this dissertation is to analyze the role of the banking system in the development of SMEs in Kosovo and North Macedonia, to identify the variables that influence the SMEs growth in both countries, to compare the perception of the entrepreneurs concerning the banks financing conditions for SMEs and to compare the banking systems between two countries. We hypothesized that bank loans, loans interest rates, SMEs age and owners level of education influence the SMEs growth measured by the number of employees for years 2016, 2017 and 2018.

Research methodology is compound by primary and secondary data, where, primary data was collected through a quantitative research conducted on 300 SMEs in the Republic of Kosovo and 300 SMEs in the Republic of North Macedonia, also, through interviews on 10 banks in Kosovo and 15 banks in North Macedonia, while, the secondary data we have collected from state institutions, EU reports, research reports, etc.

Econometric model results revealed that for the year 2016 from the independent variables, only loan interest rate has no significant influence on the SMEs growth in Kosovo, while, in North Macedonia all the independent variables have significant influence on the SMEs growth. Furthermore, for year 2017 we argue that all listed independent variables influence the SMEs growth in North Macedonia, while, in Kosovo loan amount has significant influence on SMEs growth. Moreover, for the year 2018 the results revealed that bank loans, SMEs age and owners level of education influence the SMEs growth in Kosovo, while, in North Macedonia only owners level of education has no significant influence on SMEs growth. Research results also revealed some differences of the banking system between two countries.

The findings suggests at the end for some future lines of research and provides recommendations for the main stakeholders of this field of study: policymakers, banks and SMEs.

Keywords*: SMEs, Financing, Banks, Growth, Kosovo, North Macedonia, Comparison*

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"I dedicate this dissertation to my sons MAT and FRON"

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List of Abbreviations

ACOST	Advisory Council on Science and Technology
APPRM	Agency for Entrepreneurship Support
ARD	American Research and Development Corporation
ATM	Automated Teller Machine
BFC	Business and Financial Center
BRAC	Bangladesh Rural Advancement Committee
BRI	Bank Rakyat Indonesia
BSCK	Business Support Center in Kosovo
CBK	The Central Bank of the Republic of Kosovo
DTI	Department of Trade and Industry
EC	European Commission
ERP	Economic Reforms Program
EU	European Union
GDP	Gross Domestic Product
ICT	Information and Communications Technology
IFC	International Finance Corporation
IMF	International Monetary Fund
JSC	Joint Stock Company
KIESA	Kosovo Investment and Enterprise Support Agency
KOSME	Kosovo SME Promotion Program
LLC	Limited Liability Company
MFI	Micro Financial Institutions
MTI	Ministry of Trade and Industry
NBRM	National Bank of the Republic of North Macedonia
NGO	Non Governmental Organization
NPAA	National Program for the Adoption of the Acquit
OECD	Organization for Economic Cooperation and Development
POS	Point of Sale
RKS	Republic of Kosovo

RNM	Republic of North Macedonia
RULPA	Revised Uniform Limited Partnership Act
SBA	Small Business Act
SMEs	Small and Medium Enterprises
UK	United Kingdom
USA	United States of America
VC	Venture Capital

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CHAPTER I

1. Introduction

As a new state, it is understandable that Kosovo has more economic problems than its neighbor countries. More than 99% of businesses in Kosovo are SME-s. This percentage shows us that the SME-s development has a key role in the economic development of our country. For SME-s to grow it is very important to improve the banking system in our country, because it is one of the main sources of external financing for SMEs and through this study we will find out where are the gaps in this area that needs to improve. In this way we will analyze the variables that influence positively the continual development of SME-s in our country. Moreover, we will analyze the role of the banking system in SMEs growth through loans as an external financial source of SMEs.

From the results obtained from the research "Entrepreneurship, Innovation and Innovation Policy" that we've done on 2015, we argue that the businesses in the Republic of Kosovo are very innovative, they are very interested to bring new products/services in the market, customers are the key factors that influence innovation, they mostly prefer to cooperate with other firms, extremely high costs are the most influential risk factor for businesses, they use their own resources for innovation activities, 88% of the businesses answered that they were not supported from the government (Kunoviku-Demiri & Demiri, 2015), moreover, from studies from other authors one of the biggest barriers for SME-s to grow is when they have to finance from external sources like applying for loans from Banks.

This research is realized in two countries which have derived from the collapse of Yugoslavia - Kosovo and North Macedonia.

The research tries to identify the influence of banking system through the financing approach in the development of SMEs, tries to find out some variables that influence the SMEs growth, tries to explore the differences between the perception of entrepreneurs concerning the ways their SMEs are financed in Kosovo and in North Macedonia, furthermore, we will identify if there are differences between the banking system in Kosovo and in North Macedonia and to try to adapt better practices in our country.

The binominal business-bank relationship is very important for the growth and development of SMEs.

After we identify the variables that impact positively the SMEs growth through empirical analyses we can predict about the SMEs that have possibilities to grow in the future which could be very helpful for the businesses that operate in two countries that we are observing.

These countries has many things in common - ethnic diversity, social, political and economic system. Moreover, Kosovo and North Macedonia are developing countries which as the main goal has the integration in the European Union, that means that they are working hard to adapt their regulations with the regulations of the European Union member countries.

Eventual differences between two countries are as a result of their status during the Yugoslavia existence, unequal time of declaring their independences, Balkan wars, embargos during the Balkan wars. Furthermore, Kosovo and North Macedonia has different official currency, Kosovo has Euro as official currency, whereas, North Macedonia as official currency uses North Macedonian Denar.

Similarities and differences mentioned above will help us to define the progress of these countries in our field of study.

Like in the other countries, SME-s in Kosovo and in North Macedonia when they do not have enough internal funds to finance their business activities, they seek for external funds which usually are bank loans. This is exactly the reason why we chose to make a research in this field, because, it is very important to find out the role of the banking system in the development of SME-s. Moreover, it is very important to make a comparison of the banking system between two neighbor countries like Kosovo and North Macedonia because through this study we can find out where our banking system has advantages and where it lacks regarding their offer of products and services for SME-s.

In this research work we will present data from our observation that we have conducted in manufacturing and commercial (trade) oriented SMEs in the Republic of Kosovo and in the Republic of North Macedonia, data generated from the interviews on Banks in both countries, also we will present data from institutions from both countries.

Table 1. Countries overview for the year 2018

	Republic of Kosovo	**Republic of North Macedonia**
Government	Parliamentary republic	Parliamentary republic
Population	1.8 mil	2.1 mil
Median age	29.1	38.2
Territory	10,908 km²	25,713 km²
Capital	Prishtina	Skopje
Official languages	Albanian and Serbian	Macedonian and Albanian
Economy overview	Kosovo's economy has shown progress in transitioning to a market-based system and maintaining macroeconomic stability, but it is still highly dependent on the international community and the diaspora for financial and technical assistance. Remittances from the diaspora - located mainly in Germany, Switzerland, and the Nordic countries - are estimated to account for about 17% of GDP and international donor assistance accounts for approximately 10% of GDP. With international assistance, Kosovo has been able to privatize a majority of its state-owned enterprises.	Since its independence in 1991, Macedonia has made progress in liberalizing its economy and improving its business environment. Its low tax rates and free economic zones have helped to attract foreign investment, which is still low relative to the rest of Europe. Corruption and weak rule of law remain significant problems. Some businesses complain of opaque regulations and unequal enforcement of the law.
Currency	Euro	Macedonian Denar
GDP per capita	3,951 €	5,382 €
Unemployment rate	29.6	21.55
Trade balance	-2,979.5 million €	-1,911.2 billion €
Micro businesses	95%	89.22%
Small Businesses	4.20%	8.22%
Medium Businesses	0.70%	2.18%
Large Businesses	0.10%	0.37%
Banking System	The banking system in Kosovo consists of ten commercial banks operating in Kosovo, in which only two of them have local capital.	The banking system in North Macedonia consists of 14 private banks, one state-owned bank (North Macedonian Bank for Development Promotion), and three savings houses.

(Source: Author)

1.1. Research problem

Despite the importance of the SME-s in the economic development of every country it is very important to mention that businesses are continuously facing a lot of barriers while trying to grow. SME-s growth is an essential component of the transition process, there are significant barriers to growth in six main fields: financial barriers, tax-related barriers, barriers arising from restrictive employment legislation, regulatory barriers, institutional barriers and social barriers (Bartlet, Bateman, & Vehovec, 2002).

Bartlett and Bukvic identify two views about the main barriers to growth. The first they call the "finance-first" approach which maintains that the key barriers to SME growth are linked to financial constraints. These could in principle be overcome by the provision of subsidized or low-cost finance, by the creation of credit guarantee agencies, through micro-credit schemes, or through the establishment of venture capital funds. The second view, which they call "institutional" approach maintains that non-financial barriers are the key barrier to growth, like: unfair competition, corruption, etc (Bartlet, Bateman, & Vehovec, 2002, p. 6).

Furthermore, results from e research done in Kosovo from RIINVEST (2015) shows that the access to finance is one of the top barriers for businesses expansion, and, the banks in Kosovo has the highest interest rates in the region (compared with Albania, North Macedonia, Montenegro, Serbia and Bosnia and Hercegovina) which is a major obstacle to SMEs development.

Accordingly the access to finance is a significant issue for the North Macedonian SME's. Underdeveloped financial market, unawareness for additional sources of finance; illiquidity issues of the companies have made them susceptible to financial shocks from the domestic and the world's economy. Hence, most of the companies have used the bank loans, although, they have initially suggested that commercial banks are offering banking loans with high interest rate (Boshkoska & Lazaroski, Access to Finance of the Macedonian Companies in the Post-Crisis period, 2016).

Description of the basic terms of the research subjects:

- *Small and Medium Enterprises (SMEs)* - A business is an organization or economic system where goods and services are exchanged for one another or for money. In the economics literature the definition of the SMEs in the most definitions depends by the number of their employees and the amount of their annual turnover.

- *Banking system*[1] - is a network of institutions that accept deposits and savings from the general public, firms and other institutions, and provide money transmission and other financial services for customers, operate loan and credit facilities for borrowers, and invest in corporate and government securities.
- *Business development* - comprises a number of tasks and processes to develop and implement growth opportunities within and between organizations, moreover, it is the creation of long-term value for an organization from customers, markets and relationships.

It is very important to mention that a large number of businesses has been closed in Kosovo on their first year of operation as a result of the lack of funds for financing their activity, collateral requirement and other obstacles imposed by banks.

1.2. About the research

The Small and Medium Enterprises are a key factor that impacts the economic development of every country. Their growth contributes positively in the economic development of our country, through: reducing the unemployment rate, innovations, wide range of products and services in the market, etc. Nevertheless, to grow they need financial support. And to help in this field we need to find out the role of the banking system on the financing business needs of the SMEs, in Kosovo and in North Macedonia.

Financing SMEs and their access to finance plays a crucial role in the growth and development and it is a key determinant for business start-ups. It is worth mentioning that SMEs have very different needs and face different challenges with regard to financing compared to large businesses (Risteska, Nikoloski, Gveroski, Spaseska, & Risteska, Analysis of SMEs Financing in the Republic of Macedonia - Conditions and Perspectives, 2014).

In this context, The Investment Climate Survey carried out by the World Bank shows that access to finance improves the firm performance. It does not only facilitate market entry, growth of companies and risk reduction, but also promotes innovation and entrepreneurial activity. Furthermore, firms with greater access to capital are more able to exploit growth and investment

[1] https://financial-dictionary.thefreedictionary.com/banking+system

opportunities. In other words, aggregate economic performance will be improved by increasing the access to capital (European Commission, 2011).

The reason why we chose to make a comparative analyses between Kosovo and North Macedonia is because of the similarity between two countries. While both countries goal is to join European Union, they have adapted the definition of the SMEs from EU definition, where, in Kosovo the definition of SMEs depends by the number of employees, while, in North Macedonia the definition of SMEs depends by the number of employees, the amount of income/turnover and assets value. The number of employees as a criteria is not contested while the turnover and the assets value is defined by adapting country reality. The criteria number of employees for definition of SMEs is the same for two countries which will facilitate our work while comparing analyses. The definition of the SMEs in Kosovo is regulated by the Law on Supporting SMEs, and it is defined as below (Kosovo):

Table 2. SMEs thresholds in the Republic of Kosovo

Enterprise category	Number of employees
Micro	1-9
Small	10-49
Medium-sized	50-249

(*Source: Official gazette of the Republic of Kosovo)*

The definition of the SMEs in North Macedonia is regulated by the Law on Trade Companies, where, enterprises in North Macedonia shall be a commercial entities which in each of the last two accounting or in the first year of operations, have met the first criterion and at least one of the second and third of the following criteria (CRPM, 2004):

Table 3. SMEs thresholds in the Republic of North Macedonia

Enterprise category	Number of employees	Income/Turnover	Balance sheet total
Micro	1-9	≤ 500,000.00 €	≤ 500,000.00 €
Small	10-49	≤ 2,000,000.00 €	≤ 2 million €
Medium-sized	50-249	≤ 10,000,000.00 €	≤ 11 million €

(Source: Occasional paper in the Republic of North Macedonia)

Businesses with equal/more than 250 employees are big businesses in both countries.

This study aims to make a contribution in national economy, by identifying the characteristics of businesses that influence the SMEs growth and by identifying and adapting better practices that the banks in North Macedonia apply for SMEs.

Our research is focused in proving following statements:

- Banking system through financing means influences the development of SMEs in Kosovo and North Macedonia.
- Identification of some variables that influence the SMEs growth.
- Entrepreneurs from both countries percept banks financing conditions more as a barrier than a facility in the development of their businesses.

1.2.1. Data sources rights of the participants

The main source of data derives from our online and field research (primary data) that is property of the author. As for secondary data, they are cited and referenced in the literature review.

The interest of this research is to develop a meaningful practices and to identify variables that influence the SMEs growth, which will impact positively in the economic development of our country. For this purpose, the research was concentrated on collecting various information regarding the financial approach of the banking system in both countries.

Especially for the needs of this paper, the questionnaire was self-administered by the author with 300 SMEs (respondent) in Kosovo and 300 SMEs (respondent) in North Macedonia. Also, interviews with key managers or branch managers of commercial banks in Kosovo and North Macedonia were conducted.

The respondents of this study are general managers or owners of the SMEs which were selected to be part of survey and managers in banks/financial institutions. They are the ones who are enough knowledgeable to answer the problems posed in the present study. They answered the questionnaire that the researchers gave to them which needed to supply the information that the researcher need.

Data are collected in the period from June 2018 to March 2019, which first were processed in excel and were imported into SPSS software through which empirical data analysis were performed.

Data collected were stated and treated as confidential and will be used only for the purpose of research. This information was stated visibly in the questionnaire, too. Any sensitive data of companies and the rights of participants are protected.

1.3. Objective of research

The aim of this research is to present basic topics which have fundamental indicator for this PhD dissertation. The objectives of our research are:

- To find out the importance of the banking system in the development of SMEs for both countries.
- To analyze which of the business variables influences the SMEs growth,
- To analyze the differences between the perception of entrepreneurs concerning the ways their SMEs are financed in Kosovo and in North Macedonia, and
- To compare the banking systems between Kosovo and North Macedonia.

1.4. Variables of the research

In order to accomplish the objectives of our study, in this research we analyze two types of variables: dependent and independent variables.

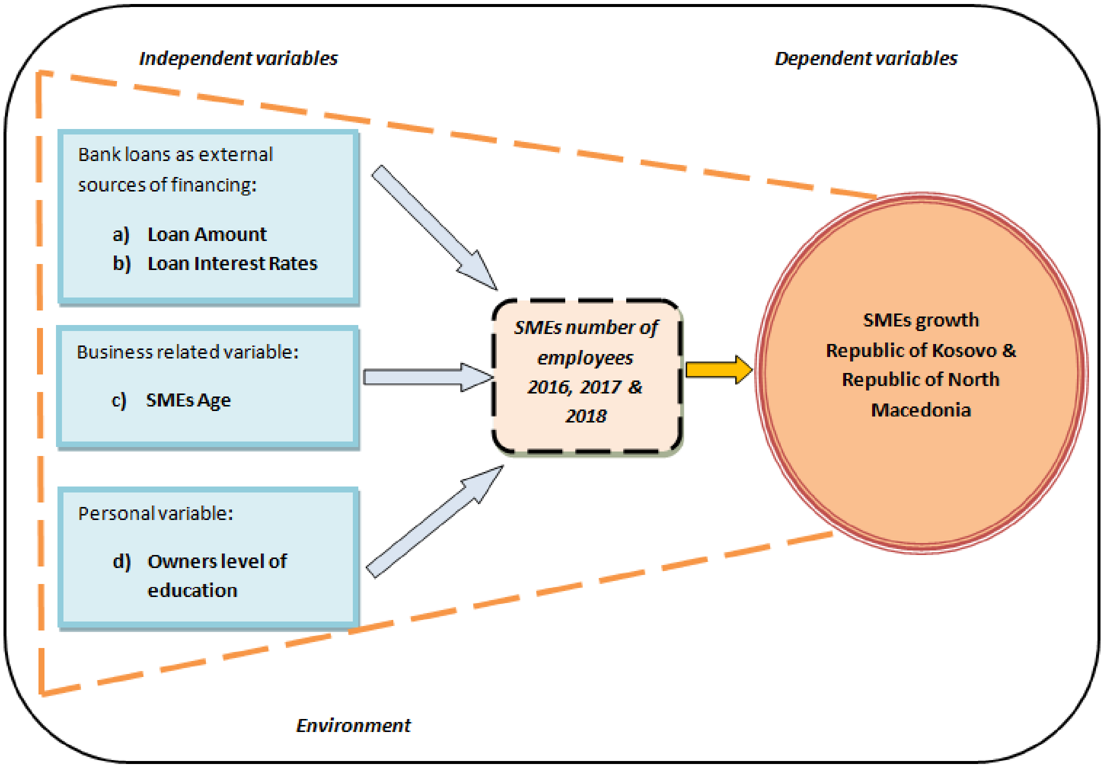


Figure 1. Conceptual Framework of Thesis *(Source: Author)*

1.4.1. Dependent variables

Dependent variable of our study is SMEs growth.

1.4.1.1. SMEs growth

Growth is often of more interests to economists and public policy makers than financial performance, although it is understood that at least adequate profitability is always necessary and high profitability is important. Growth is important for generating wealth and jobs (Barkham, Gudgin, Hart, & Hanvey, 2005, p. 5).

All business success, as well as small business success, is predominantly measured in either increases in turnover or revenue or increases in the number of employees (Voulgaris, Asteriou, & Agiomirgianakis, 2003).

There is little agreement in the existing literature on how to measure growth, and scholars have used a variety of different measures. These measures include, for example, growth of sales, employees, assets, profit, equity, and others (Davidson & Wiklund, 2013). Moreover, the time span over which growth is analyzed in the literature varies considerably, ranging from one to several years. Also, growth has been measured in absolute or relative terms. Perhaps the most common means of operational firm growth is through relatively objective and measurable characteristics – such as growth in sales turnover, total assets and employment growth. These measures are relatively uncontroversial (methodologically) and data tend to be easily available, increasing the scope for cross study comparability (MATEEV & ANASTASOV, 2010).

In our countries because of the high taxes most of the SMEs hesitate to show the real amount of their turnover, so, because of this fact we have decided to measure the SMEs growth through the number of employees. In order to reach this we have collected data regarding their number of employees for three periods: 31.12.2016, 31.12.2017 and 31.12.2018.

Businesses development or growth considers as one of the most important and interesting topics in the economic literature. As we have mentioned earlier that the SMEs are considered as the backbone of the economic development of each country it is very important to explain the importance of growth or development of businesses. If we will have growth of businesses/firms this means that they will have more possibilities to survive in the market that they operate, as a result we will have more work places in our country and finally we will have growth on the economic development. That's why it's very important the identification of variables that impacts positively the SMEs growth.

1.4.2. Independent variables

Independent variables are: Loans, Loans Interest Rates, Age of the company and Owners level of education.

1.4.2.1. Loans

Small firms identify lack of access to financial services as one of the key constraints to growth and investment, SMEs are usually constrained than other segments of the economy because of the following: (a) financial sector policy distortions; (b) lack of know-how on the part of banks; (c) information asymmetries, for example, lack of audited financial statements; and (d) high risks inherent in lending to SMEs (Malhotra, Chen, Criscuolo, Fan, Hamel, & Savchenko, 2007, p. 6).

Access to finance is key to business development. Investment and innovation are not possible without adequate financing. A difficulty in getting finance is one of the main obstacles to the growth of many businesses, particularly small and medium sized enterprises (SMEs). Financial flows to SMEs are increasing but remain subdued. Access to finance is still perceived as an important problem by several SMEs. Comparing different types of enterprises, micro-enterprises and more innovative businesses in particular consider their financing as the most pressing problem. Bank loans remains the most important source of external financing for SMEs in the EU (Commission, Survey on the access to finance of enterprises, 2014).

1.4.2.2. Loans Interest Rates

According to Amonoo et al. (2003), interest rate is the premium received by the lender after a stated period of time. From the borrower's point of view, it is the cost of capital at the time of obtaining a loan. Interest rates affect businesses in three significant ways; firstly, rising interest rates increases the total price customers pay that use credits for product and services, therefore, as the interest rate increases the demand for products is likely to decrease. Secondly, most businesses borrow funds to finance their daily business transactions. Therefore managers must raise prices of the product to cover the cost of doing business or accept low profit. The third effect of interest rate is on expansion of a business, and since the firm must sometimes finance new equipment with credits, interest is of great concern to the manager (Godsway, 2017).

Analysis on SMEs start-ups and sustainability has brought skepticism as to whether higher interest rates are the major factor obstructing SMEs demand for financing in Mozambique. Several studies in Mozambique including (Kaufmann & Parlmeyer, 2006; Osano & Languitone, 2016) have mentioned the problem of financing as an impediment to SMEs start-up and growth. The authors stated that high interest rates charged on loans in Mozambique, which were higher than average African banks' rates, were the main hindrance to SMEs start-up and development (Sawaya & Bhero, 2017).

It is found that lower bank interest rates have a positive effect on profitability. This means that when interest rate is lower, SMEs can borrow more from banks and hence they can invest in profitability projects that may lead to a higher profitability for SMEs as a measure variable of the SMEs growth (Belas, Cepel, Kotaskova, & Dvorsky, 2018).

Lower interest rates may mean that it is a good time for the business and a higher interest rate will make a manager consider delaying expansion or growth until the cost of borrowing decreases (Godsway, 2017).

1.4.2.3. SMEs age

Most studies of SME failure have found that a business is at greatest risk in its first few years. Jovanovich (1982) argued that younger firms are more likely to fail because they face greater variability in their cost functions while they learn about their industry and management capabilities. The efficient grow and survive; the inefficient decline and fail. For this reason, younger firms are less likely to survive than older ones. There have been numerous studies confirming this proposition: Steward and Gallagher (1986); Evans (1987); Bates and Nucci (1989); and Dunne, Roberts and Samuelson (1989) (Watson, 2010, p. 31).

In discussing size, we need to mention that almost all researchers have found a significant effect for this factor. Generally, the discussion of age and size of the firm as determinants of sustainable growth has a long history starting with the formulation of Gibrat's law in 1931. Gibrat's law says that the growth rate of the firm does not depend on its size in the beginning of the firm's existence, and that the probability of this growth rate in a particular period is equal for every firm in the same industry. But the results of the empirical research done by Beccheti and Trovato (2002) do not support the concept of the firm's sustainable growth being independent of its size and age (Etemad, 2013, p. 193).

However, effects of size and age are the most studied growth determinants for various types of companies. Evans (1987) established that the smaller and younger firms grow faster which enables that the smaller and younger firms grow faster which enables them to quickly reach an effective size and survive competitive markets. Variyam and Kraybill (1992), Liu et al. (1999) and Yasuda (2005) reached the same conclusion. This confirms Jovanovic's (1982) growth theory, according to which a company's growth rate should decrease with age. Despite the impressive evidence, there are several exceptions (ef. Das 1995; Barron 1994). For example, in 1995 Das investigated the growth of young firms in their respective sectors in developing countries (especially in India's computer industry) and discovered a positive correlation between age and growth rates (Etemad, 2013, p. 196).

1.4.2.4. Owners Level of Education

Entrepreneurs include all individuals in a position to make important strategic decisions in a firm, including managers, chief executive officers, founders and engineers (Lederman, Messina, Pienknagura, & Rigolini, 2014).

Education, increases the likelihood of survival of new firms and subsequent economic performance, particularly for high-tech start-ups, where the founder's human capital is a key driver of growth (Lederman, Messina, Pienknagura, & Rigolini, 2014, p. 84).

Irwin and Scot (2005, p.8), based on their research, found that education plays an important role on bank's lending decision, because entrepreneurs with better education have more chances to borrow from banks.

Education may be instrumental for entrepreneurs to carry out their growth aspirations, or indeed it may help entrepreneurs nurture such aspirations in the first place, Wiklund (2007). Almus (2002) identifies a positive effect of human capital (that is, university degree or above) on growth for fast-growing German firms (Coad, 2009, p. 88).

Robson and Obeng (2008) focus on small businesses in Ghana and report that better educated founders faced fewer obstacles to expansion. They observe that education had a stronger effect than age or sex on the importance of barriers facing growing small businesses. Mead and Leidholm's (1998) survey of the evidence for developing countries provides further support to the hypothesis that an entrepreneur's education tends to have a positive influence on firm growth (Coad, 2009, pp. 88-89).

1.5. Indicators

Indicator 1: Business questions

- Business location, SMEs age, Size of the company, Organizational legal form of the business, Business type, Number of employees for the years 2016,2017 and 2018.

Indicator 2: General questions

- Owners gender, Level of education of owners, Experience in business.

Indicator 3: SMEs experience by financing from Banks

- Support (Financing) by bank, Last time of financing through loan, Type of loan required, The deadline of the repayment, Interest rate, Collateral requirements, Written business plan, Duration in days of the completion of the documents required by bank, Reason of not applying for loan, Reason of the refuse from banks when applying for loan, Bank financing conditions.

Indicator 4: Banks approach on financing SMEs

- Special program for financial support of the SMEs, Criteria to determine a SME as a good or a reliable client, Interest rate for SMEs as a borrowers, Products and services for SMEs, Determination of interest rates, Obstacles that faces the banks to finance SMEs.
- Questions: *Please, specify the criteria's that your bank applies to determine one SME as a good and reliable client?* and *What are the interest rates that you apply for SMEs as a borrowers?* that we will submit to banks and financial institutions in both countries will help us to verify if they have the same criteria and the same metrics for measuring risk.

1.6. Research Hypothesis

The main objective of this paper is to analyze the role of the banking system in the development of SMEs in both countries (Kosovo and North Macedonia), moreover, to identify the variables that influence the SMEs growth. Furthermore, our focus is to analyze the differences of banking systems between two countries.

Based on the theoretical approach, we define some hypothesis to argue.

Research Hypothesis:

1. Bank loans influence the SMEs growth.

2. Loan Interest Rates influence the SMEs growth.
3. SMEs in Kosovo and North Macedonia use bank loans as a source of external financing for their business.
4. Age of the SMEs in the market influence the SMEs growth.
5. The owners level of education influence the SMEs growth.

1.7. Research questions

In this research the main questions with SMEs representatives and BANKs representatives are the following.

<u>Questions for SMEs:</u>

- RQ1: Have you ever been supported (financed) by any Bank?
- RQ2: How much was the interest rate (%)?
- RQ3: Do you believe that business plan helped you to access on the bank loan?
- RQ4: What do you think about the bank financing conditions in your country?

<u>Questions for BANKs:</u>

- RQ1: Do you have any special program for financial support of SMEs?
- RQ2: Please, specify the criteria's that your bank applies to determine one SME as a good and reliable client? (Rank by relevance)?
- RQ3: What are the interest rates that you apply for SMEs as a borrowers?
- RQ4: Obstacles that faces the banks for financing SMEs (Rank by relevance)?

Clarification note: The questions mentioned above are some of the most important questions from the research questionnaires, this means that there are more questions as explained in the research methodology part.

CHAPTER II

2. Literature review

2.1. Small and Medium Enterprises

2.1.1. Definition and characteristics of SMEs

Small and Medium Enterprises (SME-s) are considered as the backbone of the economic development of every country. The growth of SME-s contributes in the economic development of developed countries and developing countries.

Small and Medium sized enterprises (SMEs) are part of a heterogeneous universe of extremely diverse economic agents, whose characteristics vary depending on the business sector they operate in, the markets they serve, the products they produce and how involved and connected they are to the macroeconomic context and support institutions (North & Varvakis, 2016).

Creating a competitive and integrated economy based on knowledge and innovation is a key condition for macroeconomic stability, economic growth and employment. In process of generating economic growth and job creation especially is important the role of SMEs (Risteska-Jankulloska, Sotiroski, Gveroski, Spaseska, & Risteska, 2016).

Globalized world market enables activity of SMEs, which are becoming driving force of the economic development. Such movements led to changes in production philosophy in the most developed countries in the world during the last decades of 20th century, when the era of giant corporations was changed by an era of small enterprises, which promote spirit of creativity and individualism, opposite to standardization and globalization promoted by the big and multinational corporations (Risteska-Jankulloska, Sotiroski, Gveroski, Spaseska, & Risteska, 2016).

According to studies by McKinsey and the International Finance Corporation (IFC) the total number of SMEs worldwide amounts to between 420 and 510 million, of which 360-440 million are located in emerging markets. In 2013 across the EU28, some 21.6 million SMEs in the nonfinancial business sector employed 88.8 million people and generated 3666 trillion € in value added. Expressed another way, 99 out of every 100 businesses are SMEs, as are 2 in every 3 employees and 58 cents in every euro of value added (North & Varvakis, 2016).

What exactly is a small business, and when does it become medium-sized or large? These enterprises have certain characteristics and management issues in common that distinguish them from other organizations. In practice, it is hard to define these characteristics, and even harder to draw a precise line that separates small from large firms (Stokes & Wilson, 2010).

Some definitions focus on numerical parameters in order to differentiate between smaller and larger business types. The European Commission (EC) initiated an important set of definitions of the small and medium-sized enterprise (SME) that introduced a further category of the 'micro' enterprise to reflect the growing importance of very small businesses. The definitions are based on headcount, turnover and balance-sheet value, as shown in Table 1.1 (Stokes & Wilson, 2010).

Table 4. SMEs Thresholds

Category	Number of employees	Turnover	OR	Balance sheet total
Micro	1-9	≤ € 50 m		≤ € 43 m
Small	10-49	≤ € 10 m		≤ € 10 m
Medium	50-249	≤ € 2 m		≤ € 2 m

(Source: European Commission)

These quantitative thresholds are important because they are used throughout the European Union (EU) for policy purposes. For example, they might be used to determine the eligibility of a business for certain types of grant or other assistance (Stokes & Wilson, 2010).

There are obvious attractions in using such definitions. They seem objective and relatively simple to apply, facilitating the use of statistical analysis, but such generalized measures have important limitations (Stokes & Wilson, 2010).

To overcome some of these difficulties, non-quantitative definitions have been proposed that try to single out the essence or differentiating characteristics of a small business. Small firms may be difficult to define precisely on paper, but most are easy to recognize once they are seen in operation. There seem to be fundamental differences in practice which enable us to distinguish between small and large firms (Stokes & Wilson, 2010).

The Committee of Inquiry on Small Firms set up by the UK government recognized this in an influential report which became known as the Bolton Report (1971). The Report proposed that a small firm has three essential characteristics (Stokes & Wilson, 2010):

- A small firm is managed by its owner(s) in a personalized way.
- It has a relatively small share of the market in economic terms.

- It is independent in the sense that it does not form part of a larger enterprise and its ownership is relatively free from outside control on its principal decisions.

A different approach will be adopted and define an SME as "a small social collectivity whose participants share a common interest in its survival and engage in collective activities to secure this end". This definition presents an SME as a social entity with limitations and strengths in coping with turbulent environments (North & Varvakis, 2016).

To clarify the differences between large and small organizations management, it is necessary to clarify some characteristics of the small organizations which differ them from large organizations, like (Mustafa, Kutllovci, Gashi, & Krasniqi, 2006):

- faster decision-making
- higher flexibility
- simple organizational structure, centralized decision-making process
- direct communication from up to down
- limited participation of employees in decision-making.

SMEs have characteristics, that we can identify easily:

1. **Flexibility.** The ability of the SMEs to adapt quickly on the changes that come from the environment.
2. **Direct work relations.** Owner - Manager has direct internal relations with employees and direct external relations with customers, suppliers and banks.
3. **Employment.** From worldwide statistics about the employment rates it is known that around 90% of the peoples work on SMEs. So they function as an employment generators.
4. **Managing from smaller number of people.** At the beginning phase of SMEs development, in the most cases they are managed by one person. Owners - managers are responsible about all decisions in company like strategic and tactic decisions that has to do with the development and employment of the company.
5. **Limited capital.** Most of the owners of Small businesses during the start-up phase limited financial means.

6. **Independence.** Small businesses are characterized by their independence. The owners of small businesses enjoy their independence on decision making regarding different initiatives, innovations and ambitions.

Small and medium enterprises are major players in virtually every industry-manufacturing, service, agriculture, and trade (wholesale as well as retail) (Munro, 2013).

Regardless of the definition of an SME, large firms have more employees, larger balance sheets and higher sales. They are also more complex. What are some key factors that set large firms apart from SMEs - even large medium-sized firms (Munro, 2013)?

- corporate governance (large firms are usually corporations rather than partnerships or sole proprietorships);
- Board of Directors - smaller firms can usually get by without boards except those that function largely at the ceremonial or representational level (advisory committees);
- sharp divisions between "line" functions - manufacturing, plant operations, sales - and "staff" functions - human resource management, internal control and audit, finance, public relations;
- formalized or "bureaucratized" internal communications and workflows - reliance on formal meetings, memoranda, written policy and operational manuals;
- a variety of finance options including bank loans, but also issuance of debentures and stock;
- a need for detailed and professional financial record-keeping and reporting;
- the need for a complex information and communications technology (ICT) capability;
- more complex financial statements, including (in particular) classes of *liabilities* that medium-scale enterprises lack (senior and *subordinated* debt, liabilities under pension and health insurance obligations, different classes of capital stock, specific reserves for various contingencies);
- on the asset side, there may be investments in subsidiaries and affiliates, and different classes of short-term investments;
- functional diversification may result in multiple product lines, geographically dispersed production facilities, foreign operations, and income streams in various currencies.

Bearing in mind the individual micro-and macroeconomic characteristics of the different industries within the SME class, many of such firms tend to share the following three characteristics, which are highly independent (Philipp, 2004, pp. 6-7):

1. First, most SMEs are run in sole proprietorships or partnerships. Thus, firm equity and private assets often cannot be clearly separated. This results in a poorly diversified entrepreneur's personal portfolio dominated by his equity stake in the firm. Moreover, since a firm's legal form and size determines the extend of its formal reporting requirements, it is often very difficult for outsiders to obtain reliable information to measure economic performance.
2. Second, SMEs on average have a low degree of internationalization (i.e. depend very much on regional markets) in terms of sales and production. We are saying in terms of sales and production, because, internationalization refers not only to exports but to all activities that put SMEs into a meaningful business relationship with a foreign partner: exports, imports, foreign direct investment, international subcontracting and international technical co-operation. Nowadays, more than 40% of European SMEs are involved in some form of international relationship (Daszkiewicz & Wach, 2012).
3. Third, SMEs generally have contractual relationships with few, big and well organized stakeholder groups, e.g. banks, suppliers, unions, and government. Thus, SMEs' bargaining power often is low. In consequence, they tend to have difficult access to outside financing (i.e. public equity and credit markets) and disadvantages in lobbying interests to avoid negative administrative regulations and bureaucracy.

These characteristics shared by many SMEs have important implications for business financing, risk sharing, decision making, and thus failure probability (Philipp, 2004, p. 7).

Small-business owners with limited resources often must struggle to enter competitive new markets. They also have to deal with increasing international competition. However, they enjoy several unique advantages (Pride, Hughes, & Kapoor, Business, 2010, pp. 144-145):

- **Personal relationships with customers and employees.** For those who like dealing with people, small business is the place to be. The owners of retail shops get to know many of their customers by name and deal with them on a personal basis. Through such relationships, small-business owners often become involved in the social, cultural, and political life of the community. Relationships between owner-managers and employees also tend to be closer in smaller businesses. In many cases, the owner is a friend and counselor as well as the boss. These personal relationships provide an important business advantage. The personal service small businesses offer to customers is a major competitive weapon - one that larger firms try to match but often cannot. In addition, close relationships with employees often help the small-business owner to keep effective workers who might earn more with larger firms.

- **Ability to adapt to change.** Being his or her own boss, the owner-manager of a small business does not need anyone's permission to adapt to change. An owner may add or discontinue merchandise or services, change store hours, and experiment with various price strategies in response to changes in market conditions. And through personal relationships with customers, the owners of small businesses quickly become aware of changes in people's needs and interests, as well as in the activities of competing firms.
- **Simplified record keeping.** Many small firms need only a simple set of records. Record keeping might consist of a checkbook, a cash-receipts journal in which to record all sales, and a cash-disbursements journal in which to record all amounts paid out. Obviously, enough records must be kept to allow for producing and filing accurate tax returns.
- **Independence.** Small-business owners do not have to punch in and out, bid for vacation times, take orders from superiors, or worry about being fired or laid off. They are the masters of their own destinies - at least with regard to employment. For many people, this is the prime advantage of owning a small business.
- **Other advantages.** According to the SBA[2], the most profitable companies in the United States are small firms that have been in business for more than ten years and employ fewer than twenty people. Small-business owners also enjoy all the advantages of sole proprietorships. These include being able to keep all profits, the ease and low cost of going into business and (if necessary) going out of business, and being able to keep business information secret.

[2] The **Small Business Administration** (SBA) is an autonomous U.S. government agency established in 1953 to bolster and promote the economy in general by providing assistance to small businesses. One of the largest functions of the SBA is the provision of counseling to aid individuals trying to start and grow businesses.

In contrast, the dark side reflects problems unique to these firms (Pride, Hughes, & Kapoor, Business, 2010, p. 145):

- **Risk of failure.** As we have noted, small businesses (especially new ones) run a heavy risk of going out of business-about two out of three close their doors within the first six years. Older, well-established small firms can be hit hard by a business recession mainly because they do not have the financial resources to weather an extended difficult period.
- **Limited potential.** Small businesses that survive do so with varying degrees of success. Many are simply the means of making a living for the owner and his or her family. The owner may have some technical skill - as a hair stylist or electrician, for example - and may have started a business to put this skill to work. Such a business is unlikely to grow into big business. Also, employees' potential for advancement is limited.
- **Limited ability to raise capital.** Small businesses typically have a limited ability to obtain capital. Although, every person who considers starting a small business should be aware of the hazards and pitfalls we have noted, a well-conceived business plan may help to avoid the risk of failure.

While many of these attributes may be present in medium-scale enterprises in embryonic form, once SMEs grow to "large" status (however defined), the level of complexity increases (Munro, 2013).

2.1.2. SMEs organizational types

The selection of the organizational form of SMEs has a particular importance. The factors that impact the selection of the adequate organizational form of the SMEs are (Mustafa, Kutllovci, Gashi, & Krasniqi, 2006):

1. *Initial capital and financial plans.* The number of enterprises that are completely financed by their own financial resources is very low. Most of them finance a part of their business through loans or other resources. Consequently, financial interests of the investors may impact the selection of adequate form of SME.
2. *Profits, responsibilities and obligations of the owners-managers.* Before the selection of the adequate form of organization, partners should think regarding their future

common life. They should try to imagine about the impact of one partners decision to the group.

3. *Taxes and government regulation.* This is also an important factor that should be taken into account while choosing a particular form of organization. Different forms of organization involve different procedure for establishment, and are governed by different laws which affect the immediate and long-term functioning of a business enterprise. From this point of view, sole proprietorships are the easiest and cheapest to get started. There is no government regulation. What is necessary is the technical competence and the business acumen of the owner[3].
4. *Exploitation of resources.* People, time, money and productions, can be exploited and combined in different ways and different conditions. Different organizational forms are defined by the internal conditions. Ownership, contracts, franchises, market position and many other techniques, may impact on the owners to change the organizational form of their business.
5. *Growth, expansion, integration and sales.* All these aspects may impact the change of the organizational form of business. Maybe at the beginning these aspects aren't very important, but after a while they become a reason to change the organizational form.

Despite the factors described above we can define the main groups of organizational forms of businesses: by their Ownership, Legal Responsibilities, Joint Ventures and Franchises.

2.1.2.1. Organizational forms of SMEs by their ownership

The basic forms of business ownership are:

- Sole proprietorship-individual business
- General Partnership
- Limited Partnership
- Corporations
- Cooperatives

[3] http://www.yourarticlelibrary.com/organization/9-factors-governing-the-selection-of-a-suitable-form-of-ownership-business-organization/5198

2.1.2.1.1. Sole proprietorship-individual business

A sole proprietorship is a form of business organization in which an individual introduces his own capital, uses his own skill and intelligence in the management of its affairs and is entitled to receive all the profits and assumes all the risks of ownership (Maheshwari, 2004).

A sole proprietorship is the most basic, and in many ways the simplest, type of business organization. A sole proprietorship is a business run by a single individual. This individual is often both the owner and the only employee. Although we will see that a sole proprietorship faces many types of legal liabilities that other types of business organizational models do not encounter, there are some distinct advantages to a sole proprietorship. One of these advantages is freedom. A sole proprietorship is free of any other influence in deciding how to run his or her business. A sole proprietor does not answer to shareholders or to other partners. A single person makes all of the business decisions. If the owner wishes to change of course of the business, he or she can do so immediately, without referring to anyone else (Bevans, 2007).

Like other organizational forms of business sole proprietorship has its advantages and disadvantages too. The advantages of sole proprietorships are (Bevans, 2007):

- **It is the easiest form of business organization to create.** Unlike the case with other business models, there is little or no organization that must go into creating a sole proprietorship. The business owner may be required to obtain a business licence, but very little else in the way of public documents is required to open a sole proprietorship. In fact, many business owners find themselves in a business almost by default. What begins as an interest transforms into a hobby that then becomes a business.
- **The owner has complete over the business.** Sole proprietors enjoy one particular advantage that is not seen in any other business model: they have complete control over the way that the business is run. Sole proprietors can decide when to open for the day, when to close, and how to run their daily activities, all without interference or control from others. However, this advantage comes at a price. Because the sole proprietor is, in effect, the business, when he or she is unavailable, no commerce can be conducted. The sole proprietor must be present in order to carry out activities, and this can exhaust a single individual over time. Saying that a sole proprietor has complete control also oversimplifies some of the realities of running a business. When the sole proprietor owes money to creditors, they may have substantial influence over the course of the business.

They may, for instance, refuse, to extend credit to a sole proprietor. Creditors even have the option of forcing a sole proprietor into bankruptcy. Any of these actions can have a profound impact on the continued existence of the sole proprietor's business.

- **All profits go directly to the owner.** Sole proprietors also have the advantage of being able to take all profits from the business. They are not required to share the profits with others, such as partners or shareholders. Instead, they may use the profits to reimburse their personal funds and even use business profits to pay personal debts. Because there is no legal separation between a sole proprietor and the business, there is no impediment to using profits for personal reasons. Of course, a sole proprietor cannot attempt to shield profits or disguise the source of funds in order to defraud taxing agencies.
- **Tax advantages.** Sole proprietorships also carry with them certain tax advantages. Because the sole proprietor and the business are interchangeable, a sole proprietor's business losses can be passed through to his or her personal income tax return as losses. These business losses can offset gains for the year and lower the sole proprietor's overall tax burden.

Along with the advantages of doing business as a sole proprietor, there are several disadvantages. Operating as a sole proprietorship can significantly restrict the growth of the business. It is not uncommon for sole proprietors to eventually incorporate to achieve their business's full growth potential. The disadvantages of sole proprietorships are (Schneeman, 2013):

- **Unlimited liability.** One of the most significant disadvantages of doing business as a sole proprietor is the unlimited liability faced by the owner of the business. The owner is solely responsible for all debts and obligations of the business, as well as any torts committed personally by the sole proprietor or by employees acting within the scope of their employment, without any protection of the sole proprietor's personal assets. Creditors may look to both the business and personal assets of the sole proprietor to satisfy their claims. Insurance can help to prevent a personal catastrophe to the sole proprietor. Sole proprietors may purchase general and product liability insurance, as well as business interruption insurance and malpractice insurance. However, insurance is not available to cover every potential type of liability. Individuals who operate businesses that have a high, uninsurable liability risk will almost do best to incorporate or form a limited liability company.

- **Lack of business continuity.** Because the sole proprietorship is in many ways merely an extension of the individual, when the individual owner dies or ceases to do business, the business itself usually terminates. Although the sole proprietor may have employed several employees or agents, the agency relationship terminates upon the death of the sole proprietor. In the most states, the personal representative of a deceased sole proprietors's estate may oversee the continuance of the business until the estate has been settled and the business is passed to the heirs. However, if the business depended on the sole proprietor for its management and direction, it may be difficult to maintain the business. The decision as to whether to continue the business may be left to an heir who has little or no interest in it. If all of the assets of the business are transferred to another individual and the business is kept intact, another sole proprietorship is formed.
- **No diversity in management.** Although it may be very appealing to an entrepreneur to be able to make all the business decisions, there are many instances in which diversity in management can be advantageous.
- **Limited ability to attract highly qualified employees.** Sole proprietors often find they are limited in their ability to attract and hire high caliber employees. Employees with significant experience, knowledge, and talent may demand a partnership or an ownership interest in the business for which they choose to work.
- **Difficulty in transferring proprietary interest.** When it comes time to sell the business, transferring the full interest of a sole proprietorship may be difficult. Because the business is linked closely with the identity of the owner, the business may be worth much less when broken down by tangible assets. The sole proprietor may be the key to the success of the business. If no buyer is available for the business, the sole proprietor may have to take loss by selling off the individual asstes of the business. It can be expensive to sell the business of a sole proprietorship. Unlike the shareholder of a publicly traded corporation who can sell shares of stock on an exchange for a small broker's fee, selling a sole proprietorship can be difficult, time-consuming, and expensive ordeal. Many sales require extensive appraisals of the assets of the business, including the goodwill and name of the business.
- **Limited ability to raise capital.** A wealthy entrepreneur starting a second or third business may not have a problem with lack of capital to start a sole proprietorship.

However, for most individuals a barrier is created by the limitations of their own financial wealth. The funds they are able to borrow based on their personal assets and their business plan may not be sufficient to fund the type of business they desire to run.

2.1.2.1.2. General Partnership

Under modern commercial law, the aggregate theory of partnership has eroded in recognition of the commercial reality of the partnership enterprise. Most partnerships operate as business entities, the activities of which are separate from the activities of the individual partners (Moye, 2009).

A general partnership is a voluntary association of two or more persons who agree to carry on business together for profit. The agreement may be either written or oral, although a written agreement is strongly recommended because it provides certainty in the event of a dispute among partners. General partnerships are easy and inexpensive to form, and there is little state regulation. The partners share decision-making and equally manage business. In return for their ability to jointly manage the business enterprise and the flexibility in operating the business, partners suffer the disadvantage of unlimited personal liability, meaning that their personal assets can be reached by creditors. Partnerships operate with great flexibility, and the partners are generally free to agree to manage the business in almost any way they desire, so long as they do not engage in unlawful acts (Bouchoux, 2010).

The partnership agreement is the most important element of the partnership, since it governs all rights and responsibilities between the partners with respect to the business affairs of the firm (Moye, 2009).

Doing business as a partnership offers some unique advantages that are (Schneeman, 2013):

- **Participation and flexibility in management.** Unless one or more partners waive their rights, every partner has equal power and authority to manage the partnership affairs. Partners of smaller partnerships may find this appealing if they have varied backgrounds and areas of expertise and all wish to actively participate. All partners are allowed to act freely on behalf of the partnership, with few restrictions. Larger partnerships, on the other hand, are allowed the flexibility of putting the management of the partnership into the hands of the best individual or group of individuals for the job.

- **Minimal formalities and regulatory and reporting requirements.** Although partnerships are governed by statute, the required statutory formalities are few. A concise written partnership agreement is a good investment in almost any circumstance. However, it is not required, and a partnership may be formed by a verbal agreement between two or more people and can be implied by behavior. Any business carried on by a partnership that requires licensing must be licensed by the partnership or by the individual partners. Typically, no special licensing requirements are imposed on a partnership because it is a partnership, rather, the licensing requirements are imposed because of the nature of the business transacted by the partnership.
- **Low cost of organization.** There are no minimum capital requirements for starting a partnership, and the startup costs, including any required state filling fees, tend to be lower than those for corporations.
- **Income tax benefits.** The partners of a general partnership are taxed in much the same way as sole proprietors. The net income or loss of the partnership is passed through to the partners, according to the partnership agreement statute. A partnership, is not a taxable as a separate entity, so that only a single tax is paid by the partners on income derived from the partnership. Also, because the income of the partnership flows through to the individual partners, if the partnership experiences a net loss, each partner's share of that loss may be written off on the partner's individual income tax return, offsetting any other income.
- **Diversified capital resources.** Although partnerships are generally restricted to the personal capital of the partners and the capital that they are able to borrow based on their personal wealth, the partnership does have an advantage over a sole proprietorship in that there is a broader base from which to obtain capital. Simply put, more than one person is contributing to the business, therefore, more is potentially available.

Some of the same partnership characteristics that present advantages to the partners in certain circumstances can be considered disadvatages under other circumstances. So, the disadvantages of general partnership are (Bouchoux, 2010):

- **Unlimited personal liability.** The primary disadvantage of doing business in a general partnership is that each partner has unlimited personal liability for debts and obligations of the partnership. Additionally, because partners, as agents of each other and of the partnership, have the authority to act for and bind each other, one partner may find herself facing unlimited personal liability for an obligation she did not know was incurred by another partner. Thus, personal assets are vulnerable to seizure by partnership creditors, assuming no statutory exemptions exist protecting certain assets. As in sole proprietorships, partners can attempt to protect themselves against this unlimited personal liability by obtaining insurance or by attempting to secure agreements from third parties so they will not look to a partner's personal assets to satisfy debts.

- **Lack of continuity.** Like a sole proprietorship, a general partnership cannot survive the death or withdrawal of a partner (unless the partners have specified otherwise in their partnership agreement). This lack of continuity is an unattractive feature of a general partnership and provides less stability than does a corporation, which can endure perpetually. If the remaining partners continue doing business together, they have formed a new partnership different from the original partnership in as much as its membership is different.
- **Difficulty in transferring partnership interest.** If a shareholder no longer wishes to own stock in a corporation, the stock can usualy be sold freely. A partner, however, may have more difficulty in leaving the partnership or transferring his interest in the partnership or to another. As discussed earlier, the only trensferable property right a partner has is his share of profits and losses. Because a partnership is a voluntary arrangement, one partner cannot simply sell his partnership interest to another; the other partners have not agreed to do business with the newcomer. Admission of a new partner requires consent from the other partners; when the new partner enters the business, a new partnership is formed. Withdrawing from a partnership may also be a breach of the partnership agreement. If all partners have signed an agreement stating that the term of the partnership is five years, and one partner withdraws early, she may be liable to the other partners for resulting damages. For example, if the wealthiest partner withdraws, banks may be unwilling to lend money to the partnership inasmuch as there is no longer a wealthy individual to guarantee repayment. Often, partnership agreements make it difficult for partners to withdraw early by providing a term for the existence of the partnership; partners may withdraw earlier than the set term but may be unable to withdraw their contributions to the partnership. Partners are thus faced with the unhappy

choice of leaving the partnership, leaving their money behind, and then being unable to contorl the management of their money because they will no longer be a partner with any right to manage the business. Provisions setting forth a specified term for the partnership or prohibiting a return of contributions to partners who withdraw early are useful for discouraging withdrawal.

2.1.2.1.3. Limited Partnership

A limited partnership includes not only the general partners but also one or more partners not bound by the obligations of the partnership. A general partner usually forms a limited partnership to secure additional capital or to spread risk without forming a corporation. The general partners are still personally liable for all partnership debts, but each limited partner's liability is based on his or her capital contribution to the partnership. All management functions are delegated to the general partner for the day-to-day operations of the business. The limited partners may not exercise any significant management control or-by law-they may jeopardize their limited-liability status (Sherman, 2003).

Doing business as a limited partnership also offers some unique advantages that are (Schneeman, 2013):

- **Income tax benefits.** A limited partnership is usually not taxed as a separate tax entity for federal income tax purposes. Therefore, limited partnerships can offer attractive tax advantages to both general and limited partners. The ability of the limited partnership to pass tax profits and losses directly to the limited partners, without the limited partners risking anything more than their investment, can be a significant advantage over the corporate and general partnership tax structures.
- **Transferability of partnership interest.** Although a partner's interest in a limited partnership is not as easily transferred as a corporate interest, the limited partner's interest is generally assignable with fewer restrictions than those imposed on the partners of a general partnership. The assignment of a limited partner's interest in a limited partnership does not cause a dissolution of the limited partnership. In some situations, the entire interest of the limited partner may be assigned, with the assignee becoming a substitute limited partner. An assignment that has the effect of admitting new limited partners to the limited partnership must be permissible under the limited partnership agreement, or it

must be approved by the unanimous consent of all partners. General partners also have certain rights to assign their interests in the limited partnership. A general partner may have all of the same rights of assign ability as a limited partner, if permitted in the limited partnership agreement. In any event, the limited partnership offers much more flexibility with regard to the transfer of partnership interests than the general partnership.

- **Business continuity.** The limited partnership does not enjoy the continuity of business to the same extent as a corporation, but it is not always necessary for a limited partnership to dissolve upon the death, retirement, or withdrawal of a partner. The limited partnership will not necessarily dissolve upon the death or withdrawal of a general partner if at the time (1) there is at least one other general partner, (2) the written provisions of the partnership agreement permit the business of the limited partnership to be carried on by the remaining general partner, and (3) that partner does so. In any event, the limited partnership need not to be dissolved and is not required to be wound up by reason of any event of withdrawal if, "within 90 days after the withdrawal, all partners agree in writing to continue the business of the limited partnership and to the appointment of one or more additional general partners if necessary or desired."
- **Diversified capital resources.** In addition to the capital resources that are typically available to the general partnership, the limited partnership has the ability to raise cash by attracting passive investors. The limited partnership may raise additional capital when required by adding new limited partners.

Although there are several advantages to doing business as a limited partnership, this type of entity also has some serious disadvantages (Schneeman, 2013):

- **Unlimited liability.** Because limited partners put at risk only their investment in the limited partnership, a limited partnership cannot exist without at least one general partner who has unlimited liability for the debts and obligations of the limited partnership. However, because a personal liability of the general partners cannot be totally eliminated, it is a serious drawback to doing business as a limited partnership.
- **Prohibition on control of business.** Although every partner is entitled to an equal share of the management of a general partnership, in states that follow RULPA (Revised Uniform Limited Partnership Act), limited partners must relinquish all controll over partnership matters in order to maintain their status and enjoy limited liability. Limited

partners must place their full trust in the general partners for the successful management and control of the business.

- **Formalities and regulatory and reporting requirements.** The limited partnership is a creature of statute and, as such, must be "created" by documentation filed with the proper state authority. A limited partnership certificate mudt be executed and fiiled before the limited partnership's existence begins. Therefore, more formalities are associated with the creation of a limited partnership than with a sole proprietorship or a general partnership. Limited partnerships are also subject to many of the same reporting requirements as corporations. In addition, limited partnerships are required to file annual tax returns to report any income or loss, and they are required to distribute annual schedules to each partner to report their distributive share of the limited partnership's income or loss.
- **Legal and organizational expenses.** Compared with the sole proprietorship or general partnership, the legal and organizational expenses of a limited partnership can be quite substantial. In addition the capital required for the ordinary expenses incurred in operating the limited partnership business, the founders of a limited partnership agreement and certificate, filing fees for the certificate of limited partnership, and possibly fo filing a certificate of assumed name.

2.1.2.1.4. Corporations

According to Supreme Court Justice John Marshall (1819), a corporation is "an artificial being, invisible, intangible, and existing only in contemplation of the law" (Kuratko, Entrepreneurship: Theory, Process and Practice, 2014, p. 291).

In other words, a corporation (sometimes referred to as a regular or C-corporation) is an artificial person created by law, with most of the legal rights of a **real** person. These include the rights to start and operate a business, to buy or sell property, to borrow money, to sue or be sued, and to enter into binding contracts. Unlike a real person, however , a corporation exists only on paper (Pride, Hughes, & Kapoor, Business, 2010, pp. 116-118).

The shares of ownership of a corporation are called stock. The people who own a corporation's stock-and thus own a part of the corporation-are called stockholders or sometimes shareholders. Once a corporation has been formed, it may sell its stock to individuals or other companies that want to invest in the corporation. It also may issue a stock as a reward to key employees in return for certain services or as a return to investors (in place of cash payments) (Pride, Hughes, & Kapoor, Business, 2010, pp. 116-118).

A business is allowed to incorporate in any state that it chooses. The decision on where to incorporate usually is based on two factors: (1) the cost of incorporating in one state compared with the cost in another state and (2) the advantages and disadvantages of each state's corporate laws and tax structure. Most small and medium-sized businesses are incorporated in the state where they do the most business. The founders of larger corporations or of those that will do business nationwide often compare the benefits that various states provide to corporations. Some states are more hospitable than others, and some offer fewer restrictions, lower taxes, and other benefits to attract new firms (Pride, Hughes, & Kapoor, Business, 2010).

There are two basic types of stock. Owners of common stock may vote on corporate matters. Generally, an owner of common stock has one vote for each share owned. However, any claims of common-stock owners on profits and assets of the corporation are subordinate to the claims of others. The owners of preferred stock usually have no voting rights, but their claims on dividends are paid before those of common-stock owners. While large corporations may issue both common and preferred stock, generally small corporations issue only common stock. A dividend is a distribution of earnings to the stockholders of a corporation. Other rights include receiving information about the corporation, voting on changes of the corporate charter, and attending the corporation's annual stockholders' meeting, where they may exercise their right to vote (Pride, Hughes, & Kapoor, Business, 2010, pp. 116-118).

The last step in forming a corporation, is the meeting where the incorporators and original stockholders adopt corporate by-laws and elect their first board of directors which is the top governing body of a corporation. The board members are directly responsible to the stockholders for the way they operate the firm (Pride, Hughes, & Kapoor, Business, 2010, pp. 116-118).

Corporations as an organizational form of businesses has some advantages that are (Pride, Hughes, & Kapoor, Foundations of Business, 2015, pp. 113-114):

- **Limited liability.** One of the most attractive features of corporate ownership is limited liability. With few exceptions, each owner's financial liability is limited to the amount of money he or she has paid for the corporation's stock. This feature arises from the fact that the corporations is itself a legal person, separate from its owners. If a corporation fails or is involved in a lawsuit and loses, creditors have a claim only on the corporation's assets. Because it overcomes the problem of unlimited liability connected with sole proprietorships and general partnerships, limited liability is one of the chief reasons why entrepreneurs often choose the corporate form of organization.

- **Ease of raising capital.** The corporation is one of the most effective forms of business ownership for raising capital. Like sole proprietorships and partnerships, corporations can borrow from lending institutions. However, they also can raise additional sums of money by selling stock. Individuals are more willing to in invest in corporations than in other forms of business because of limited liability, and they can generally sell their stock easily-hopefully for a profit.
- **Ease of transfer of ownership.** Accessing a brokerage firm website or a telephone call to a stockbroker is all that is required to put most stock up for sale. Willing buyers are available for most stocks at the market price. Ownership is transferred when the sale is made, and practically no restrictions apply to the sale and purchase of stock issued by an open corporation.
- **Perpetual life.** Since it is essentially a legal "person", a corporation exists independently of its owners and survives them. The withdrawal, death, or incompetence of a key executive or owner does not cause the corporation to be terminated.
- **Specialized management.** Typically, corporations are able to recruit more skilled, knowledgeable, and talented managers than proprietorships and partnerships. This is so because they pay bigger salaries, offer excellent employee benefits, and are large enough to offer considerable opportunity for advancement.

Corporations also have disadvantages. Some of these are as follows (Pride, Hughes, & Kapoor, Foundations of Business, 2015, pp. 114-116):

- **Difficulty and expense of formation.** Forming a corporation can be a relatively complex and costly process. The use of an attorney is usually necessary to complete the legal forms that are submitted to the secretary of state. Application fees, attorney's fees, registrations costs associated with selling stock, and other organizational costs can amount to thousands of dollars for even a medium-sized corporation. The costs of incorporating, in terms of both time and money, discourage many owners of smaller businesses from forming corporations.

- **Government regulation and increased paperwork.** A corporation must meet various government standards before it can sell its stock to the public. Then it must file many reports on its business operations and finances with local, state, and federal governments. In addition, the corporation must make periodic reports to its stockholders. To prepare all the necessary reports, even small corporations often need the help of an attorney, certified public accountant, and other professionals on a regular basis. In addition, a corporation's activities are restricted by law to those spelled out in its charter.
- **Conflict within the corporation.** Because a large corporation may employ thousands of employees, some conflict is inevitable. For example, the pressure to increase sales revenue, reduce expenses, and increase profits often leads to increased stress and tension for both managers and employees. This is especially true when a corporation operates in a competitive industry, attempts to develop and market new products, or must downsize the workforce to reduce employee salary expense during an economic crisis.
- **Double taxation.** Corporations must pay a tax on their profits. In addition, stock-holders must pay a personal income tax on profits received as dividends. Corporate profits thus are taxed twice-once as corporate income and a second time as the personal income of stockholders.
- **Lack of secrecy.** Because open corporations are required to submit detailed reports to government agencies and to stockholders, they cannot keep all of their operations confidential. Competitors can study these corporate reports and then use the information to compete more effectively. In effect, every public corporation has to share some of its secrets with its competitors.

2.1.2.1.5. Cooperatives

A cooperative is an association that is organized to provide an economic service to its members (or shareholders); it may or may not be incorporated. Most cooperatives are organized under state statutes for cooperatives, general business corporations, or LLCs. Generally, an incorporated cooperative will distribute dividends, or profits, to its owners on the basis of their transactions with the cooperative rather than on the basis of the amount of capital they contributed. Members of incorporated cooperatives have limited liability, as do shareholders of corporations or members of LLCs. Cooperatives that are unincorporated are often treated like partnerships. The members have joint liability for the cooperative's acts (Roy & Jentz, 2008, p. 593).

Cooperatives are a special type of business where groups of people come together for the purpose of running a business (Co, et al., 2006, p. 108).

A cooperative is a group of people who come together and voluntarily cooperate for their mutual, social, economic, and cultural benefit. It is operated for the benefit of those using the cooperative’s services. In a cooperative, every customer is a member and every member is a part owner. Cooperatives share internationally agreed principles and act together to build a better world through co-operation. The cooperative aims to meet the common needs and aspirations of its members, by sharing ownership and making decisions democratically. The cooperative is owned and operated by the group of members who all share equal responsibility, duties and profit. All the decisions are taken democratically, by one vote per member.[4]

There are many different types of cooperative but two main types can be distinguished:

1. **Retail cooperatives**. The first retail cooperative society was formed in 1844 when a group of workers who were dissatisfied with low pay and high food prices joined together to buy food from wholesalers and take advantage of bulk discounts (Moynihan & Titley, 2001, p. 47). The principles of modern retail cooperatives are much the same (Moynihan & Titley, 2001, p. 47):
   - The cooperative is owned by its members
   - Any person can become a member by buying a share for as little as 1€
   - Members elect a board of directors to run the cooperative
   - Each member is allowed one vote regardless of the number of shares they hold
   - Profits are shared between members and customers.
2. **Workers cooperatives.** These are established to provide a service to their members and to provide employment to the community. The decisions in the organization are made democratically by its members-workers reach agreement on conditions of employment, wages, and business decisions, among other things. Worker cooperatives are often popular as a legal form for rural projects and job creation projects where the people starting them try to get ownership and profit sharing for all people participating in the project (Co, et al., 2006, p. 108).

[4] http://www.differencebetween.info/difference-between-cooperatives-and-corporations

- The advantages of worker cooperatives are the following (Co, et al., 2006, p. 109):
    - By using a community's human resources and bringing an income to the community, worker cooperatives can develop strong, self-sufficient communities.
    - The success of worker cooperatives depends on the willingness of the community members to provide their labor in return for ownership and profit sharing.
- The disadvantages of worker cooperatives are the following (Co, et al., 2006, p. 109):
    - Worker cooperatives often don't have the skills needed to grow. They often don't have the management skills needed to run a business for profit. Because worker cooperatives often lack proper business planning, they often don't last very long.
    - They often don't enough finance and are unable to get help from professional support structures.

A corporation and a cooperative are both entities formed with the intention of doing business. However, they have very different structures. First and foremost, a cooperative is a non-profit, as in it doesn't keep any of the profits for itself. It distributes all of the profit among its members. It might not even make any profit at all, and instead just provide benefits and services to its members.[5]

2.1.2.2. Organizational forms of SMEs by their legal liability

Small and medium enterprises and other businesses should present with responsibility in their commercial relationships. This, in fact shows how they will fulfill their legal and contracted obligations with business partners. As a result of this we can identify three organizational forms of SMEs, as follows:

- Unlimited Liability Companies
- Limited Liability Companies

[5] http://www.differencebetween.info/difference-between-cooperatives-and-corporations

2.1.2.2.1. Unlimited Liability Companies

An unlimited company has the advantage of being a legal entity separate from its members, but lacks the advantage that most people seek from incorporation, that is the limited liability of the members. Thus, the members of an unlimited liability company will be held responsible for all of the debts of the company without limit. Unlimited companies therefore form only a small proportion of the number of registered companies (Dine & Koutsias, 2009, p. 9).

Unlimited liability means that the owners of such companies face no limit to their contribution when the organization should become indebted. Most of their personal assets can be used to settle debts. This includes not only the value of anything saleable from the business, but also housing, cars, furniture and stereos. Because of the discipline that unlimited liability brings, there are often very few formalities required to start trading as this form of business (Tribe, 2011, p. 34).

Unlimited liability companies must be incorporated with a share capital. This means that on winding up of the company, each member will, first, be liable to pay to the company any unpaid amounts of their shares. If this is insufficient to meet the liabilities of the company, then members will be asked to make further contributions to discharge the company's debts (Tomasic, Bottomley, & McQueen, 2002, p. 175).

2.1.2.2.2. Limited Liability Companies

A limited liability company (LLC) is a hybrid that combines the limited liability aspects of a corporation and the tax advantages of a partnership. These business forms are governed by state LLC statutes. These laws vary, of course, from state to state (Miller & Jentz, 2012, p. 719).
The LLC is the newest form of business entity. It has enjoyed a meteoric rise in popularity among both entrepreneurs and lawyers-and for good reason. It's often a very attractive alternative to the traditional ways of doing business (Steingold, 2017, p. 22).
The limited liability company (LLC), offers its owners limited personal liability for the debts of the business, providing a significant advantage over sole proprietorships and partnerships (Scarborough & Cornwall, 2016, p. 247).

A major advantage of the LLC is that it does not pay taxes on an entity; rather, profits are "passed through" the LLC and paid personally by company members. Another advantage is that the liability of members is limited to the amount of their investments. In an LLC, members are allowed to participate fully in management activities, and-under at least one state's statute-the firm's managers need not even be LLC members. Yet another advantage is that corporations and partnerships, as well as foreign investors, can be LLC members. Also, no limit exists on the number of LLC shareholder members (Kuratko, Entrepreneurship: Theory, Process and Practice, 2014, p. 297).

The disadvantages of the LLC are relatively few. Perhaps the greatest disadvantage is that LLC statutes differ from state to state, and thus any firm engaged in multistate operations may face difficulties. In an attempt to promote some uniformity among the states in respect to LLC statutes, the National Conference of Commissioners on Uniform State Laws adopted the Revised Uniform Limited Liability Company Act in 2006. However, as of 2011 only nine states had adopted it. Until all of the states have adopted the uniform law, an LLC in one state will have to check the rules in the other states in which the firm does business to ensure that it retains its limited liability (Kuratko, Entrepreneurship: Theory, Process and Practice, 2014, p. 297).

2.1.2.3. Joint Ventures

A joint venture is an agreement between two or more groups to form a business entity in order to achieve a specific goal or to operate for a specific period of tim (Pride, Hughes, & Kapoor, Business, 2010, p. 124)e.

A joint venture is a separate corporate entity in which two or more companies have an ownership stake. One of the most famous long-term joint ventures is the Fuji-Xerox joint venture to produce photocopiers for the Japanese market. The most typical form of joint venture is a fifty-fifty venture, in which each party takes a 50% ownership stake and operating control is shared by a team of managers from both parent companies. Some companies have sought joint ventures in which they have a majority shareholding (for example, a 51 to 49% ownership split), which permits tighter control by the dominant partner (Hill & Jones, 2009, p. 155).

Joint ventures, both domestic and foreign, lower the risk of entering global markets for small businesses. The businesses share the responsibility and the costs of getting export licenses and permits, and they split the venture's profits. Establishing a joint venture with the right partner has become an essential part of maintaining a competitive position in global markets for a growing number of industries (Scarborough & Cornwall, 2016, p. 596).

There are several analyses of the different descriptions and definitions of joint ventures. Given below is a summary of characteristics that most researchers find common in all joint ventures (Campbell & Netzer, 2008, p. 23):

- The first characteristic is the different nationality of the partners; there may be two or more partners.
- Joint ventures have a separate legal identity, which may have the legal status of a joint stock company, a limited liability company, or other legal forms. However, joint stock companies and limited liability companies are the two legal forms that are the most common in business practice.
- Joint ventures are subject to the law of the country in which they are established (i.e., joint ventures have the status of a national company with respect to the host country).
- Joint ventures are jointly managed by the partners, usually in proportion to their participating interest, unless otherwise stipulated in the joint venture contract.
- Joint venture partners share the profits and losses in proportion to their participating interest, unless otherwise stipulated in the joint venture contract.
- Finally, joint ventures provide the opportunity to partly or completely concentrate the production process (or processes) or any other type of business activity within the company.

Summarized, the advantages of joint ventures are (Campbell & Netzer, 2008, p. 26):

- Rapid short-term sales growth on foreign markets, coupled with high economic results;
- Prompt transfer of technologies and know-how;
- The generation of adequate funds for bigger investments;
- Higher profitability as a result of the implementation of better technologies and know-how; and
- Lower risk.

Along with the advantages, a joint venture project also has its limitations. Among the most common pitfalls are (Campbell & Netzer, 2008, p. 26):

- Investment risk, although the initial investment in a joint venture need not necessarily be high;
- Delayed return on investments, given that in the first years of its existence the joint venture may incur losses rather than generate revenues;
- The management process may be fraught with difficulties and conflicts (which happens more often than not); and
- The possibility that joint ventures may have been overestimated as a form of international activity.

2.1.2.4. Franchising

A franchise is a license to operate an individually owned business as if it were part of a chain of outlets or stores. Often, the business itself is also called a franchise. Franchising is the actual granting of a franchise. A franchisor is an individual or organization granting a franchise. A franchisee is a person or organization purchasing a franchise. The franchisor supplies a known and advertised business name, management skills, the required training and materials, and a method of doing business. The franchisee supplies labor and capital, operates the franchised business, and agrees to abide by the provisions of the franchise agreement (Pride, Hughes, & Kapoor, Business, 2010, pp. 151-152).

Franchising is basically a specialized form of licensing in which the franchiser not only sells to the franchisee intangible property (normally a trademark), but also insists that the franchisee agree to abide by strict rules as to how it does business. The franchiser will also often assist the franchisee in running business on an ongoing basis (Hill & Jones, 2009, p. 154).

The advantages of franchising are similar to those of licensing. Specifically, the franchiser does not have to bear the development costs and risks of opening up a foreign market on its own, for the franchisee typically assumes those costs and risks. Thus, using a franchising strategy, a service company can build up a global presence quickly and at a low cost (Hill & Jones, 2009, p. 154).

The disadvantages are less pronounced than in the case of licensing. A more significant disadvantage of franchising is the lack of quality control. The foundation of franchising arrangements is the notion that the company's brand name conveys a message to consumers about the quality of the company's product (Hill & Jones, 2009, p. 154).

Franchising arrangements fall into three general categories. In the first approach, a manufacturer authorizes a number of retail stores to sell a certain brand-name item. In the second type of franchising arrangement, a producer licenses distributors to sell a given product to retailers. In a third form of franchising, a franchisor supplies brand names, techniques, or other services instead of a complete product. Although the franchisor may provide certain production and distribution services, its primary role is the careful development and control of marketing strategies (Pride, Hughes, & Kapoor, Business, 2010, p. 157).

2.1.3. SMEs role and importance in the economic development of a country

There is no longer doubt that the performance of Small and Medium Enterprises (SMEs) is very important for both the economic and the social development of most developing (or less developed) countries (Levy, Berry, & Nugent, 1999). From an economic perspective, SME-s provide a number of benefits (Fisher & Reuber, 2000):

- SME-s, due to their size, can often readily adapt to changing demand patterns, trade patterns and macroeconomic conditions. This increases industrial flexibility.
- SME-s have a reasonable propensity to acquire technological capabilities and develop new products and processes and can thus contribute to national technological development and competitiveness.
- SME-s can be an important vehicle for generating income and employment and so contribute to gross domestic product, economic growth and reductions in unemployment.
- SME-s provide a setting in which assets and skills can be accumulated. This can lead to better economic opportunities for the individuals who acquire the skills, and for the households they help to support.
- SME-s can decrease wage inequality. They do so largely by increasing economic participation among those in the lower half of the income distribution.

The social benefits of SME-s are closely linked to economic benefits (Fisher & Reuber, 2000):

- SME-s can contribute to the development of particular regions, especially when group of similar businesses can create collective efficiencies.

- SME-s can help to bring a social change. The experience of owning and operating a firm can help develop individual feelings of responsibility for and ability to participate in governance.
- SME-s can help to institutionalize democracy and increase social stability. They do so through the creation of structures that reflect people's needs and objectives.

SME-s and entrepreneurship are now recognized world-wide to be a key source of dynamism, innovation and flexibility in every country. They are responsible for most net job creation in OECD countries and make important contributes to innovation, productivity and economic growth. SME-s constitute the dominant form of business organization in all countries world-wide, accounting for over 95% and up to 99% of the business population depending on the country (OECD, SME and Entrepreneurship Outlook, 2005, p. 15).

From the above literature we can see that the role of the SMEs in the economic and social development of each country is very important, moreover, some of the main contributions we can explain as follows (Pride, Hughes, & Kapoor, Business, 2010, pp. 143-144):

- *Providing technical innovation.* Invention and innovation are part of the foundations of our economy. The increases in productivity that have characterized the past 200 years of our history are all rooted in one principal source: new ways to do a job with less effort for less money. Studies show that the incidence of innovation among small-business workers is significantly higher than among workers in large businesses. Small firms produce two and a half times as many innovations as large firms relative to the number of persons employed. In fact, small firms employ 40% of all high-tech workers such as scientists, engineers, and computer specialists. No wonder small firms produce thirteen to fourteen times more patents per employee than large patenting firms. According to the U.S. Office of Management and Budget, more than half of the major technological advances of the twentieth century originated with individual inventors and small companies. Even just a sampling of those innovations is remarkable: air conditioning, airplane, automatic transmission, FM radio, heart valve, helicopter, instant camera, insulin, jet engine, penicillin, personal computer, power steering, etc.
- *Providing employment.* Small firms traditionally have added more than their proportional share of new jobs to the economy. Seven out of the ten industries that added the most new jobs were small-business-dominated industries. Small businesses creating the most

new jobs recently included business services, leisure and hospitality services, and special trade contractors. Small firms hire a larger proportion of employees who are younger workers, older workers, women, or workers who prefer to work part time. Furthermore, small businesses provide 67% of workers with their first jobs and initial on-the-job training in basic skills. Small businesses thus contribute significantly to solving unemployment problems.

- *Providing competition.* Small businesses challenge larger, established firms in many ways, causing them to become more efficient and more responsive to consumer needs. A small business cannot, of course, compete with a large firm in all respects. But a number of small firms, each competing in its own particular area and its own particular way, together have the desired competitive effect.
- *Filling needs of society and other businesses.* Small firms also provide a variety of goods and services to each other and to much larger firms. Large firms generally buy parts and assemblies from smaller firms for one very good reason: it is less expensive than manufacturing the parts in their own factories. This lower cost eventually is reflected in the price that consumers pay for their products.

Being aware about the high importance of the development of small enterprises the EU leaders at the Feira European Council on 19-20 June 2000 approved the European Charter for Small Enterprises. The Charter calls upon Member States and the Commission to take action to support and encourage small enterprises in ten key areas[6]:

- Education and training for entrepreneurship;
- Cheaper and faster start-up;
- Better legislation and regulation;
- Availability of skills;
- Improving online access;
- Getting more out of the Single Market;
- Taxation and financial matters;
- Strengthening the technological capacity of small enterprises;

[6] https://ec.europa.eu/growth/content/european-charter-small-enterprises-0_en

- Making use of successful e-business models and developing top-class small business support;
- Developing stronger, more effective representation of small enterprises' interests at Union and national level.

The Charter demonstrates the Union's commitment to equipping small enterprises - the Union's most promising source of new jobs, innovation, economic dynamism and greater social inclusion - to take full advantage of the digital economy[7].

Stronger participation by SMEs in global markets can help to strengthen their contributions to economic development and social well-being, by creating opportunities to scale up, accelerating innovation, facilitating spill-over's of technology and managerial know-how, broadening and deepening the skill-set, and enhancing productivity. In addition, greater flexibility and capacity to customize and differentiate products can give SMEs a competitive advantage in global markets relative to larger firms, as they are able to respond rapidly to changing market conditions and increasingly shorter product life cycles. Some niche international markets are dominated by SMEs, and innovative small enterprises are often key partners of larger multinationals in developing new products or serving new markets (OECD, Enhancing the Contributions of SMEs in a Global and Digitalised Economy, 2017, p. 11).

It is clear that small businesses are a vital part of our economy and that, as consumers and as members of the labor force, we all benefit enormously from their existence (Pride, Hughes, & Kapoor, Business, 2010, p. 144).

2.1.4. Businesses growth importance and different approaches to businesses growth

If you study the history of today's largest businesses, each of them started as a small business. There is no guarantee that growth will assure the success of a business. Large businesses run into financial difficulties that may lead to bankruptcy. Not every business needs to grow into a giant company with billions of dollars of sales and thousands of employees. But even small businesses look for new customers, higher sales, and greater profits. Businesses can finance growth through attracting additional investments, borrowing more money from creditors,

[7] https://ec.europa.eu/growth/content/european-charter-small-enterprises-0_en

or reinvesting profits. Each of those alternatives requires the business to be financially healthy (Dlabay & Burrow, 2008, p. 68).

Firms growth is a way to introduce innovation and is a leitmotiv of technological change. For example, if a firm wants to grow and survive in a competitive industry, it needs to incorporate new technologies in order to be more efficient. In this sense, growth is a challenge a firm must meet by introducing innovation (Carrizosa, pp. 24-25).

Despite the increasing importance of the growth of surviving cohorts of small firms to the economy the development of a theoretical understanding of the process of small firm growth is a matter of much contention. It is argued that it is very nature of the change from small to a large firm that makes the development of theory difficult. The internal organization of large and small firms is so fundamentally different that to develop a theory of firm growth that operates along size continuum is somewhat spurious (Barkham, Gudgin, Hart, & Hanvey, 2005, p. 7).

Much of the recent economic literature on the determinants of small firm growth and development has tended to focus on a combination of a life cycle effect (i.e. younger small firms grow faster than older small firms) and economic variables, especially financial variables, for an explanation of growth (see, for example, Acs and Audretsch 1990; Reid 1993) (Barkham, Gudgin, Hart, & Hanvey, 2005, p. 8).

We would argue for a broader conceptual framework which introduces these missing 'human elements'. As with Penrose (1995), we see firms as collections of individuals with abilities which influence the form and direction of growth (Barkham, Gudgin, Hart, & Hanvey, 2005, p. 8).

Behavior economists theory considers that firms can be oversized because of the division between the objectives of control and ownership structures. When the owner does not control the firm, the managers maximize their own satisfaction instead of the firm's value. Behaviorist economists (Baumol, 1959, 1962; Penrose, 1959; Chandler, 1962; Marris, 1964) explain that managers can enhance their own satisfaction through an increase in the size of the firm (Carrizosa, p. 47).

Much of the economic theory of the growth of small firms has been concerned with the relationship between growth and firm size. This literature is beginning to show a consistent negative relationship between firm size and firm growth, spanning several studies and many countries. As Hart (2000) observes, "most studies relating to periods since [1985] show that small firms grow more quickly than larger firms" (Bartlet, Bateman, & Vehovec, 2002, p. 19).

The stylised fact that small firms grow faster than large firms in advanced market economies has important implications for industrial policy in transition economies. It suggests that SME development should be a central plank of industrial policy in these economies, with the aim of expediting the reallocation of resources from the state sector to the private sector (Levitsky, 1996; Kolodko, 2000). As the large firm sector is being privatised and restructured, the small and medium sized sector will need to expand and grow to generate enough jobs to absorb those laid off as well as providing jobs for the new entrants to the labour market (Bartlet, Bateman, & Vehovec, 2002, p. 19).

2.1.5. Barriers to SMEs development

Recently it has been paid an increasing attention to the important role played by SMEs in innovation and economic growth.

Special emphasis has been given in particular to the important stimulus small firms provide to competition in markets that may otherwise be dominated by large, established companies; their role in the early development and exploitation of radical new technologies (Rothwell and Zegveld 1982); and the job-creating effects of small firms (Storey 1982). The significance of all these effects, however, depends to a great extent on the ability of small firms, once established, to develop (Barber, Metcalfe, & Porteous, 2016, p. 1).

While the economic benefits of business growth are known, it is also the case that few small firms grow (Kirchoff, 1994; Storey et al,. 1987) and the majority of new firms, stay small or fail (Loveman and Sengenberger, 1990); that is, 'most firms die young' (Cressy, 2006:113). This has influenced small business policy in the direction of targeting firms with growth potential (Freel, 1998). For this reason much research aims to identify and predict certain characteristics of growing firms - e.g. the education or experience of the owner-manager; firm size, age, or ownership; and, stage of organizational development (Doern, 2009).

A number of studies have established that a significant proportion of small firms have growth as an objective but are held back by constraints to growth (ACOST 1990; DTI 1991). These constraints may be either internal to the firm, such as a lack of management time, or external, such as shortages of finance and difficulties in recruiting personnel with the appropriate skills (Barkham, Gudgin, Hart, & Hanvey, 2005, p. 126).

Will Bartlett and Vladimir Bukvic argue that a range of political and institutional barriers exist which hinder SME development, and may delay or even prevent a smooth transition from taking place. They examine the hypothesis that, while SME growth is an essential component of the transition process, there are significant barriers to growth in six main fields: financial barriers; tax-related barriers; barriers arising from restrictive employment legislation; regulatory barriers; institutional barriers; and social barriers (Bartlet, Bateman, & Vehovec, 2002, p. 6).

Bartlett and Bukvic identify two views about the main barriers to growth. The first they call "finance" approach which maintains that the key barriers to SME growth are linked to financial constraints. These could in principle be overcome by the provision of subsidised or low-cost finance, by the creation of credit guarantee agencies, through micro-credit schemes, or through the establishment of venture capital funds (Bartlet, Bateman, & Vehovec, 2002, p. 6).
The second view, which they call the "institutional" approach, maintains that non-financial barriers are the key barrier to growth. The institutional approach stresses that no amount of low-cost credit or easy access to equity finance will overcome the barriers to SME growth if the institutions of the market economy are absent, or if there is unfair competition and low levels of trust and social capital, factors which significanlty raise the transaction costs of doing business (Bartlet, Bateman, & Vehovec, 2002, p. 6).

The literature on economic development and corporate finance consistently demonstrates that inadequacies in relation to finance are key barriers to firm growth. Schiffer and Weder (2001) show that SMEs find accessing financing more difficult than larger firms. They rank all the obstacles firms face in doing business and find that financing is a top problem for SMEs, which rate is higher than to the larger firms. This gives a first indication that small and medium-sized firms find it more difficult to receive financing than larger firms. One notch below financing are clusteres inflation, policy instability and taxes and regulation. Again, roughly one third of firms reported major problems in these areas. Interestingly, small and medium firms have more problems with taxes and regulations than large firms. This could be an indication that large firms can more easily avoid taxes: for example, by reporting profits in those locations where tax rates are lowest. The four top bstacles are followed by exchange rate, corruption and both crime variables, street crime and organized crime. Relatively less problematic are anticompetitive practices (21.9%), infrastructure (17%) and the judiciary (13.7%) (Schiffer & Weder, 2001, pp. 15-16).

Furthermore, the results from a study which uses the Enterprise Survey from the World Bank which covers data from 119 developing countries to investigate the biggest obstacles SMEs are confronting and the determinants that influence the obstacles as perceived by enterprise managers, show that SMEs perceive access to finance as the most significant obstacle which hinders their growth. The survey generated useful series of variables for investigating the perceived obstacles of the firm growth in developing countries. The answer of the respondents from 119 developing countries for the period of 2006-2014 is shown in Figure 1. As shown by the Figure, the five most severe problems were: Access to finance, Electricity, Political instability, Competition and Tax rate.

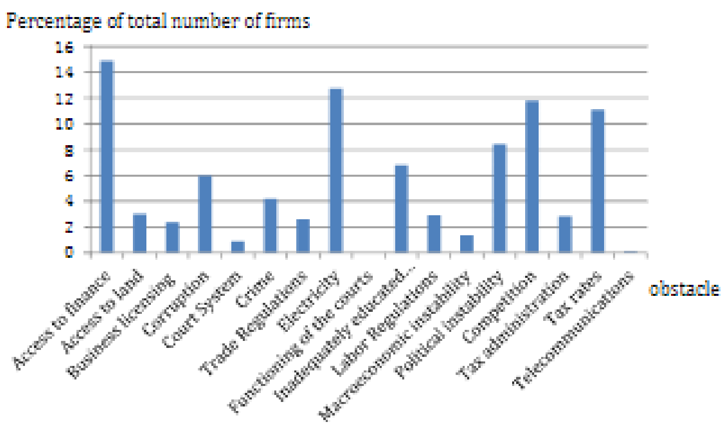


Figure 2. The main barriers to growth as perceived by SMEs *(Source: Wang, 2016)*

What emerges from the literature is that SMEs face a range of different barriers. A common finding in most of the studies is that SMEs face a financing problem – a problem of access to funding. But the studies also show that there is a considerable range of barriers depending on conditions of specific markets. Another important finding is that obstacles to growth of SMEs are determined by a variety of factors and, once again, the specific conditions may vary from country to country (Wang, 2016).

2.1.6. The role of the governmental and non-governmental institutions in the development of SMEs

The economic and social contributions of SMEs suggest that it is clearly in the public interest for SMEs to thrive. But this alone would not necessarily mean that governments should actively intervene by creating policies and programs to support SMEs. The more pressing argument that favors the development of public policies in support of such business is that a strong SME sector, and particularly industrial clusters (Humphrey and Schmitz, 1996), cannot emerge without some form of support from the State. This argument rests on the observation that small enterprises suffer disadvantages in markets because of their size (Fisher & Reuber, 2000, pp. 4-5).

The Government's attention to small firms in the economy has increased as evidence has accumulated of their contributions to job creation, innovation, and the growth and dynamism of industries and of region (Westall & Cowling, 1999, p. 9).

The traditional form of SME assistance has been financial, focused on providing credit. Based on the assumption that the high cost of credit was a main constraint for SMEs, credit policies often included credit guarantee schemes and/or subsidized interest rates. These traditional credit programs have not succeeded well in their basic objective of increasing the SMEs access to financial resources (Hallberg, 1999, p.9) (Fisher & Reuber, 2000, p. 5).

The Government has responded in a variety of ways to tackle the barriers of growth for small firms. For example, the proposed Small Business Service has been set up to (Westall & Cowling, 1999, p. 10):

- Act as a voice for small business at the heart of Government.
- Simplify and improve the quality and coherence of Government support for small businesses.
- Help small firms deal with regulation and ensure small firms interests are properly considered in future regulation.

Regional governments have an important role to play in the capacity building of their small businesses. While government strategies to assist SME capacity building depend upon the country's stage of development, there are some basic principles of successful SME development strategies emphasizing a market-oriented approach (Harvie & Lee, Sustaining Growth and Performance in East Asia: The role of small and medium sized enterprises, 2005, p. 15):

1. First, the establishment of a level playing field. The fundamental key to a successful SME development strategy is the establishment of a business environment that helps SMEs compete on a more equal basis. To establish a level playing field, governments need to re-evaluate the costs and benefits of regulations that place a disproportionate burden on SMEs, implement regulations with the flexibility needed by SMEs, and place greater emphasis on competition and procurement policies to open SME access to markets.
2. Second, to target public expenditure carefully in order to use scarce public resources effectively. Governments need to design a clear, coordinated strategy for SME development that carefully separates equity and efficiency objectives. Public expenditure should be confined to those services and target groups that are underserved by the market and for which there is a clear justification based on public goods or equity considerations. Using the methodology of micro-finance, good practice in the delivery of services to SMEs can be judged according to the performance criteria of coverage, cost-effectiveness, financial sustainability and impact.
3. Third, to encourage the private provision of a wide array of financial and non-financial services. In most developing countries, SMEs do not have access to institutions and instruments appropriate to their needs. To ensure SMEs have access to a diverse range of financial and non-financial services, governments should strive to develop private markets for services suitable for SMEs, stimulating market development on both the demand and the supply side.

The regulatory framework within which firms interact with customers, government and each other can have a profound influence on firms economic performance. An unsuitable tax system and various discriminatory legal regulations can represent a severe burden for SMEs in many South-East Europe countries. Business growth is often considered to be at risk from heavy-handed bureaucracy, in both West and East European economies. Complicated laws, rules and regulations concerning companies can be especially tough on small and growing companies (Bartlet, Bateman, & Vehovec, 2002, p. 26).

The role of the non-governmental institutions in promoting and enabling environmental friendly practices of the industrial sector has received an increasing attention worldwide.

Especially in developing countries NGOs are closer to SMEs than state organizations, and they are increasingly taking over tasks and duties of the state in the social and economic development of SMEs. NGOs support SMEs by providing them with resources, knowledge and technology, by encouraging them to develop co-operative relationships and by creating the necessary conditions to improve their environmental performance. NGOs play an important role as intermediary organizations in providing links between the business sector, development cooperation agencies and the government. Particularly, NGOs are important in encouraging the development of sustainable SMEs, by connecting global and local actors claiming to be the natural vehicles of development and local empowerment. Recently, NGOs engaged in global networks are adopting discourses of sustainability to promote sustainable SMEs. The most relevant networks and discourses in terms of promoting a balance between environmental protection and economical growth in SMEs are those involved in organic production, business social responsibility and sustainable production. These developments mean that NGOs are changing their traditional role as they become more embedded in supporting productive activities of SMEs for local and global markets. However, little is known about the roles, impacts and successes of NGOs in stimulating the transition of SMEs towards sustainability, especially in developing countries (Aponte, 2013, pp. 223-224).

As Schumpeter (1934) argued in terms of economic development and Kirchhoff (1994) argued in terms of dynamics, the implication for public policy is to implement policies that encourage the entry of new firms, support their survival, and promote their growth (Acs, 1999, p. 11).

2.2. Financing sources of SMEs

The factors that influence the growth and development of SME-s can be grouped into four categories (OECD, The SME Financing Gap: Theory and evidence, 2006, p. 34): a) macroeconomic environment, b) financial environment, c) entrepreneurial business environment, and d) microeconomic environment.

Finance is concerned with the operation of the capital markets and with the financial investment decisions made by firms. As business firms exploited the advances of the scientific and industrial revolution in Europe during the sixteenth and seventeenth century they needed large amounts of capital funds to invest in machines and buildings. Their capital requirements soon outstripped the resources of the trading families of the time. Raising finance was achieved in one of the two ways: first, by borrowing from the banks of the time or, second, by inviting people with funds to invest to subscribe for shares in the newly established business firms (Ryan B. , 2004, pp. 6-7).

There are important linkages between the macroeconomic environment and the financial sector. Financial sector development depends importantly on a sound macro policy environment. In this context, the overall legal and regulatory setting in which firms and their financial service providers operate can be shown to have a decisive influence on the development of the SME sector (OECD, The SME Financing Gap: Theory and evidence, 2006).

While SMEs in general have disadvantages in accessing finance certain types of SMEs are particularly disadvantaged, due to (1) size, such as micro-and informal enterprises, (2) age, as start-up and younger enterprises have a limited or no credit track record, less experienced entrepreneurs, limited collateral particularly in the form of fixed assets. The category of SMEs is of particular concern as these can provide a key source of output and employment growth (Harvie, Narjoko, & Oum, Economic Integration in East Asia: Production networks and small and medium enterprises, 2015).

Businesses and other organizations require money for day-to-day activities. Source of funds refers to the inflow of cash that can be used for paying various expenses. Three common sources of funds are available for companies (Dlabay & Burrow, 2008, p. 19):

1. Revenue refers to the inflow of cash from business operations. These funds result from sales of goods and services. Example of revenue include store sales for a retailer, premiums for an insurance company, fees for a law office, and tuition for a college or university.
2. Investor funds are the result of money from existing or new owners of a company. Selling the stock of a company is an example of investor funds. Or, if you own a small business, you might ask additional investors to provide funds.
3. Borrowing is common among most businesses and other types of organizations. Loans, notes, bonds, and mortgages are some methods used to borrow funds. This money may be used to expand international trade operations or build a new factory.

Especially in Kosovo bank credit is among the few external financing sources of SMEs and this is one of the reasons for the high cost of financing from banks (Grace's short period, high operational costs, huge collateral requirement up to the double of the required funds for the loan, the short period of the use of financial assets even in the case of investment loans).

Various transactions and information infrastructure are needed to support financial activities and the entire process is influenced by the legal and regulatory system, supervision, tax laws, societal and industry norms and other environmental factors. The basic laws and their enforcement in this area directly affect the ability of banks to deploy specific contracting elements that can be used to mitigate information problems, such as covenants, maturity, collateral (Berlin and Loeys, 1988; Chan and Kanatas, 1985; Sharpe, 1990) (OECD, The SME Financing Gap: Theory and evidence, 2006, p. 38).

The opportunity to access small amounts of finance can be important catalyst for small businesses to get access to the resources they need to gain a foothold in the market. This is particularly critical for micro-enterprises. Many SMEs lack awareness of financing resources and programs available from commercial banks and other private sector and government sources, and they have difficulty defining and articulating their financing needs. Financial institutions need to be responsive to their needs and for continuing simplification of trade documentation (Harvie & Lee, Sustaining Growth and Performance in East Asia: The role of small and medium sized enterprises, 2005, p. 13).

Until now, there is no single and unique theoretical model that explains the financing of SMEs, which influences the performance of investments, their growth and development (Qazim Tmava, 2013). The theoretical principles underlying capital structure can generally be described in terms of the neoclassical theory of investments by Modigliani and Miller (1958), the pecking order theory by Myers & Majluf (1984) and the trade off theory by Kraus and Litzenberger (1973).

According to neoclassical theory of investments (M-M), Which affirms the attitude on the irrelevance of the capital structure for the value of the firm, internal and external sources of financing are perfect substitutes. In the world of the perfect functioning of the market, the choice between financing through capital or debt is irrelevant. Therefore, the cost of capital and the market value of the firm are independent from the value of the firm (Modigliani & Miller, 1958). The theory of M-M is based on the following premises: there are no taxes, there are no transaction costs, there are no bancruptcy costs, the equal cost of debt for companies and for investors, symmetrical information in the market, there is no influence of debt in the profit of the company before interest and taxation. Modigliani and Miller (1958) modify their theory by introducing the tax on profit. In this case, the value of the firm is positively related to debt (Qazim Tmava, 2013).

One of the theories that explains the financing issue of businesses is the pecking order theory which first was suggested by Donaldson (1961). He conducts a study on a sample of large corporations in which management strongly favors internal generation as a source of new funds as compared to external funds (Baker & Martin, 2011). After this Myers and Majluf (1984), developed the Pecking Order Theory - that firms first use their retained earnins (internal financing), and if external financing is needed, debt financing is used first, and finally, common stock is issued. Their arguments were reinforced by Asquith and Mullins (1986), Mickelson and Parch (1986), and Shyam-Sunder and Myers (1999) (Ghosh, 2012, p. 10).

In the static trade-off theory, as originally introduced by Kraus and Litzenberger (1973), firms balance the tax benefits of debt against the deadweight costs of financial distress and bankruptcy. Because firms are allowed to deduct interest paid on debt from their tax liability, they favor debt over equity. The present value of the resulting gains from choosing debt over equity, the so-called tax shield, increases firm value. Without any additional and offsetting cost of debt, this tax advantage would imply full debt financing (H. Kent Baker, 2011).

Numerous studies have been conducted on financing research; the two most fundamental sources of financing are debt and equity (Broom et al., 1983; Longenecker et al. 1994). Debts are described as funds borrowed to be paid in future specified time period with interest amount (Anderson & Dunkelberg, 1993). Whereas in equity, investment is made in order to get share/ownership part in firm and whose profits are essentially in view of the benefits. SMEs can be funded internally and externally; internally generated funds include investment profits, sales of assets, extended payment terms, reduction in working capital and accounts receivable; whereas, external sources are firm owners, companions and relatives, banks and financial institutes, suppliers and merchants, government and non-government offices (Hisrich & Peters, 1995) (Abbasi, Wang, & Abbasi, 2017).

2.2.1. Financial markets and their types

History shows that a strong financial system is a necessary ingredient for a growing and prosperous economy. Companies raising capital to finance capital expenditures and investors saving to accumulate funds for future use require well-functioning financial markets and institutions. Over the past few decades, changing technology and improving communications have increased cross-border transactions and expanded the scope and efficiency of the global financial system. Companies routinely raise funds throughout the world to finance projects all around the globe. Likewise, with the click of a mouse an individual investor in Pittsburgh can deposit funds in a European bank or purchase a mutual fund that invests in Chinese securities. These innovations helped spur global economic growth by providing capital to an increasing number of individuals throughout the world. Along the way, the financial industry attracted a lot of talented people who created, marketed, and traded a large number of new financial products (Brighman & Houston, 2013, p. 25).

The markets are all about the raising of capital and the matching of those who want capital (borrowers) with those who have it (lenders) (Valdez & Molyneux, An Introduction to Global Financial Markets, 2010).

Financial markets have been around ever since mankind settled down to growing crops and trading them with others. After a bad harvest, those early farmers would have needed to obtain seed for the next season's planting, and perhaps to get food to see their families through. Both of these transactions would have required them to obtain credit from others with seed or food to spare. After a good harvest, the farmers would have had to decide whether to trade away their surplus immediately or to store it, a choice that any 21st-century commodities trader would find familiar (Levinson, 2014, p. 2).

A financial market is a market in which financial assets (securities) such as stocks and bonds can be purchased or sold. Funds are transferred in financial markets when one party purchases financial assets previously held by another party. Financial markets facilitate the flow of funds and thereby allow financing and investing by households, firms, and government agencies (Madura, Financial Markets and Institutions, 2018, p. 3).

People and organizations wanting to borrow money are brought together with those who have surplus funds in the financial markets (Brighman & Houston, 2013, p. 28).

Financial markets transfer funds from those who have excess funds to need funds. They enable college students to obtain student loans, families to obtain mortgages, businesses to finance their growth, and governments to finance their expenditures. Without financial markets, many students couldn't go to college, many families couldn't purchase a home, corporations couldn't grow, and the government couldn't provide as many public services. Households and businesses that supply funds to financial markets earn a return on their investment; the return is necessary to ensure that funds are supplied to the financial markets. If funds were not supplied, the financial markets would not be able to transfer funds to those who need them (Madura, Financial Institutions and Markets, 2008, p. 2).

Those participants who receive more money than they spend are referred to as surplus units (or investors). They provide their net savings to the financial markets. Those participants who spend more money than they receive are referred to as deficit units. They access funds from financial markets so that they can spend more money than they receive. Many individuals provide funds to financial markets in some periods and access funds in other periods. Many deficit units such as firms and government agencies access funds from financial markets by issuing securities, which represent a claim on the issuer. Debt securities represent debt (also called credit or borrowed funds) incurred by the issuer. Equity securities (also called stock) represent equity or ownership in the firm (Madura, Financial Markets and Institutions, 2018, pp. 3-4).

Financial markets take many different forms and operate in diverse ways. But all of them, whether highly organized, like the London Stock Exchange, or highly informal, like the money changers on the street corners of some African cities, serve the same basic functions (Levinson, 2014, pp. 2-3):

- **Price setting.** The value of an ounce of gold or a share of stock is no more, and no less, than what someone is willing to pay to own it. Markets provide price discovery, a way to determine the relative values of different items, based upon the prices at which individuals are willing to buy and sell them.
- **Asset valuation.** Market prices offer the best way to determine the value of a firm or of the firm's assets, or property. This is important not only to those buying and selling businesses, but also to regulators. An insurer, for example, may appear strong if it values the securities it owns at the prices it paid for them years ago, but the relevant question for judging its solvency is what prices those securities could be sold for if it needed cash to pay claims today.
- **Arbitrage.** In countries with poorly developed financial markets, commodities and currencies may trade at very different prices in different locations. As traders in financial

markets attempt to profit from these divergences, prices move towards a uniform level, making the entire economy more efficient.

- **Raising capital.** Firms often require funds to build new facilities, replace machinery or expand their business in other ways. Shares, bonds and other types of financial instruments make this possible. The financial markets are also an important source of capital for individuals who wish to buy homes or cars, or even to make credit-card purchases.
- **Commercial transactions.** As well as long-term capital, the financial markets provide the grease that makes many commercial transactions possible. This includes such things as arranging payment for the sale of a product abroad, and providing working capital so that a firm can pay employees if payments from customers run late.
- **Investing.** The stock, bond and money markets provide an opportunity to earn a return on funds that are not needed immediately, and to accumulate assets that will provide an income in future.
- **Risk management.** Futures, options and other derivatives contracts can provide protection against many types of risk, such as the possibility that a foreign currency will lose value against the domestic currency before an export payment is received. They also enable the markets to attach a price to risk, allowing firms and individuals to trade risks so they can reduce their exposure to some while retaining exposure to others.

A key role of financial markets is to accommodate corporate finance activity. Corporate finance (also called financial management) involves corporate decisions such as how much funding to obtain and what types of securities to issue when financing operations. The financial markets serve as the mechanism whereby corporations (acting as deficit units) can obtain funds from investors (acting as surplus units) (Madura, Financial Markets and Institutions, 2018, p. 4).

Estimating the overall size of the financial markets is difficult. It is hard in the first place to decide exactly what transactions should be included under the rubric "financial markets", and there is no way to compile complete data on each of the millions of sales and purchases occurring each year (Levinson, 2014, p. 3).

Each financial market is created to satisfy particular preferences of market participants. For example, some participants may want to invest funds for a short-term period, whereas others want to invest for a long-term period. Some participants are willing to tolerate a high level of risk when investing, whereas others need to avoid risk. Some participants that need funds prefer to borrow, whereas others prefer to issue stock. There are many different types of financial markets, and each market can be distinguished by the maturity structure and trading structure of its securities (Madura, Financial Institutions and Markets, 2008, p. 3).

For these reasons, it is useful to classify markets along the following dimensions (Brighman & Houston, 2013, p. 29):

1. *Physical asset markets versus financial asset markets*. Physical asset markets (also called "tangible" or "real" asset markets) are for products such as wheat, autos, real estate, computers, and machinery. Financial asset markets, on the other hand, deal with stocks, bonds, notes, and mortgages. Financial markets also deal with derivative securities whose values are derived from changes in the prices of other assets. A share of Ford stock is a "pure financial asset", while an option to buy Ford shares is a derivative security whose value depends on the price of Ford stock. The bonds backed by subprime mortgages discussed at the beginning of this chapter are another type of derivative, as the values of these bonds are derived from the values of the underlying mortgages (Brighman & Houston, 2013, p. 29).
2. *Spot markets versus futures markets.* Spot markets are markets in which assets are brought or sold for "on-the-spot" delivery (literally, within a few days). Future markets are markets in which participants agree today to buy or sell an asset at some future date. For example, a farmer may enter into a future contract in which he agrees today to sell 5,000 bushels of soybeans 6 months from now at a price of 13.00 $ a bushel. To continue that example, a food processor that needs soybeans in the future may enter into a future contract in which it agrees to buy soybeans 6 month from now. Such a transaction can reduce, or hedge, the risks faced by both the farmer and the food processor (Brighman & Houston, 2013, p. 29).
3. *Money markets versus capital markets* (Madura, Financial Markets and Institutions, 2018, p. 5). Money market facilitate the sale of short-term debt securities by deficit units to surplus units. The securities traded in this market are referred to as money market securities, which are debt securities that have a maturity of one year or less. These generally have a relatively high degree of liquidity, not only because of their short-term maturity but also because they are desirable to many investors and therefore commonly

have an active secondary market. Money market securities tend to have a low expected return but also a low degree of credit (default) risk. Capital markets facilitate the sale of long-term securities by deficit units to surplus units. The securities traded in this market are referred to as capital market securities. Capital market securities are commonly issued to finance the purchase of capital assets, such as buildings, equipment, or machinery. Three common types of capital market securities are bonds, mortgages and stocks.

4. *Primary versus secondary markets.* A financial market in which newly issued primary and secondary securities are traded for the first time is called primary market (Medina, Business Finance, 2008, p. 47). Secondary markets facilitate the trading of existing securities, which allows for a change in the ownership of the securities. Primary market transactions provide funds to the initial issuer of securities; secondary market transactions do not. The issuance of new corporate stock or new Treasury securities is a primary market transaction, while the sale of existing corporate stock or Treasury security holdings by one investor to another is a secondary market transaction (Madura, Financial Institutions and Markets, 2008, p. 4).
5. *Private markets versus public markets.* Private markets, where transactions are negotiated directly between two parties, are differentiated from public markets, where standardized contracts are traded on organized exchanges. Bank loans and private debt placements with insurance companies are examples of private market transactions. Because these transactions are private, they may be structured in any manner to which the two parties agree. By contrast, securities that are traded in public markets (for example, common stock and corporate bonds) are held by a large number of individuals. These securities must have fairly standardized contractual features because public investors do not generally have the time and expertise to negotiate unique, nonstandardized contracts. Broad ownership and standardization result in publicly traded securities being more liquid than tailor-made, uniquely negotiated securities (Brighman & Houston, 2013, pp. 29-30).

This classification shows us that there are many types of financial markets and different authors could made different classification of these markets.

Financial markets have experienced many changes in recent years. Technological advances in computers and telecommunications, along with the globalization of banking and commerce, have led to deregulation, which has increased competition throughout the world. As a result, there are more efficient, internationally linked markets, which are far more complex than what existed a few years ago (Brighman & Houston, 2013, p. 30).

Globalization has exposed the need for greater cooperation among regulators at the international level, but the task is not easy. Factors that complicate coordination include (the different structures in nations' banking and securities industries; (2) the trend toward financial services conglomerates, which obscures developments in various market segments; and (3) the reluctance of individual countries to give up control over their national monetary policies. Still, regulators are unanimous about the need to close the gaps in the supervision of worldwide markets (Brighman & Houston, 2013, p. 30).

2.2.2. Business financial goals

A private business is established primarily for profit. This end, however, can be achieved by the effective management of various functions. One of these is the finance function. Like the other functions, it has its own goals (Medina, Business Finance, 2006, p. 68). Business financial goals are variously expressed according to the following (Akdeniz, 2015):

- Increasing profitability
- Improving margins
- Improving cash flow
- Expanding operations
- Increasing revenue
- Decreasing costs
- Reducing business-related debts
- Improving cash flow.

Business financial goals, just like personal financial goals, must be clear and specific. It is not enough for managers to state that the business will provide an adequate investor return or to devote some of the profits earned to future expansion (Dlabay & Burrow, 2008, p. 69).

Recent studies have found that a company's overall financial performance is aligned with how successfully they have created and implemented their financial goals. Studies have also demonstrated that employees in the weakest-performing companies did not understand or make the connection between the company's overall mission and the role they played in achieving it. These findings reiterate the notion that clear, well-defined goals are going to be critical in helping you to boost your business and profitability (Akdeniz, 2015).

Therefore, to be effective, your financial goals must meet not only the needs of your business, but those of your employees too. It must be obvious why the short term goals tie in to the long term goals to avoid disillusionment, confusion and decreased work performance (Akdeniz, 2015).

Business financial goals must have several characteristics to be effective. Business financial goals must be (Dlabay & Burrow, 2008, p. 69):

- **Specific.** A specific financial goal is directed at a particular business action. For example "to increase the profitability of all new product introductions after six months of sales by 1.5 percent" directs efforts at a specific business activity - new product introductions. Everyone knows what part of business operations must receive attention in order to achieve the goal.
- **Realistic.** A realistic financial goal must be possible. It can stretch the organization to perform better than it has in the past, but it cannot be so high as to be unrealistic. In the example above, the goal was to increase profitability of new sales by 1.5 percent within six months. If in the past, profitability from new sales had never increased more than 0.3 percent, the new goal is probably not realistic.
- **Measurable.** A measurable goal identifies the financial performance that is expected to change. It must be a goal for which the business is able to gather information and evaluate the results. In the example, the goal is to increase profits from new product sales. If some costs cannot be matched to specific products or if information is not collected on a monthly basis, the goal cannot be measured.
- **Identified time.** Finally, an identified time allows adequate time for the business to improve the identified performance as well as a time frame in which the business usually measures performance. In this case, the goal establishes a standard for improving the profitability of new products within sic months. That amount of time is realistic for a new product to become established in a market and accepted by customers.

Over a period of years, companies must be able to accomplish each of the three financial goals. They must have adequate levels of investment, be able to meet short and long-term credit obligations, and finance growth plans. One of these goals may be more important than the others at a certain time or based on circumstances facing the business. An important financial management responsibility is determining the immediate and long-term financial needs of the business and establishing appropriate goals (Dlabay & Burrow, 2008, p. 70).

In business, it is important to remember that financial goal setting is not a one-time event! It should become an ongoing process in which your goals change to reflect progress and growth within your company as well as within the industry in which you operate. Markets will change, sales will go up and down, and the economy will recover and crash, so it is imperative that you are poised to realign your goals to overcome such eventualities. Don't sit back and relax during the good times, keep on planning ahead so your business is safeguarded for when the inevitable leaner times will come along (Akdeniz, 2015).

2.2.3. Financial Institutions

Finance as a discipline is generally divided into three areas: financial institutions, investments, and business finance. The divisions are somewhat arbitrary, and they certainly overlap. Investment decisions and corporate financing decisions are made within the current financial environment and its institutions (Mayo, 2012, p. 2).

The study of financial institutions, as the name implies, is concerned with the institutional aspects of the discipline, which encompass the creation of financial assets, the markets for trading securities (for example, the New York Stock Exchange), and the regulation of financial markets. Financial assets are created through investment bankers and financial intermediaries, such as commercial banks, savings and loan associations, and life insurance companies (Mayo, 2012, p. 2).

Because financial markets are imperfect, securities buyers and sellers do not have full access to information. Individuals with available funds normally are not capable of identifying creditworthy borrowers to whom they could lend those funds. In addition, they do not have expertise to assess the creditworthiness of potential borrowers (Madura, Financial Markets and Institutions, 2018, p. 13). Related to this, it is very important to elaborate the agency theory based on the asymmetric information. Asymmetric information is a central assumption in agency theory. Perfect information reduces the threat of opportunism as it makes it easier to detect actors' opportunistic behavior (Petersen 1993). In such an ideal situation, the principal would therefore employ a behavior-based contract and compensate the agent accordingly (Eisenhardt 1989). However, in a buyer-supplier relationship the actors have access to different and often insufficient information about their partners' behavior. In an international supply chain, information issues are further complicated by cultural and physical distances between actors. If actors in a supply chain relationship are within a close distance, other things being equal, it would be easier (or less costly) to obtain wanted information. Similarly, the greater the distance the harder (or more expensive) it becomes to obtain wanted information (Eriksen and Jessen 2009; Pedersen and Andersen 2006) (Delbufalo, 2018).

Financial institutions are needed to resolve the limitations caused by market imperfections. They accept funds from surplus units and channel the funds to deficit units. Without financial institutions, the information and transaction costs of financial market transactions would be excessive. Financial institutions can be classified as depository and non-depository institutions (Madura, Financial Markets and Institutions, 2018, p. 13).

Depository institutions accept deposits from surplus units and provide credit to deficit units through loans and purchases of securities. They are popular financial institutions for the following reasons (Madura, Financial Markets and Institutions, 2018, p. 13):

- They offer deposit accounts that can accommodate the amount and liquidity characteristics desired by most surplus units.
- They repackage funds received from deposits to provide loans of the size and maturity desired by deficit units.
- They are willing to accept the risk of default on loans that they provide.
- They have more expertise than individual surplus units in evaluating the creditworthiness of prospective deficit units.
- They diversify their loans among numerous deficit units and therefore can absorb defaulted loans better than individual surplus units could.

Depository institutions receive funds from the public and companies in the form of deposits. Depository institutions include retail banks, wholesale banks, saving banks and building societies (Merna & Njiru, 2002, p. 155).

Non-depository institutions include insurance companies, pension funds and investment institutions (unit trusts, investment trusts, property based funds, other managed funds). Non-depository financial institutions are primarily concerned with the management of the funds of their clients, but in the process they also perform the intermediation function (Merna & Njiru, 2002, pp. 155-154).

The importance of financial institutions in economic development revolves around a number of functions, including the mobilization of savings, the allocation of capital to the productive sectors of the economy, the facilitation of payment transfers, and the diversification of risk. In the least developed economies, financial systems are often characterized by a small number of formal sector financial institutions, with large credit exposure to government-related businesses, such as public enterprises (IMF, IMF Country Report, 2003, p. 35).

Direct funds transfers are more common among individuals and small businesses, and in economies where financial markets and institutions are less developed. While businesses in more developed economies do occasionally rely on direct transfers, the generally find it more efficient to enlist the services of one or more financial institutions when it comes time to raise capital. In the United States and other developed nations, a set of highly efficient financial intermediaries has evolved. Their original roles were generally quite specific, but many of them have diversified to the point where they serve, many different markets (Erhardt & Brigham, 2009, p. 18).

Some of the most important financial institutions or intermediaries that we are going to explain further are: Angel investments, Venture Capitals, Banks, Insurance Companies and Micro-financial companies.

2.2.3.1. Angel Investments

Business angels have been the subject of numerous studies during the past 30 years or so, with the first studies by Wetzel (1981, 1983, 1986) and Gaston (1989a, 1989b) dating back to the 1980s and relating to the USA. In those years, business angels were almost unknown and the research was aimed at discovering their main features. Subsequently, other contributions on the informal venture capital market in developed and later emerging countries emerged (Capizzi, 2015, p. 274).

While angel investment has existed in practice for centuries, the concept of angel investors as a powerful source of financing for high-growth companies has emerged over the past couple of decades in the United States and Europe (Harrison and Mason, 2010) and is rapidly growing in other regions around the world. The angel investment sector is not only growing, but it is becoming more formalized and organized (Ibrahim, 2010) through the creation of angel groups and networks (OECD, Financing High-Growth Firms: The Role of Angel Investors, 2011, p. 28).

Business angels are conventionally defined as high net worth individuals who invest their own money, along with their time and expertise, directly in unquoted companies in which they have no family connection, in the hope of financial gain. The term angel was coined by Broadway insiders in the early 1900s to describe wealthy theatre-goers who made high-risk investments in theatrical productions. Angels invested in these shows primarily for the privilege of rubbing shoulders with the thatre personalities that they admired (Dana, 2011, p. 1).

Business angel investing – the provision of, usually, equity investment capital to unquoted new and growing entrepreneurial companies by unconnected individuals – is not a new phenomenon: for example, it underpinned the funding of the Statue of Liberty (Khan 2010), financed the 1903 start-up of the Ford motor company (Conlin 1989) and was a feature of the emergence of industrial capitalism in nineteenth-century England (Maltby and Rutterford 2006; Rutterford and Maltby 2006). However, systematic research into the phenomenon is much more recent, and can be traced back to the research of Wetzel (1983) in New England and a series of studies funded by the US Small Business Administration in the 1980s (Gaston and Bell 1986, 1988; Aram 1987; Ou 1987) (Harrison, 2017).

Angel investment is also called "informal Venture Capital (VC) investment." Similar to VC investment, angel investment also targets non-listed enterprises, in particular start-ups in seed/early stage for non-controlling investment. The difference between angel investment and VC investment is that the latter is institutional behavior while the former is individual behavior. In addition, VC investors invest with other people's money (mainly the capital of institutional investors) while angel investors invest with their own money, which is the visible difference between these two types of investment. Strictly speaking, not all informal VC investments are angel investment. According to the research done by Professor Martin Haemmig, family members of the founders of start-ups usually constitute the main dource of funding (43.7 %), followed by friends or neighbors (29.2 %), strangers (9.3 %), and other relatives and colleauges (8.9 %) (Liu, Wang, & Chen, 2017, p. 9).

The term business angel was given to those individuals who perform essentially the same function in a business context (Benjamin and Margulis, 2000:5). There is a long tradition of angel investing in businesses (Sohl, 2003). Moreover, angel investing is now as international phenomenon, found in all developed economies and now diffusing to emerging economies such as China (Lui Tingchi and Chen Po Chang, 2007). However, it has only attracted the aatention of researchers since the 1980s (Dana, 2011, p. 1).

An angel investor is defined as someone who has already made his or her money and now seeks out promising young ventures to support financially. "Angels are typically entrepreneurs, retired corporate executives, or professionals who have a net worth of more than $100,000 a year. They are self-starters. Business angels are trying to perpetuate the system that made them successful." If entrepreneurs are looking for such an angel, Wetzel advises them, "Don't look very far away - within 50 miles or within a day's drive at most. Anf that's because is not a full-time profession for them" (Hegarty & Frederick, 2006, p. 68).

The average angel investor is 47 years old, has a post graduate degree, and management or entrepreneurial experience. Angel investors are typically people who take prudent risks in hopes of creating new wealth for themselves and others. They tend to get little satisfaction from traditional investments like stocks and certificates of deposit. Their tolerance for risk is generally somewhat higher than others. This might play out in their lifestyle as well as in their investing and may provide an important clue as to who is a potential angel. A person who has been an angel investor in the past is more likely to be an angel in the future (Vance, 2005, p. 113).

This profile masks considerable heterogeneity in the business angel population, not so much in terms of their demographics but rather in their motivation and investment focus. The most basic distinction is between *active angels*, those individuals with experience of investing and who are continuing to look for investments, *latent angels*, inactive investors who have made investments in the past, and *virgin angels*, individuals who are looking to invest but have yet to make their first investment (Coveney & Moore, 1998).

There are several classifications of active investors. Sorheim and Landstrom (2001) use cluster analysis to differentiate Norwegian business angels in terms of their competence and investment activity. This produces four distinct types of business angel (Dana, 2011, p. 4):

1. *Lotto investors:* low investment activity and limited experience of starting and running businesses. They make very few investments and have limited ability to add value to their investments.
2. *Traders:* high investment activity but limited experience of starting and running entrepreneurial businesses. They are keen to invest but have limited ability to add value.

3. *Analytical investors:* low level of investment activity but posses fairly high competence.
4. *Business angels:* very high level of investment activity and high competence.

While definitions of angel investors can vary, it is generally understood that angel investment excludes investments made by family and friends. However, data (such GEM) sometimes includes family and friends (perhaps by "default") by considering all non-institutional equity investments in early-stage companies as "informal investment (Avdeitchikova et al., 2008). This is an important issue to address otherwise different measures will continue to be used in different countries and/or for different research reports, further confusing an already difficult data situation (OECD, Financing High-Growth Firms: The Role of Angel Investors, 2011, p. 44).

There are four features that are regarded as being fundamental to business angels and their investments and distinguish this form of investing from other types of investment (Mason, 2006) (Landstrom & Mason, 2016, pp. 28-29):

- First, angels are *investing their own money*. This feature of angel investing has never been questioned, although it does occasionally arise as an issue, notably when an angel syndicate changes from investing the money of its members to investing other people's money (for example, Knighton, 1996) or sets up a side-car fund into which non-syndicate members can invest and which invests along-side syndicate members.
- Second, business angels are *investing in private unquoted companies* as opposed to businesses that are quoted on a stock market (and are therefore willing to accept the potential loss of liquidity that goes with such investments).
- Third, angels are making *direct investments*. This was originally intended to convey the point that no intermediary was involved. However, with the emergence of angel groups this attribute is no longer always present. Instead, the sense of this aspect should be that business angels are making *their own investment decisions*. Even if the opportunity is presented to an angel group, the angels still have to make their own individual decision whether or not to invest (Sudek, 2006). Conversely, situations in which an individual has invested in a pooled investment vehicle, where the allocation of this money to specific investments is made by a manager (even if the envestee companies were unquoted), would be regarded as retail (or collective) investing rather than angel investing.
- Finally, angel investing primarily *involves seeking commercial returns*. US research has established that 'typical' business angels may be motivated in part by non-financial

considerations and may even be willing to trade off such considerations against financial return (Wetzel, 1981; Sullivan, 1994). This suggests that 'socially motivated' investors can be accomodated within the conventional business angel definition as long as they perceive their investee business(es) to be an investment rather than charity and that they make their own investment decision. Other motives include satisfaction from being involved in starting a new business (which might be termed psychic income), as a hobby (for example, because retirement is boring), to 'buy' a job for themselves and to support the community (Shane, 2009).

Business angels are recognized as playing a vital role in economic development at both national and local/regional scales. There are three aspects of the informal venture capital market which are significant from an economic development perspective. First, the amount of finance that business angels have invested, or have available to invest, is significant. Second, business angels typically invest in industries and markets with which they are familiar. As a consequence, the entrepreneurs who are funded by business angels derive considerable value from the expertise, knowledge and experience that their investors pass on through this hands-involvement. This, in turn, increases the prospects for the success of their businesses. The third contribution of business angels to economic development arises from its geographical characteristics. This has two dimensions. First, 'angels live everywhere' (Gaston, 1989a: 273). According to Gaston's US research the proportion of business angels in the adult population is fairly constant at about four per 1000 adults. This contrasts with investments by institutional venture capital which are geographically concentrated (Mason, 2007). Second, the majority of investments by business angels are local (Dana, 2011, p. 6).

Today's entrepreneurs have many resources available to them, which makes finding an angel investor easier than a century ago. Can you imagine how difficult it must have been for Henry Ford to find investors for his business in 1903? But today we can sit down at our Microsoft computer and search for 'angel investors' on Google, due in no small part to the fact these companies were originally assisted by angel investors (iMinds, 2009, p. 1).

2.2.3.2. Venture Capitals

Venture capital has existed in one form or another since the earliest days of commercial activity. The Spanish monarchy and Italian investors who financed the transatlantic voyage of Christopher Columbus were, in a sense, venture capitalists. But it wasn't until the second half of the twentieth century that venture financing became a professional, large-scale industry. And the man who led that transformation was Georges Doriot (Ante, 2008).

The venture capital industry began to take shape after World War II on the northeastern seaboard when in 1946 Doriot became president of the first public venture capital firm: Boston-based American Research and Development Corporation (ARD). The famous inventor Charles F. Kettering predicted ARD would go bust in five years. But Doriot proved him wrong over the next twenty-five years, as his firm financed and nurtured more than one hundred start-ups, many of which became huge successes that pushed the frontiers of technology and business. ARD companies led the way in developing computers, atom smashers, medical devices, and new machines that desalinated brackish water. Doriot even backed George H. W. Bush's first company, Zapata Off-Shore Company. "He was very important because he was the first one to believe there was a future in financing entrepreneurs in an organized way", says Arnold Kroll, an investment banker at Lehman Brothers who worked with ARD (Ante, 2008)

The Facebook story is one of many start-ups that owes its successes to the venture capital industry. Venture capital is money that is invested in risky companies in return for partial ownership of the company. Venture capital is provided by venture capitalists (VCs) and venture capital firms. Because of venture capital we have many technologies and products that we take for granted today, such as microchips, computers, Facebook, and the Internet itself (Ryan P. K., 2013, p. 5).

Venture capitalists are the professional investors who give start-up companies money in exchange for equity in the company. They provide both liquid capital and support for a company during a fundamental time in the growth of the business. Venture capitalists are responsible for bringing together large amounts of money for an investment fund (called raising a fund), which is then used to invest in companies, hand-picked to become part of the VC's (or VC firm's) portfolio. The VC and his team choose companies that are capable of growing very large very fast, earning the VC firm many times its initial investment (Gravagna & Adams, 2013).

Venture capitalists, however, will almost never consider investing in companies that do not have strong prospects for successfully achieving (and are not working diligently toward) events that will provide them with liquidity (Camp, 2002, p. 20).

Venture capital investment is only one of the many ways that you can fund your company (Gravagna & Adams, 2013):

- Venture capital investment can help a start-up company attain much larger milestones in a much quicker timeframe than it would otherwise be able to do.
- Companies that take venture capital get more than money. They also get the expertise of the VC and VCs' network of advisors and business people.
- The venture capital track is the fast track. Companies that take venture capital grow large very quickly or acquired in a few short years. VC backed companies don't do anything slowly.

Venture capitalists serve a very important role in our society by helping to bring to fruition ideas and technologies that improve the quality of life for all people. Technology and medicine in particular have benefited enormously from venture capital. Advances and breakthrough in disease treatment and medical devices have been made by companies that have received venture funding (Ryan P. K., 2013, p. 6).

Partners and other investment officers in venture capital firms are often experienced managers who have run companies or were former entrepreneurs who had successfully founded companies. By participating in scientific breakthroughs and the formation of new companies, venture capitalists catalyze and accelerate technological progress (Butler, Lockett, & Ucbasaran, 2006, p. 52).

When it comes to the venture capitalists involvement in your business, there are two types of venture capitalists: passive advisers and active partners. Most lending venture capital companies are passive advisers. They get monthly financial statements and talk to you on a regular basis, but they never get involved in your business. The equity-oriented venture capitalists are much more active, They will sit on your board of directors, and they will come to regular management meetings. They are not just investors but rather they are your partners and expect to have a say in the direction of the company (Gladstone & Gladstone, 2002, p. 28).

The importance of venture capital in the economic growth process can be seen in the contribution of Silicon Valley—a global venture capital hub—to the U.S. economy. As of 1999, the U.S. venture capital firm Kleiner, Perkins, Caufield, and Byers (as reported in Kenny et al., 2002) reported that the portfolio firms that it had funded since its inception in 1973 had a total market capitalization of $657 billion, revenue of $93 billion, and employed 252,000 people (Butler, Lockett, & Ucbasaran, 2006, p. 52).

2.2.3.3. Banks

The markets are all about the raising of capital and the matching of those who want capital (borrowers) with those who have it (lenders). How do the borrowers find the lenders? With difficulty, clearly, but for the presence of intermediaries, such as banks. Banks take deposits from those who have money to save and bundle it up in various ways so that it can be lent to those who wish to borrow (Valdez & Molyneux, An Introduction to Global Financial Market, 2016).

The first banks had come into existence in the later part of the 12th century lending funds and extending credit to travelling merchants at the important fairs held at that time in the Champagne region of France. Over the succeeding centuries the banks developed to meet the needs of this mercantile class and were reluctant to engage in financing the new firms of the industrial revolution (Ryan B. , 2004, p. 7).

The word "bank" originates from the Italian word *banco*. This is a desk or bench, covered by a green tablecloth, that was used several hundred years ago by Florentine bankers. The traditional role of banks has been to take deposits and make loans. The interest charged on the loans is greater than the interest paid on deposits. The difference between the two has to cover administrative costs and loan losses (i.e., losses when borrowers fail to make the agreed payments of interest and principal), while providing a satisfactory return on equity (Hull, 2018, p. 25).

The essential function of a bank is to provide services related to the storing of value and the extending of credit. A bank is a financial institution that provides banking and other financial services, and the term *bank* is generally understood to refer to an institution that holds a banking license. The banking licenses granted by financial supervision authorities allow banks to provide basic banking services such as accepting deposits and making loans. Typically, a bank generates profits from the interest spread on the resources it holds in trust for its clients while paying them interest on the assets, and from transaction fees on financial services (Gross, 2006, p. 18).

Banking services include the deposit, transport, exchange and provision of liquid funds. Production and selling are thereby intertwined and cannot be isolated. Furthermore, the use of various banking products is interwoven for cross-selling purposes. For example, it is almost impossible for customers to use a bank's credit services or most of its capital investment services without making use of its payment transaction services (Gross, 2006, pp. 18-19).

Banks and their customers have differing perceptions of bank lending. To most bankers, lending is not a capital-market activity, and yet to many corporate customers, particularly small and medium-sized companies, bank loans are their most important external source of capital. The use of capital markets by companies to raise debt or equity cannot be appreciated properly without understanding the significance of bank lending as a key source of long-term funding (Coyle, 2002, p. 1).

Banking services can be divided into two broad categories, commercial banking and investment banking or merchant banking (Coyle, 2002, p. 1):

- ***Commercial banking*** consists mainly of money-transmission services, the management of customer bank accounts and deposits, and lending. Bank loans are a commercial-banking product.
- ***Investment banking*** consists of specialist financial services and securities-market activities. In the securities markets, an investment bank acts as an intermediary, helping an issuer of securities to obtain funds from other investors, rather than lending the bank's own funds.

In the US, the Banking Act of 1933, known as the Glass-Steagall Act, prohibited commercial banks from involvement in securities trading and underwriting either directly or through a subsidiary company. The purpose of the act was to protect commercial banking against the risks of investment losses from securities-market trading. This in turn was intended to protect customers' bank deposits against the risk of financial collapse of their bank. As a consequence US banks at one time were either commercial banks or investment banks (Coyle, 2002, pp. 1-2).

Banks and other types of financial intermediaries have played a vital role in the history of the United States. Their role continues today, although their forms have changed over time. One reason for the changes is that they can do only what federal and state laws allow them to do. Another reason is that developments in financial technology, such as financial derivatives and securitization, electronic payments, and cell phones, are changing the way they do business (Gup, 2011, p. 41).

Banks are one of the most important suppliers to companies. Even if a company is strongly cash positive, and therefore does not require bank finance, it will require commercial banking services such as current accounts, supplier payment facilities, including checks, electronic funds transfers, credit-card arrangements, and so on. In addition, if it operates internationally, it will require foreign-exchange conversion and hedging facilities (Coyle, 2002, p. 5).

Most academics, politicians (representing the taxpayer), depositors and investors accept the idea that the banking sector is different. Banks play such a critical role in the economy that they need to be singled out for more intense regulation than other sectors. The presence of asymmetric information is at the heart of the problem. Bankers, their customers, regulators and investors have different information sets on the health of a bank. Small depositors are the least likely to have information scheme, creating a moral hazard problem. Regulators have another information set, based on their examinations, and investors will rely on the results of external audits (Mullineux & Murinde, 2003, p. 367).

While most economists accept the need for some special regulation of the banking sector, a minority advocate a return to *free banking*. The interpretation of this term varies widely, but essentially, it means banks are left to regulate themselves to some degree. A model of nineteenth-century free banking was the Scottish system. Between 1716 and 1844, banks were allowed to operate with virtually no government regulation. Cameron (1972) argues that in the absence of regulation, the banking sector promoted economic growth because intense competition forced banks to innovate; they were the first to introduce overdrafts, interest-earning deposit accounts and overdraft facilities. Modern-day free bankers argue that government regulation or the presence of a central bank is undesirable because of the possibility of collusion among the regulators and regulated (Mullineux & Murinde, 2003, pp. 371-372).

2.2.3.4. Insurance Companies

Commercial banks, property and casualty insurance companies, and life insurance companies are examples of financial institutions. Commercial banks sell loans and/or borrow from depositors. They provide immediacy of borrowing and lending to the markets. Property and casualty companies sell insurance such as workers' compensation, auto insurance, and hurricane and flood insurance, providing financial relief for event risks, as opposed to financial risks or mortality/morbidity risks. Life insurance companies provide mortality/morbidity risk insurance. Financial institutions, in the process of providing financial immediacy in an economy, participate in capital formation and risk transformation (Ho & Lee, 2004, p. 565).

There are many stories as to when, where and how insurance began. One of some interest concerns the primitive Caveman who faced the possibility of loss their goods and belongings at the hands of enemies and animals. The Caveman found that when they left their caves for an extended hunting trip upon their return, they would sometimes discover that one of the caves member had been stripped of its belongings probably by animals or an enemy. Finally a wise Caveman suggested that each put part of his own goods into the cave of each of the others. Then the Caveman said, if one cave is raided and all of its contents lost, all of the members would lose part of their goods, but none would lose all of their goods. Thus, the concept of insurance was introduced-to spread risk among many so that no single member would lose everything (Reavis III, 2012, p. 2).

By definition insurance is a "method by which interested members of a society can band together and collect funds to pay losses suffered later by members of the group." There are other definitions of insurance available, some are related to its legal aspects, others to its economic importance and still others to its social effects (Reavis III, 2012, p. 2).

Insurance is implemented through a legal contract, or policy. The *insured* is the person or business covered by the insurance policy. The *insurer* is the company that assumes the risk and agrees to pay losses covered by the policy. Insurance policies are written to cover losses that result from *perils*. A *peril* is the cause of a loss. Examples of perils that can be insured are fire, vandalism, vehicle accidents, and personal injury. The *policyholder* is the individual or organization to whom the policy is issued. The policyholder is often but not always the insured. In order to purchase insurance the policyholder must have an insurable interest in the covered loss. An *insurable interest* means that the insured will suffer a financial loss if the insured event occurs. The policyholder is charged a premium, which is the amount paid to the insurer to keep the insurance policy in force (Dlabay & Burrow, 2008, p. 304).

Insurance companies provide their clients with economic protection for clearly identified risks that will take place within a certain (predetermined) time period. Unlike in other industries, in the insurance sector costs for the granted service are usually unknown before the actual occurrence (if any) of the insured event, while the stream of premium from policyholders (revenue) is determined or determinable at the set of the contract (Massari, Gianfrate, & Zaneti, 2014, p. 159).

There are various types of insurance companies (Reavis III, 2012, pp. 6-7):

- **Private insurance companies.** The major forms of property and liability insurance companies are stock companies, mutual companies and reciprocal insurance exchanges. These companies have a home office in a single state but often operate in other states as authorized by those states.
- **Public insurance companies.** There are insurance programs that are underwritten by both the federal government as well as state governments. Some of these programs are voluntary while others are compulsory. State government programs include life, title, automobile, medical malpractice and workers compensation insurance. While, compulsory insurance programs include federal Social Security plans for retirement, survivors, disability and health coverage.

Insurance companies rarely retain all of the risks they underwrite. Some of the risks are neutralized through diversification across policyholders and policy lines, but many of the risks that primary carriers do not wish to retain are transferred to other firms using insurance. When an insurance company buys insurance, this is known as *reinsurance* (Culp, 2006).

Insurance and reinsurance companies are an important and growing class of financial market participants. They insure a wide variety of business and household risks, thereby facilitating economic and financial activity. Such companies bring innovative insurance approaches to capital markets, providing insurance coverage for financial risks, intermediating their own insurance risks in the markets, and in the process developing new instruments that help bridge the gap between banking and insurance products (Schinasi, 2006, p. 245).

Insurance industry is very important for each society. It is a major financial institution which has great effect upon the economy of the country because of the large number of dollars that are paid in by policyholders which must be invested until it is time to pay claims. It is also a large employer since there are thousands of insurance companies that employ or service the hundreds of thousands of agents and company representatives throughout the country and the world. Finally, it is a social device since it serves to finance the rebuilding of properties after a loss, makes funds available for a child's education, builds estates for the beneficiaries of policyholders, pays for needed health care, protects the individual from finanacial loss in the event of an accident and assures lenders that if a mortgaged property is lost or destroyed the repayment of the loan will still be made (Reavis III, 2012, p. 1).

2.2.3.5. Micro-Finance Companies

The ability of households to save, access capital, and manage risk exposures of various kinds, such as life, property, and health through insurance is a prerequisite for their economic and social development. Access to basic financial services (such as credit, savings, and insurance) is most likely to develop the entrepreneurial skills and opportunities among those poor who are currently outside the perimeter of such financial markets and services. Furthermore, over time, such access will promote better risk management capabilities and promote the economic aspirations of the poor (Sundaresan, 2008, p. 1).

We begin our exploration where the microfinance industry started, with very small loans. In 1973 an antipoverty organization in Brazil called Accion noticed a high prevalence of small, informal enterprises that often needed funds to expand their business. Accion's staff members in the city of Recife, Brazil wondered: If these small business owners could borrow funds at commercial interest rates, could they start to lift themselves out of poverty? It was in this context that the first microfinance was granted (Watkins, 2018, p. 2).

Within a few years, other institutions and individuals across the globe were also beginning to experiment with microcredit and with other microfinance services. The Bangladesh Rural Advancement Committee (BRAC), a nonprofit organization in Bangladesh, was also an early micro lender. In 1976, similarly in Bangladesh, in the village of Jobra, economist Muhammad Yunus observed that if the poor were given access to credit they could pull themselves out of poverty. His first loan, a total of 27$ to a group of villagers, was an early experiment in group lending. By 1983 he had established the Grameen Bank, of the most prominent microfinance institutions today with one of the strongest socially driven missions. Around the same time, the Indonesian state-owned bank, Bank Rakyat Indonesia (BRI), also began to experiment with not only microloans but also micro savings (Watkins, 2018, p. 2).

Accion, BRAC, BRI, and Grameen Bank soon discovers something remarkable: the poor could save money, and they could borrow money and reliably repay with interest. They treated financial services for the poor like a business that could sustain itself, and in some cases even turn a profit. And these early experiments inspired the creation of new microfinance institutions (MFIs) (Watkins, 2018, p. 3).

Microfinance has been developed as a means of alleviating poverty through banking (Morduch, 1999). It first appeared in, and is most commonly associated with, developing countries, although it is also likely to be relevant for poverty pockets in developed countries. With respect to the US, for example, Blanchflower, Levine and Zimmerman (2003) find that access to credit varies across population groups, such that small businesses owned by African-American entrepreneurs are about twice as likely to be denied credit. In a similar vein, Pager and Shepherd (2008) provide an overview of findings from major studies of discrimination in employment, housing and credit while Glenn (2000) discusses insurance denial. Thus, although conceived in developing countries, the microfinance concept - namely to provide financial services to those excluded from mainstream finance as a way of fighting poverty and achieving other social goals - is a general model, widely applicable in both developing and developed countries (Jean Pierre Gueyie, 2013, p. 2).

What actually is microfinance? It is banking in small amounts, targeting low-income families, and their business activities. Most often, the formal basis of microfinance is a loan contract where a borrower promises to pay back in time and in full to a lender (Roy Mersland, 2014, p. 1).

Microfinance is a financial service of small quantity provided by financial institutions to the poor. "These financial services may include savings, credit, insurance, leasing, money transfer, equity transaction, etc., that is, any types of financial services, provided to customers to meet their formal financial needs: lifecycle, economic opportunity and emergency" with the only qualification that (i) transaction value is small and (ii) customers are poor (Soumitra Sarkar, 2011, p. 8).

Microfinance activities usually involve (Ledgerwood, 1999, p. 1):

- Small loans, typically for working capital
- Informal appraisal of borrowers and investments
- Collateral substitutes, such as group guarantees or compulsory savings
- Access to repeat and larger loans, based on repayment performance
- Streamlined loan disbursment and monitoring

- Secure savings products.

MFIs can be nongovermental organizations (NGOs), savings and loan cooperatives, credit unions, government banks, commercial banks, or nonbank financial institutions. Microfinance clients are typically self-employed, low-income entrepreneurs in both urban and rural areas. Clients are often traders, street vendors, small farmers, service providers (hairdressers, rickshaw drivers), and artisans and small producers, such as black-smiths and seamstresses (Ledgerwood, 1999, p. 2).

MFIs face unique operational risks that make their regulation and supervision especially challenging. Otero and Rhyne (1994) and Berenbach and Churchill (1997) refers to four characteristics that influence the design of MFI regulatory frameworks (Mwenda, 2002, pp. 78-79):

- Firstly, ownership and governance risk is often higher because of the backgrounds of the directors appointed to sit on the boards.
- Secondly, the decentralised nature of the operations of MFIs necessitates dispersed management structures. This has management risk implications for communications, management information systems and, more importantly, internal controls.
- Thirdly, the absence of loanee collateral, held by MFIs means that in the event of default, there is no asset that can be repossessed as a means of securing repayment.
- Lastly, there is a lack of adequate professional experience in operating, as well as regulating, MFIs. Being a relatively new industry, the MFI sector constantly faces new financial products, services and methods of delivery.

Until a few years ago, most microfinance research was published in development journals and often focused on whether access to finance is beneficial for economically poor entrepreneurs and families. Over the last few years the scope of microfinance research has broadened. In particular, the 'business' of microfinance has become an important research area (Roy Mersland, 2014, p. 1). Since the 1990s, microfinance has branched out both in terms of the range of financial and economic services extended, as well as in terms of how capital is raised. Technological innovations have also paced the evolution of microfinance: widespread availability of mobile phones, access to community-level kiosks of computer terminals with access to the Internet, biometric technology to obtain loan approval and credit history, and correspondent banking have dramatically changed the landscape of microfinance (Sundaresan, 2008, p. 5).

Microfinance matters because it increases the options and the self-confidence of poor households by helping them to expand their enterprises and add others, to decrease risks, to smooth consumption, to obtain higher returns on investment, to improve management and increase their productivity and incomes, to store their excess liquidity safely and obtain returns on their savings, to escape or decrease exploitation by the locally powerful, and to conduct their business with dignity (Robinson, 2001, p. 40).

2.3. The role of the Banking System in the SMEs financing

It may be said that banking, in its most simple form, is as old as authentic history. As early as 2000 BC Babylonians had developed a system of banks. In ancient Greece and Rome, the practice of granting credit was widely prevalent. 'Traces of credit by compensation and by transfer orders are found in Assyria, Phoenicia and Egypt before the system attained full development in Greece and Rome. The books of the old Sanskrit law giver, Manu, are full of regulations governing credit. He speaks of judicial proceedings in which credit instruments were called for, interest of loans on bankers, usurers, and even of the renewal of commercial papers (K C Shekhar, 2013, p. 1).

A banking system is a group or network of institutions that provide financial services for us. These institutions are responsible for operating a payment system, providing loans, taking deposits, and helping with investments. Banking systems perform several different functions, depending on the network of institutions. For example, payment and loan functions at commercial banks allow us to deposit funds and use our checking accounts and debit cards to pay our bills or make purchases. They can also help us finance our cars and homes.[8]

The banking system also fulfill another central role in the economy – of providing the payment and clearing infrastructure that the whole of the financial sector and indeed the rest of the economy depends on (Kapoor, 2009).

[8] https://study.com/academy/lesson/banking-system-definition-types.html

2.3.1. SMEs overview in Kosovo

The Republic of Kosovo is the newest state in Europe, it declared its independence on 17th February 2008. It has an area of 10,908 km², population around 1.8 million and GDP per capita 3,951 €.

Kosovo began its transition process after the 1998-1999 war and is the last country in the region to embark on the road towards open market economy. In the war's aftermath, the emphasis was put on the immediate reconstruction needs, which delayed the tackling of employment and poverty. Hence SMEs and other businesses operating in Kosovo confronted a lack of support, making Kosovo's economy heavily reliant on imports. The economic growth of Kosovo throughout these years was driven mainly by consumption and public expenditure, while the importance of foreign aid and donations continued to be substantial. Although investments increased, they were insufficient to boost domestic production, which remained on insufficient levels, leaving the country mainly dependent on imports. Exports remained on rather insignificant levels (KOSME, 2016, p. 12).

Throughout this period, the main trade partners of Kosovo remained the EU, Serbia, Albania and Turkey.

The role of the SME-s has been different in the Republic of Kosovo, and, it can be divided in three periods: before the war (1991-1993), during the Serb occupation (1994-2000) and post-war (2001-continuing). During the Serbian occupation because of the political circumstances the number of SME-s was relatively small and the access to bank loans was impossible or very difficult. But after the war things has changed where the number of SME-s has increased and also many banks started operating, creating a better environment and facilitations for SME-s development.

The SME development in Kosovo is not only relevant for economic growth, but it is also essential to increase employment opportunities, to reduce poverty rates, to enable equal regional development and to ensure inclusion of vulnerable groups i.e. youth and women. To achieve these goals, countries of the region provide various incentives to enable SMEs to become more competitive and grow faster. An accelerated growth of the SME sector creates additional value in the market and improves trade balances. For a country with a huge trade deficit like Kosovo, improvement of the SME related business climate inevitably contributes to enhance the general economic situation and to promote exports (KOSME, 2016, p. 13).

However, Kosovo is still in a transition phase where it is facing a lot of problems, like: high unemployment rate which for the year 2018 was 29.60 %, informal economy, corruption, payment imbalances where exports exceeds imports, fiscal evasion etc.

Small and Medium sized enterprises (SMEs) form the main part of Kosovo's private sector economy and account for approximately 80% of employment in the market economy (Oberholzner, 2014), and, account for 99% of all businesses.

The total number of active businesses in the Republic of Kosovo classified by the number of employees are presented in the table below (KAS, 2017):

Table 5. The number of active SMEs classified by the number of employees, RKS

Classification	Number of employees	Number of enterprises	Percentage
Micro	1-9	62,793	95%
Small	10-49	2,776	4.2%
Medium sized	50-249	463	0.7%
Large	250 and up	66	0.1%
Total		**66,098**	**100%**

Source: Statistical Yearbook of the Republic of Kosovo, 2019

SMEs (small and medium enterprises) are a vital part of Kosovo's economy and account for approximately 40% of GDP. However, despite their immense importance, especially as job generators, SMEs in Kosovo continue to face institutional barriers and other obstacles in the business environment (Studies, 2012). Furthermore, it is very important to mention that from different studies and researches that has been done in Kosovo amongst the barriers that faces the SME-s, are the sources of funding their activities.

Against this background, strengthening and developing the SME sector is therefore a policy priority of the Kosovo government. This is reflected, in particular, in the National Development Strategy 2016-2021, in the government's 'Private Sector Development Strategy 2013-2017' as well as in the 'SME Development Strategy 2012-2016' which aimed to create a SME-friendly business environment, promote an entrepreneurial culture, and raise the (international) competitiveness of SMEs. The government has also established a dedicated institution, the Kosovo Investment and Enterprise Support Agency (KIESA) operating under the Ministry of Trade and Industry (MTI), which next to promoting foreign investments is responsible for supporting policies and programs for micro, small and medium enterprises (Oberholzner, 2014).

2.3.2. SMEs overview in North Macedonia

The Republic of North Macedonia has declared the independence on 8th February 1991, after Yugoslavia disintegrated. It has an area of 25,713 km², population around 2 million and GDP per capita 5,382 €.

The legal and regulatory environment for SMEs has evolved rapidly ever since the transition to a market economy was started in 1991; this process has been accelerated in recent years, fostered by the beginning of the EU accession process and the resulting harmonization of National laws with EU legislation. SMEs are affected by these changes in many areas, including those that concern the establishment of a business, financial reporting, taxation, contract and dispute resolution, bankruptcy, technical standards, and banking and finance. The rapid pace of policy change and changes in the accompanying legislation and its implementing provisions have doubtlessly improved the business environment and have pushed the country forward in its transition to a full-fledged market economy (Commission, Small Enterprise Development in the Former Yugoslav Republic of Macedonia, 2007, p. 27).

The SME sector in the Republic of North Macedonia comprises more than 98% of all the active companies in the country for which they are regarded as a driving force of the overall economic activity, while their participation in GDP and employment is over 60%. From the aspect of its size and flexibility the SMEs represent the most dynamic but in the same time and the most vulnerable segment in the global economic structure of the country.[9]

Therefore, the SME sector is rightly recognized as a main driving force of overall economic activity, and because of its size and flexibility, it represents the most dynamic, but at the same time, a vulnerable segment in the economic structure of the country. However, according to the preliminary findings from the most recent Small Business Act (SBA) Assessment Report (2015), limited progress can be observed on the institutional support framework for SMEs. The country has, however, strengthened the institutional, regulatory and operational environment for SMEs, e.g. measures have been taken to facilitate company registration and e-government services (Macedonia, 2016, p. 22).

[9] Agency for promotion of entrepreneurship of the Republic of North Macedonia, http://www.apprm.gov.mk/sme1.asp?id=3

The vision of the SME strategy prepared by the Ministry of Economy of the Republic of North Macedonia is to contribute to an overall increase of employment in the SME sector, and to the Gross Domestic Product. Its Goals are to:

- Increase the number of SMEs;
- Increase employment in SMEs;
- Increase the contribution of SMEs to GDP.

The total number of active businesses in the Republic of North Macedonia classified by the number of employees are presented in the table below:

Table 6. The number of active SMEs classified by the number of employees, RM

Classification	Number of employees	Number of enterprises	Percentage
Micro	1-9	57,184	89.22%
Small	10-49	5,271	8.22%
Medium sized	50-249	1399	2.18%
Large	250 and up	240	0.37%
Total		**64,094**	**100%**

Source: Statistical Yearbook of the Republic of North Macedonia, 2019

Having in mind the importance of the small and medium businesses for the economic growth, North Macedonia, as a candidate country for EU membership, has been continuously taking measures, creating policies and strategies for supporting SMEs development. This is in accordance with the principles of the Small Business Act (SBA) that was passed in 2008 by the European Commission, which clearly states that the economic policies of each country should be directed to encouraging entrepreneurship and eliminating the problems in development of small and medium enterprises (Risteska, Nikoloski, Gveroski, Spaseska, & Risteska, Analysis of SMEs Financing in the Republic of Macedonia - Conditions and Perspectives, 2014).

The institutional architecture for the support of the SME sector has taken shape in the form of the Department for Entrepreneurship and Competitiveness in the Ministry of Economy and the Agency for Entrepreneurship Support (APPRM), responsible respectively for defining SME policies and their implementation. APPRM also coordinates the SME support infrastructure, which consist of a wide spectrum of institutions – business centers, consultancies, incubators, technology transfer centers, etc. – that offer services to small and medium enterprises on the local level. In addition, the recently established SME Forum provides a platform for dialogue and cooperation between the Government and private sector business organizations, and the wider civil society (Commission, Small Enterprise Development in the Former Yugoslav Republic of Macedonia, 2007, p. 9).

2.3.3. Business financing climate in Kosovo and in North Macedonia

The small and medium enterprises are a key driver of the economic development in each developed and developing country. Like in other developed and developing countries it is very important for Kosovo's and North Macedonia's economy to develop the SME-s.

Financing for SMEs in the appropriate forms is important at all stages of the business life cycle, in order to enable these firms to start up, develop and grow, and make contributions to employment, growth and social inclusion. Access to finance improves post-entry performance of start-ups and industries which are more dependent on external finance grow relatively faster in countries with more developed financial markets, thanks to enhanced information sharing and risk management, and a better allocation of resources to profitable investment projects (Rajan and Zingales, 1998; Giovannini et al., 2013). On the other hand, financing constraints that prevent firms from investing in innovative projects, seizing growth opportunities, or undertaking restructuring in case of distress negatively affect productivity, employment, innovation and income gaps (OECD, Enhancing SME access to diversified financing instruments, 2018) (EC, 2016).

Bank lending is the most common source of external finance for many SMEs and entrepreneurs, which are often heavily reliant on traditional debt to fulfill their start-up, cash flow and investment needs. While it is commonly used by small businesses, however, traditional bank finance poses challenges to SMEs, in particular to newer, innovative and fast growing companies, with a higher risk-return profile. While bank financing will continue to be crucial for the SME sector, there is a broad concern that credit constraints will simply become “the new normal” for SMEs and entrepreneurs. It is therefore necessary to broaden the range of financing instruments available to SMEs and entrepreneurs, in order to enable them to continue to play their role in investment, growth, innovation and employment (OECD, New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments, 2015).

The discussion of the relevant literature related to the access to SME-s finance, as well as to investment finance is of particular importance (Krasniqi B. , 2004). According to Beck et al.

(2007), the SMEs access to, and cost of, finance is quite often characterized as a major difficulty, up to extent of 35 percent. It should also be stressed that the small firms come with more difficulty to loans, since they encounter higher transaction costs and higher premium risks, for they are more fragile and they offer lower collaterals (Qazim Tmava, 2013).

The supply of loan financing to small and medium enterprises is sufficient in the Republic of Kosovo, with the country's ten banks aggressively competing for their business, lowering interest rates and loosening lending standards in the process. Trade finance services are also generally available through banks, with a special focus on guarantee products. Because the largest banks in the country have recently decided to stop serving the microenterprise segment, micro-loans are now mostly supplied by the small microfinance sector. While banks have ample liquidity due to high levels of deposit funding, MFIs struggle to meet the growing demand due to limited funding sources (EIB, 2016).

The most apparent private sector financing gaps in Kosovo include those for loans to micro-enterprises and for equity finance. While small and medium loan finance availability is sufficient, high collateral requirements present a major barrier for access to finance by SMEs. To resolve this issue, the government and several multi-national donors are in the process of setting up a EUR 12–15 million national credit BFC. An agriculture-focused guarantee facility provided by USAID has been successful in reducing collateral requirements for farmers and spurring lending to the sector, and room for additional donor guarantee funds exists (EIB, 2016).

The results of one SME survey in the Republic of Kosovo show that financing is one of the main obstacles to SME growth. Difficult bank's requirements and inadequate terms and conditions for loans impede SME investments and consequently constrain their growth (Krasniqi B. , 2004).

Concerning SMEs financing, North Macedonia is in a similar position as many other emerging countries. It is completely clear that for establishing and successful functioning of a given small or medium sized enterprise, appropriate financial sources are necessary. Successful financial management of a SME is a balance between the size and structure of the necessary business resources and the size and structure of sources for their financing. Although there are different sources of financing such as: loans, leasing arrangements, securitization, business angels, risky capital etc., this problem is still present among SMEs. The reasons for this situation are insufficient development of the financial system from the one hand, and the insufficient information on the available financing sources, on the other hand (Risteska, Nikoloski, Gveroski, Spaseska, & Risteska, Analysis of SMEs Financing in the Republic of Macedonia - Conditions and Perspectives, 2014).

Micro and small enterprises face problems with regular access to finance. Alternative non-banking financing needs to be developed (EC, 2016).

There were a series of positive changes in the Republic of North Macedonia banking sector in recent years. The credit rating has improved and is slowly approaching investment grade, the macroeconomic situation is stable and ranks 30 out of the 127 countries covered by the World Economic Forum Report (2006). Interest rates are finally decreasing due to macroeconomic stabilization, and a larger volume of credit is being made available to the enterprise sector as a result of the increasing competition and greater liquidity in the banking sector. Despite these developments, SMEs still experience considerable difficulties in accessing commercial bank loans. As in other countries of the SEE region, commercial banks perceive SMEs as risky clients because of their limited assets and low managerial skills, while SMEs complain about commercial banks being overly conservative and risk adverse, and generally not interested in financing of SMEs. The difficulties that SMEs experience when trying to obtain commercial credit are due to several factors. First, the banking sector in the country is still relatively underdeveloped, and suffers from low levels of competition and financial intermediation. Second, there are particular problems related to SME financing that discourage banks from lending to SMEs (Commission, Small Enterprise Development in the Former Yugoslav Republic of Macedonia, 2007).

From the perspective of commercial banks in the Republic of North Macedonia, SMEs are considered as high-risk clients, due to their small size and their limited prospects of earning sufficient funds to service a loan. Moreover, insufficient and often unreliable credit information does not permit banks a proper assessment of the capabilities of SMEs to service their debts. The generally smaller loan amounts required by the SME sector lead to disproportionately high management costs that eat into the profitability of the banks. Finally, many commercial banks do not have sufficient experience to properly evaluate loan applications from the SME sector, even if sufficient credit information would be available (Commission, Small Enterprise Development in the Former Yugoslav Republic of Macedonia, 2007).

Kosovo is in the process of establishing a Loan Guarantee Fund, which will cover a percentage of the principal amount, thus help alleviate one of the main challenges for investment in Kosovo's private sector that is access to funding. On the other hand, the loan registry system in Kosovo functions quite well, but the coverage is limited to only 22% of the adult population (compared to the OECD average of 43%). This affects the ability of the system to serve as a comprehensive provider of financial information for banking industry. Coverage and quality of information is decisive in order for the banks to properly assess the "risk margin", which is added to the basic rate in order to calculate the total applicable interest rate. Additionally, firms in Kosovo have limited capacities to report their financial data, which results in high demand for collateral and high interest rates (RKS, 2016).

2.3.4. Banking system in Kosovo

A banking system is a group or network of institutions that provide financial services for us. These institutions are responsible for operating a payment system, providing loans, taking deposits, and helping with investments.[10]

Kosovo's banking system is well regulated, profitable, and liquid. The Central Bank of Kosovo (CBK) is an independent public agency with the authority to license, supervise, and regulate financial institutions and insurance companies in Kosovo. The CBK has adopted banking rules and regulations in line with the Basel Accords and EU directives.[11]

The banking system in Kosovo is quite new, system operation began one year after the end of the war, respectively in 2000. In addition to the Central Bank, there are ten commercial banks operating in Kosovo, in which only two of them have local capital. During the operation of this system we have a rapid growth of deposits and loans. Growth and development of the banking sector has been accompanied by the rise of banks and the growth of their number, the expansion of the products offered, with the expansion of geographical coverage covering the entire territory of the country. Based on the characteristics and importance of the credit system in the economic development of the country, banks' loans or commercial loans, although having high interest rates, have contributed in a way and to some extent to the development of economic processes and to the development of this system. This system of operation has not only increased the number of credits but also the amount of allowed funds, these loans are issued to a large extent for the various businesses that have invested in the development of their businesses and in

[10] https://study.com/academy/lesson/banking-system-definition-types.html
[11] https://www.export.gov/article?id=Kosovo-Banking-Systems

some way also in the economic development of the country, this indirectly determining the role of banks the economic development of the country (Hasanaj, Shala, & Qarkaxhija, 2017).

The total value of assets of Kosovo’s financial system reached EUR 6.32 billion at the end of Q4 2018, representing an annual increase of 7.0 percent. Banking sector continued to have the main contribution to the expansion of financial system activity, being followed by microfinance sector. Unlike in the previous year, when the pension sector had the same contribution as the banking sector, to the increase of the system assets, the negative return from investments in 2018 had an impact on the decline of the contribution of this sector to the increase of total assets of the system. On quarterly basis, financial system assets marked an increase of EUR 96.6 million in Q4 2018, mainly as a result of the increase of the banking sector assets (EUR 150.6 million) and microfinance sector (EUR 13.7 million). Conversely, other segments of financial system as pension sector and insurance sector declined in Q4 2018, for EUR 64.7 million, namely EUR 3.8 million (CBK, Quarterly Assessment of Financial System, 2018, p. 5).

Banking sector continues to be characterized with high stability based on the level of indicators that measure financial health and performance. Aggregated risk index of banking sector marked a decrease compared to the previous year, mainly impacted by the reduction of credit risk. Also, profitability and high-level of capitalization contributed to the reduction of sector’s risk, while liquidity risk marked an increase compared to the previous year. On-going increase of mismatch in maturity terms as result of expansion of maturity terms for assets (mainly of lending), an increase of transferable deposits in liability side, had slight impact on the increase of liquidity risk. This trend of expansion of maturity mismatch provides indications for possible changes in the bank funding structure in order to support long-term lending. On-going increase of lending will increase pressures to the capital position as pressures to the profitability of the sector in an environment of on-going decrease of interest rates on loans may increase. While other indicators give signals for risk reduction, the fact that on-going increase of digitalization of financial services increases the exposure of the sector to cybercrime and operational risk, thus should not be ignored; hence, adequate measures should be taken for protection against this increasing risk (CBK, Financial Stability Report, 2018, pp. 19-20).

As in other areas, as well as the financial sector in Kosovo is faced with several challenges, which are expressed in the capital market and credit policy, namely to implement economic policy. Government, with a consistent policy and strategy development (which currently lacks), must mobilize all development factors, including capital market in the economic development of local business. The government, besides other factors, through the banking system should include all cash free subjects and citizens, and through credit policy to bring in the economic development of Kosovo. This is a responsibility and duty of the Kosovo Government (Skenderi, Uka, Ahmeti, & Skenderi, 2015).

2.3.4.1. The Central Bank of the Republic of Kosovo

The Central Bank of the Republic of Kosovo is an independent public institution, and its primary objective is to promote and maintain a sound financial system as well as an efficient payment system. According to the Law no 03/L-209 on the Central Bank, the Central Bank of Kosovo is a public legal entity that has administrative, financial and managerial autonomy, meaning it functions and operates outside the framework of Kosovo's governmental structures. The Central Bank of the Republic of Kosovo is independent of the governmental organs that are in different

countries. In addition, the Central Bank of Kosovo as a financial institution establishes the internal rules and procedures governing the employment of personnel including staff, advisors, experts and prosecution, based on the general rules governing the public service.

The CBK principal objectives are to[12]:

1. Foster the soundness, solvency and efficient functioning of a stable market based financial system, encouraging market emergence of safe financial instruments; and
2. Without prejudice to this, support the general economic policies in Kosovo with a view to contributing to an efficient allocation of resources in accordance with the principles of an open market economy.
3. The CBK has the following specific powers:
    - to recommend broad policy guidelines to the Assembly and Government in areas under its responsibility;
    - to formulate and implement measures for payments and settlement systems for transactions in domestic and foreign currency in Kosovo, and to supervise and regulate payments;

[12] https://bqk-kos.org/index.php?id=3

- to own and operate one or more payments systems;
- to act as banker to the Ministry of Finance and Economy and to provide financial advice at Ministry request;
- to act as fiscal agent to the Ministry of Finance and Economy;
- to maintain a depository for safe keeping of currency and securities;
- to hold foreign currency deposits of banks, Ministry of Finance and Economy and other public entities;
- to ensure an adequate supply of bank notes and coins for the settlement of cash transactions;
- to license, supervise and regulate financial institutions;
- to conduct regular economic and monetary analysis of the Kosovo economy, make public the results, and submit proposals and measures to the Assembly and the Government on the basis of such analysis;
- to supervise and regulate dealers in foreign exchange, broker-dealers and mutual funds;
- to approve external auditors of financial institutions;
- to set accounting standards for financial institutions in Kosovo in line with International Financial Reporting Standards.

Within the powers provided by law, the CBK is independent of any other power in accomplishing main objectives of its activity and exercising of its duties. Each subject is obliged to respect the independence of Central Bank of the Republic of Kosovo, and shall not seek to influence any CBK Governing Board member or employee in the discharge of his or her duties or to interfere in the activities of the Central bank of Republic of Kosovo[13].

Maintaining the financial stability constitutes a primary statutory and objective obligation for the Central Bank of the Republic of Kosovo (CBK). Financial stability can be defined as the situation in which all components of the financial system (financial markets, financial institutions and financial infrastructure) function without systemic break and maintain and empower system resistance. In order to maintain financial stability, CBK, among other things, continuously identifies, monitors and analyses systemic risk. Identifying potential risks is done

[13] https://bqk-kos.org/index.php?id=3

through continuous monitoring of cyclical and structural macroeconomic developments as well as the financial system. Whereas risks assessment and their potential impact on financial stability and consequently overall macroeconomic stability is done through regular qualitative and quantitative analysis, including the analysis of the performance of high-frequency economic and financial indicators, forecasts on key macroeconomic indicators and the application of models that address the cyclical, structural and cross-sector dimension of systemic risk[14].

The Central Bank of the Republic of Kosovo (CBK) is exclusively responsible for licensing, regulating and supervising financial institutions, such as: banks, insurers, pension funds, micro financial institutions, non-bank financial institutions, insurance intermediaries, loss adjusters (claim handlers) and other legal entities which exercise financial activities as determined by the legislation in force in the Republic of Kosovo. All the interested parties to get a license or registration for an institution that exercises financial activities in the Republic of Kosovo, must initially read the relevant manuals and frequently asked questions, afterwards those interested must contact the Department for Licensing and Standardization to set up an informational meeting, which is mandatory prior to the application process[15].

2.3.4.2. Monetary policy

System and monetary policies represent a very important tool in the implementation of economic policies. Monetary policy instruments ranks among the most important economic policy whereby a state government intervenes in the economic situation, especially in financial transactions. Through monetary policy, the government intervenes in the supply (M) and demand (L) flows, stabilize prices, the fight against inflation, increase employment, balance of payments etc. In each country, the monetary policy is monitored and supervised by the Central Bank of the country concerned, the country through monetary institutions (commercial banks and other financial institutions) (Skenderi, Uka, Ahmeti, & Skenderi, 2015).

Kosovo cannot make sound monetary policy, because is found in the Euro zone, the unique monetary system of the European Union. This applies to all EU member states taking part in the Euro zone. Meanwhile, countries that have not recognized the unique monetary system of the EU, are those countries that are not in the Euro zone, independently implement their monetary

[14] https://bqk-kos.org/?id=270
[15] https://bqk-kos.org/index.php?id=117

policy within their own country, such as the United Kingdom and countries of Eastern Europe. There may be genuine monetary policy without the right of the primary emission (emission of money). Any member of the EU that is involved in the Euro zone does not have this right, therefore nor does Kosovo enjoy this right. The primary with emissions rights belongs to the European Central Bank, but not the Central Banks of countries belonging to the Euro zone. Therefore, central banks in the Euro zone, including the Central Bank of Kosovo, is not entitled to the primary emission, but this does not mean that monetary policy can do anything in other areas of the financial system, for example public finance (Skenderi, Uka, Ahmeti, & Skenderi, 2015).

Kosovo is a very open economy and exposed to external shocks. In the absence of monetary and exchange rate policies, macro prudential policy measures may be especially useful in countering cyclical risks to which financial system is exposed. The framework should include both institutional and operational elements. Operational aspects should include setting targets for limiting excessive liquidity and leveraging risks, and could use instruments such as time-varying reserve requirements, restrictions on loan-to-income or revenue ratios, and adding a countercyclical component to capital requirements (IMF, Republic of Kosovo: Financial System Stability Assessment, 2013).

2.3.4.3. Payment instruments

With the development of technology was enabled and developed a new aspect in perception and money usage. Despite the fact that cash is still a payment tool widespread, the traditional way of using money has undergone changes. Payments today are made using cash, cards or bank transfers. These ways are payment or banking instruments. We distinguish two main groups of payment/banking instruments: on paper and electronics.

Paper instruments are: cash, checks, transfer orders and payment orders at paper.

Electronic instrument is electronic money, an example of the use of this money are: bank cards, internet payments, electronic money, e-banking, payments by phone, electronic payment orders, virtual money, etc.

These two forms of money are transformed into each other. Peoples as needed pull money from their accounts and takes them as cash, also when they have cash they deposit them in their accounts which they will use later as electronic money.

Electronic money refers to the money and transactions that are carried out with it and these actions are carried out by using electronic means: internet, computers, interconnections, automatic counters -ATM (Automated Teller Machines), POS (Point of Sale), etc.
The use of electronic money is enabled by the engagement and involvement of a number of payment mechanisms and stakeholders. The main players are: issuers, customers, traders:

- Issuers are banks or other institutions non banking (commercial networks, etc.);
- Clients are electronic money users;
- Traders are those who accept electronic money in exchange for goods and services they provide.

Other important participants in this process are also state institutions, which are in charge and authorized to oversee the financial system, with the purpose of maintaining the stability and security of the payment system, including electronic money from counterfeiting or other harmful and unlawful action.
Mechanisms that enable the use and circulation of electronic money are:

- *Credit transfers*. Instruction from the payer to debit his bank account, and to credit the bank account to the beneficiary of the funds.
- *Bank cards.* Cards are issued by commercial bank (issuer) and enable the client to pay with the funds from his bank account.
- *E-Banking*. It allows the customer access to his account and making payments through the bank's internet portal.
- *Direct Debit.* It enables the customer to authorize his bank (through the beneficiary company) to make regular payments from his account on the beneficiary's account under the prior agreement.
- *Kos-Gyro payment.* Enables the client to pay the obligation to public companies through standard bills, with the possibility of automatic bill reading through barcode readers.

The usage of electronic money has its advantages and disadvantages. Through electronic money, all actions can be performed in everyday life as with cash. The facilitation offered by electronic money is that we do not need cash transfers, which saves us time to go to the bank to withdraw money (saves us from risk of loss, looting, forgery, fraud, etc.) or to make payments and other transfers.

The initial cost of applying for a client category may be a barrier (computer, access, software, etc.). Trust in this type of financial operations, without contact with bank staff traditional customers may initially seem difficult, as well as the initial period of adjustment and learning of the use of electronic money instruments. The risk of unauthorized interference with customer accounts is a disadvantage too.

The increase in the number of these instruments is in proportion with the increase in the number of interbank payments in Kosovo, a fact that speaks of the continued growth of confidence in the banking system and the more massive use of payment instruments.

2.3.4.4. Banking products and services[16]

Banks of Kosovo serve the citizens and businesses of Kosovo by offering a wide range of financial services. Banks of Kosovo enable businesses to launch and expand their activities, to increase employment and offer better services to their clients. In addition, banks enable households to achieve their goals by providing housing finance, through loans for education or to afford other necessary expenses.

Banks of Kosovo also empower the society through supporting charity activities and financial support for important projects for the society. In recent years, banking sector has also undertaken a great initiative to increase capacities of children and youth through financial literacy.

There are ten (10) banks that are operating nowadays in banking system in Kosovo, representing 67.5 percent of the total assets in the financial sector. Their products and services include banking accounts, loans, domestic and international payments, banking cards, banking guarantees, letter of credit, e-banking. The access to these services it is enabled through 233 branches and sub branches, 500 ATM's, 12,303 POS and 228,745 e-banking accounts.

Their activity is dominated by loans and the maturity can be up to 15 years, depending on the type of loan. The total of loans is 2,489 million euro, loans for enterprises are 36.27% while loans for individuals are 63.51%. Most of these loans are absorbed by trading enterprises sector (50 percent of loans to enterprises), whereas loans issued to the industrial sector (including mines, production, energy and construction) compose 24.27% of total loans to enterprises. The agricultural sector represents 3.87% of total loans.

[16] https://www.bankassoc-kos.com/En/sektori-bankar/

The structure of banking sector liabilities is dominated by deposits, which represent 79.7 percent of total liabilities. Deposits at the banking sectors have recorded an annual growth of 7.3% percent, amounting at euro 3 billion. Deposits in the banking sector consist of household deposits, which participate with a share of 75.40% percent in total deposits, whereas the deposits of private sector enterprises compose 23 percent of total deposits.

2.3.4.5. International banking

As mentioned above there are ten commercial banks that operate in Kosovo, representing 65.5 percent of total assets in the financial sector, eight of which are foreign-owned and comprise about 88.1 percent of total banking system assets[17]. There are 3,328 commercial banks employees.

CBK promotes the processes through which the Republic of Kosovo is integrated into the European Union and becomes part of other international institutions. CBK undertakes steps to raise the level of the knowledge of general public, including international public, on CBK and the Republic of Kosovo, through practical activities and regular publications on its operations. CBK decision-making bodies and staff regularly participate in international events in order to promote the Republic of Kosovo and the CBK. CBK carries out and develops its activities in accordance with international standards and practices and cooperates with relevant international organizations. The CBK is fully aware of its responsibility towards the local and international stakeholders to help in the bringing of Kosovo’s economy and financial system closer to European ones (CBK, Strategic Plan 2015-2019, 2015, p. 19).

CBK will contribute to the integration into the European Union and cooperation with other international institutions through the following strategic actions (CBK, Strategic Plan 2015-2019, 2015, pp. 19-20):

1. Advancement of the participation in international associations and organizations;
2. Joint representation of the Republic of Kosovo, particularly its financial system.
3. Development of the internal action plan for the implementation of aspects regarding CBK functions included in the Stabilization - Association Agreement;

[17] https://www.export.gov/article?id=Kosovo-Banking-Systems

4. Advancement of the coordination of the fulfillment of CBK obligations at the national level derived from the process of European integration in general;
5. Capacity building within the CBK to overcome the challenges arising from the process of European integration and international cooperation;
6. Enhancement of the cooperation of the CBK with European and international financial institutions as well as with European central banks and financial authorities.
7. Establishment of the unit of European integration and international relations;
8. Centralization of communications and documentation related to the European integration processes;
9. Development of bilateral relations with the European Commission, European Central Bank and central banks of European Systems of Central Banks;
10. Strategic development of skills of CBK personnel regarding European integration.

2.3.5. Banking system in North Macedonia

The financial system in North Macedonia consists of the National Bank of the Republic of North Macedonia (NBRM), commercial banks, financial companies, savings houses, exchange offices, the Deposit Insurance Fund, insurance companies, pension funds, investment funds, brokerage firms, and a stock exchange[18].

The banking system is crucial for the financial system stability. This is primarily because of its size, since it accounts for 83% of the financial system's assets, although its share tends to slow down. In addition, for some of the domestic financial institutions, especially brokerage houses, insurance companies and investment funds, invested deposits in banks are an important investment alternative, whereby their performance sustainability is largely conditioned by a safe and sound banking system (NBRM, Financial stability report for the Republic of Macedonia, 2018).

The banking system remained sound. Banks' activities enhanced slowly reflecting the slower growth of deposits of non-financial entities, due to the uncertain domestic environment and stalled economy. The domestic environment uncertainty shied economic agents away from investing, which generally reduced demand for loans. Yet, the credit growth remained moderate,

[18] https://www.export.gov/article?id=North Macedonia-Banking-Systems

mainly targeted at households (NBRM, Financial stability report for the Republic of Macedonia, 2018).

The banking system in North Macedonia consists of 14 private banks, one state-owned bank (North Macedonian Bank for Development Promotion), and three savings houses. According to the Banking Law, banks observe the principles of profit maximization, liquidity, safety, and profitability. A foreign bank could have a presence either as a legal entity or by opening a branch or a representative office. In 2017, foreign capital was present in 14 and was dominant in 11 banks, controlling 70.3 percent of total banking sector assets, 78.1 percent of total loans, and 69.4 percent of total deposits. Changes in the Banking Law in 2013 allowed savings houses to transform either into a financial company, which is subject to less restrictive supervision, or into a bank. Three legal entities are operating as financial companies, which, according to legislation, do not receive deposits, and are subject to supervision by the Ministry of Finance. There is no separate legislation regulating non-bank financial institutions, and they are regulated with the provisions of the previous Banking Law and appropriate sub-laws[19].

The banking sector is regarded as 'in good health', with some areas for improvement, mainly around regulation and control. Opinions vary on the banking system's ability to provide sufficient credit to the SME sector. The European Investment Bank sees that there is "generally abundant supply of SME credit, access to which is only restricted by insufficient collateral and perceived inability of the borrowers to repay the loan" (EIB, 2016). A recent study, however, found that "Access to finance is considered as a major obstacle to "doing business". SMEs have only 35% of total private sector lending, but constitute almost 99% of all businesses (Culkin & Simmons, 2018).

On the other hand, banks maintain that they have adequate money available to lend, but do not receive proposals of a sufficiently high standard, that they could, or indeed would support (Macedonia, 2016).

The liquidity of the banking system is considered as satisfactory. Credit risk (as the most significant risk inherent in banks' balance sheets) does not indicate a growing concern. In addition, banks' exposure to other risks is not significant. Considering the fact that the euro is the most common foreign currency in banks' balance sheets, it minimizes the importance of currency risk for banks. This is due to the dominance of the euro and banks' strategy of

[19] https://www.export.gov/article?id=North Macedonia-Banking-Systems

maintaining a stable nominal exchange rate in relation to North Macedonian Denars vs. the Euro (Hsu & Bahar, 2016).

2.3.5.1. The National Bank of the Republic of North Macedonia

According to the Law on the National Bank of the Republic of North Macedonia, the primary objective of the National Bank shall be to achieve and to maintain price stability. Other objective of the Bank, subordinated to the primary objective, shall be to contribute to the maintenance of a stable, competitive and market-based financial system. The National Bank shall support the general economic policies without jeopardizing the achievement of primary objective and in conformity with the principle of open market economy and free competition[20].

To achieve the set objectives, the National Bank shall[21]:

- design and conduct the monetary policy;
- participate in the determination of the exchange rate regime;
- design and conduct the exchange rate policy;
- hold and manage foreign reserves;
- issue and manage the banknotes and coins of our country;
- record and monitor the international credit operations and prepare the balance of payments of our country;
- collect and produce statistics in pursuance of the tasks as required by the law;
- establish, promote, register and oversee sound, safe and efficient payment, settlement and clearing systems;
- regulate, license, and supervise banks, savings houses, e-money issuers and other financial institutions as further specified in this Law or any other law;
- supervise the application of regulations that govern foreign currency operations, currency exchange operations, money transfer services and anti-money laundering systems, and customer protection, as further specified in this Law or any other law;
- act as fiscal agent to the Government of the Republic of North North Macedonia;
- participate in international institutions and organizations concerning matters within its competence;

[20] http://www.nbrm.mk/celi_i_zadaci-en.nspx
[21] http://www.nbrm.mk/celi_i_zadaci-en.nspx

- organize trading and settlement of securities on the over the counter (OTC) markets and
- carry out any other activities related to the exercise of its tasks under the Law on the National Bank of the Republic of North Macedonia or any other law.

The National Bank of the Republic of North Macedonia (NBRM) is the only supervisory authority responsible for the licensing and supervision of banks and saving institutions in the Republic of North Macedonia. The main purpose of the supervisory function performed by the NBRM is the maintenance of a safe and sound banking system and protection of depositors and other creditors that invest their money in the banking sector. The NBRM has established supervisory standards that are based on the international standards and practices set by the Basel Committee on Banking Supervision (KPMG, 2018, p. 70).

2.3.5.2. Monetary policy

Maintaining price stability is the main legally defined objective of the monetary policy of the National Bank of the Republic of North Macedonia (NBRM). Another objective of the NBRM, which is subordinate to the main objective, is to contribute to a stable and competitive market-oriented financial system. The NBRM supports the general economic policy without jeopardizing the achievement of the primary objective, in accordance with the principle of an open market economy with free competition. From a strategic point of view, since October 1995, the NBRM has applied the strategy of maintaining stable nominal exchange rate of the denar, first against the Deutsche mark (until 2001) and then against the euro. In 2017, the NBRM successfully achieved the legally defined objectives. The exchange rate of the denar against the euro was stable, while the foreign reserves remained in the comfort zone, as appropriate. Regarding price stability, domestic prices in 2017 registered a small growth, amid upward movement of core inflation (partially due to one-off factors) and energy component of inflation (pursuant to the movement of world energy prices) (NBRM, Annual Report of the National Bank of the Republic of Macedonia for 2017, 2018).

In 2017, the financial stability was successfully preserved as additional support to the achievement of the primary objective. In the first two months of 2017, the NBRM continued normalizing the monetary policy, cutting the policy rate back to the level prior to May 2016, when as a response to the effects of the political crisis, it was increased. The monetary policy normalized with the stabilization of the environment and the improvement of the economic agents' perceptions, present since mid-2016 and during 2017. Until the end of the year, the monetary policy setup did not undergo any changes (NBRM, Annual Report of the National Bank of the Republic of Macedonia for 2017, 2018).

2.3.5.3. Payment instruments

In the Republic of North Macedonia we distinguish three main groups of payment/banking instruments:

- **Credit transfer**. It is a payment instrument where payers instruct the bank that maintains their account to transfer certain amount of funds to the account of the recipient. Instructions for initiating credit transfer can be submitted in paper or electronic form. Credit transfers in the Republic of North North Macedonia are initiated by using paper and electronic orders. Payment instructions in electronic form must contain the same elements as the instructions for payment in paper, with mandatory authentication. The credit transfer initiator has the option to choose the payment system which will execute the payment (MIPS, KIBS or interbank systems for processing payments between customers of a same bank). Credit transfer types are paper-based and non-paper-based instruments.
- **Direct debit**. It is a payment instrument which authorizes the debiting of the payer's account. These payments are initiated by the recipient on the basis of the authorization given by the payer. The authorization, confirming that the payer agrees their account to be debited by direct debit is called a "mandate". National rules differ as to whether the mandate is given to the recipient or to the payer's bank.
- **Payment cards.** Payment cards are used by their holders during payment for purchases of goods and services at the point of sale or online, and for withdrawing cash from an ATM.

The most commonly used credit cards are debit and credit cards:

- Debit cards are linked to a bank account and allow the holder to withdraw cash from it through an ATM or to make payment of the purchased goods and services. As a result, each of the above mentioned activities results in debiting of the bank account that is linked to the debit card. The bank account can be debited without any delay or at determined time delay. Debit cards are the most widely used types of payment cards in the Republic of North North Macedonia.

- Credit cards provide the holder a credit line and the possibility of deferred payment. The size and duration of the credit line is subject to agreement between the owner of the credit card and the issuer of the credit card. In the Republic of North North Macedonia, the use of credit cards is relatively lower compared to the use of debit cards.

Also as payment instruments in the Republic of North Macedonia we can mention: E-money and Checks.

In North Macedonia, FYR, paper orders (forms with defined elements) and electronic orders (online payment) are used for non-cash payments. Payment instruments in electronic form obligatorily contain the same elements as paper payment instruments, but with a mandatory electronic signature. With the development of technology, especially the growth in internet usage, and with massive promotion by the banks, the country has seen an upward trend in the use of electronic banking (NBRM, CPSS – Payment, clearing and settlement systems in Macedonia, FYR, 2013, 2013).

2.3.5.4. Banking products and services[22]

Many researchers and practitioners point out the services' quality as an essential tool that differentiates companies from their competition. The performance expectations and the performance level are defined from a customer's point of view. Service quality has a strong focus on the customer demands and the customer perception of quality. For service providers this means that they have to match requirements according to expected services and perceived services to achieve customer satisfaction. For the measurement of the service quality a combination between the product-based view and the user-based view is helpful (Hunter, 2010, p. 548).

The model from Gronroos defines the perceived quality as the difference between the customer expectations and their experiences according to the service. For an organization this

[22] https://www.ebf.eu/north-North Macedonia/

means that it has to match the expected service and the perceived service to each other so that customer satisfaction will be accomplished. A high service quality is achieved if the perceived quality is higher than the expected quality level (Hunter, 2010, p. 548).

Continuous improvement means that all functions will be involved, but only if there is trust between them will improvement be realized (Dale, Wiele, & Iwaarden, 2007, p. 586).

Globalization, deregulation and financial innovations have all a significant impact on increasing the competitive levels in the banking sector. Therefore, banking institutions have to pay a great attention to the improvement of the quality of their services, which is a key premise to their better positioning on the market. The quality of banking services along with the clients' satisfaction and loyalty are both significant determinants that underlay the success in modern banking (Boshkoska & Sotiroski, An empirical study of customer usage and satisfaction with e-banking services in the Republic of Macedonia, 2018).

On December 31, 2017, there are 17 deposit-taking institutions in the Republic of North-North Macedonia, 15 banks and two savings houses Their products and services include banking accounts, loans, domestic and international payments, banking cards, banking guarantees, letter of credit, e-banking. Six banks are mainly oriented to lending to non-financial companies, five banks are mostly crediting households, three banks equally finance the two sectors, while one bank, North Macedonian Bank for Development Promotion places credits through the other banks (as the state-owned financial intermediary for approved credit lines from international financial institutions). Most banks are owned by foreign shareholders. In 2017, eleven banks were owned by foreign shareholders, and there were six subsidiaries of foreign banks, unchanged from 2016. Greek and Slovenian shareholders held 21.3% and 14%, respectively, of the banks' share capital. In 2017, the share of capital originating from Germany increased by 0.8 percentage points. Since the beginning of 2017, the National Bank of the North-North Macedonia (NBRM) through the North Macedonian Interbank Payment System has enabled the banks to make payments in Euros (inflows and outflows) in the country and abroad through the payment system TARGET 2.

The number of ATMs with transfer functionality rose in 2017 by 9.4%. The number of accounts that could initiate electronic banking increased slightly and the number of contactless cards doubled. The total value of non-cash payments in the country in 2017 grew by 9.6%. The banking network consists of 427 branches. In 2017, the number of employees in the banking system was 5,929.

Despite caution on the part of domestic non-financial entities and consumers, consequently, reduced demand for loans in the first half of 2017, banks maintained a satisfactory pace of lending activity. Thus, the total loans to non-financial entities in 2017 increased by 5.9%, which was faster than to the growth of total bank assets and deposits. The credit growth was mainly a result of the increased credit to households, which contributed to the total annual growth with almost three quarters of loans to non-financial entities.

The fall of banks' deposits in the first quarter of 2017 and their minimal growth in the second and third quarters of this year contributed to a slowdown in the growth rate of the total deposit potential of the banks in 2017, despite the solid growth of the deposits realized in the last quarter of the year. The deposit growth rate was 5.1%.

Deposits remained the main source of financing of banking activities (73.4% of total assets, which is almost unchanged compared to end 2016). Moreover, households are still the most significant depositor in the domestic banking system, with a share of 69.8% in the total deposits (68.5% in 2016).

One of the significant challenges the banks faced in 2017 was the compliance with the capital requirements of Basel III from March 2017. Banks now have to calculate and maintain a minimum level of capital adequacy ratio (8%), also the rate of core capital (6%) and the rate of regular core capital (4.5%). In addition, and apart from the internal capital requirements, all banks have an obligation to maintain a capital conservation buffer of 2.5% of the risk.

2.3.5.5. International banking

The impact of foreign capital on the domestic banking system is a well-researched issue in the economic literature. There is a vast literature that focuses on the general costs and benefits of the foreign bank presence in the host countries. In addition, several studies more specifically explored the spillovers of the entrance of foreign banks on specific balance sheet positions, thus assessing its impact on the changes of competition in the banking industry. In this section we will review several studies which relate more closely to our research work, and hence have higher relevance for the specific research question that we explore (Mitreska & Bojcheva-Terzijan, 2017).

The North Macedonian economy has a large foreign bank presence in the domestic banking system. The first-round findings from a research conducted in North Macedonia suggest that the foreign bank presence in the North Macedonian banking system has enabled stronger competition, which has translated into lower profitability, through an increase in operational costs, though the impact of the foreign banks is positive on the interest income. The effect on non-interest income and loan loss provisions turns out not to be significant (Mitreska & Bojcheva-Terzijan, 2017).

During 2017, the NBRM continued to maintain and promote international cooperation, on both multilateral and bilateral basis. Within the multilateral cooperation, representatives of the International Monetary Fund (IMF) paid a regular visit to the NBRM, in connection with consultations under Article IV of the IMF's Articles of Agreement. During 2017, the cooperation with the IMF in the area of statistics continued for the purpose of improvement of the statistics within the competence of the NBRM. Regarding the cooperation with the World Bank, two technical assistance missions were carried out in the area of the banking supervision, which were conducted by FinSAC. The Governor and Vice-Governors of the NBRM participated in the Spring Meetings and the Annual Meeting of the IMF and World Bank Group, as well as the meeting of the Dutch Constituency. During 2017, the NBRM took part in the regular meetings of the Bank for International Settlements in Basel and in the meetings of the Central Bank Governors' Club of the Black Sea Region, the Balkan Countries and Central Asia (NBRM, Annual Report of the National Bank of the Republic of Macedonia for 2017, 2018).

Within the bilateral cooperation, during 2017, the NBRM had the most fruitful cooperation with the National Bank of Belgium, continuing simultaneously the long-term technical cooperation established with De Nederlandsche Bank, Deutsche Bundesbank, as well as other central banks of the EU and the countries in the region. The cooperation with the European Central Bank (ECB) was carried out within the established regional approach for cooperation between the ECB and the central banks of the Western Balkans countries. In addition, this year, on the initiative of the Central Bank of Turkey, a Memorandum of Understanding was signed in order to promote mutual cooperation. Also in 2017, the NBRM participated in the national strategic activities related to the process of accession of the Republic of North Macedonia to the European Union, through its participation in the regular dialog with the European Commission within the subcommittees resulting from the Stabilization and

Association Committee, participation in the development and implementation of the Annual National Program for the Adoption of the Acquit (NPAA), participation in the preparation of the contribution of the Republic of North Macedonia to the Annual Report of the European Commission, and in the development of the Economic Reforms Program (ERP) (NBRM, Annual Report of the National Bank of the Republic of Macedonia for 2017, 2018).

CHAPTER III

3. Methodology

3.1. Type of research

Type of the research is Applied and Cross-Sectional. In an applied research one solves certain problems employing well known and accepted theories and principles. Most of the experimental research, case studies and inter-disciplinary research are essentially applied research. Applied research is helpful for basic research. While, cross-sectional analysis has the advantage of avoiding various complicating aspects of the use of data drawn from various points in time, such as serial of residuals. It also has the advantage that the data analysis itself does not need an assumption that the nature of the relationships between variables is stable over time, though this comes at the cost of requiring caution if the results for one time period are to be assumed valid at some different point in time.

3.2. Research paradigm

In order to rich the objectives formulated before, the research paradigm is quantitative and qualitative, the questionnaires were created for two target groups: one of the questionnaires was addressed to the SME-s in both countries where the research will be conducted in Kosovo and North Macedonia, the qualitative research we have conducted through interviews in banks in Kosovo and North Macedonia. Furthermore, we set hypothesis to test the link between variables and SMEs growth.

3.3. Research design

The study has used descriptive design to support results from questionnaires, method of research of course is quantitative and qualitative. The purpose of using descriptive surveys was to collect detailed and factual information that describes an existing phenomenon. A descriptive study is one in which information is collected without changing the environment (i.e., nothing is manipulated). Also, we can say that is an exploratory study that tries to identify the variables that influence the SMEs growth and to find out the differences between the banking system in Kosovo and North Macedonia.

Literature review takes a very important part on this research, by presenting different approaches about the topic from other authors.

3.4. Population

The target population in this research are two groups of SME-s: trading companies and manufacturing companies from all the regions in both countries Kosovo and North Macedonia, and, banks in both countries. The total population of our research is presented in the table below.

Table 7. The number of the research population, RKS and RNM

	Kosovo	North Macedonia
Trading	15969	21000
Manufacturing	4893	7447
Total	**20862**	**28447**

(Source: Kosovo Statistics Agency, State Statistical Agency of North Macedonia)

According the confidence level from 95% and margin of errors 0.05 we must say that our selected sample almost fulfills the number of SMEs that must be included on the sample size[23].

3.5. Sample of the research

In both countries, we used random samples in selecting SMEs for survey in both sectors because its ease of assembling the sample. It is also considered as a fair way of selecting a sample from a given population since every member is given equal opportunities of being selected. Another key feature of simple random sampling is its representativeness of the population.

Furthermore, because of the small number of the banks in both countries we had interviews in each bank and financial institution to research about the banking systems and financial support that they provide for SMEs.

Our research sample is explained as below:

- We realized a survey with 300 SMEs in the Republic of Kosovo.
- We realized a survey with 300 SMEs in the Republic of North Macedonia.
- We realized interviews with 10 banks in Kosovo.
- We realized interviews with 15 banks in North Macedonia.

[23] Research Sample Size from Research Advisers (2006)

3.6. Procedures and instruments for gathering data

We designed the questionnaire for SMEs to collect information about their perception about the banking system in their country.

The research questionnaire for SMEs is compound by 25 questions that are structured in three blocks: the first block is compound by business questions, the second block is compound by questions regarding the SMEs experience when financing from Banks and the third block is compound by general questions regarding owners of the businesses.

The research questionnaire for Banks is compound by 16 questions that have to do with the banks approach on financing SMEs, and, our focus was in gathering information for different subjects, including conditions for financial support of the SMEs.

Data were collected in the period from June 2018 to March 2019, which are currently processed in excel and then will be imported into SPSS software through which empirical data analysis will be performed.

3.7. Research methodology

Research approach is a positivism approach, which means that only “factual” knowledge gained through observation (the senses), including measurement, is trustworthy. Researchers warn that “if you assume a positivist approach to your study, then it is your belief that you are independent of your research and your research can be purely objective. Independent means that you maintain minimal interaction with your research participants when carrying out your research. In other words, studies with positivist paradigm are based purely on facts and consider the world to be external and objective.

This study is compound from primary and secondary data. The primary data was collected through questionnaires and interviews conducted with representatives of SME-s and representatives from Banks, while the secondary data is based on the literature review from different authors and also data from institutions of the RKS and North Macedonia, EU reports, World Bank, BSCK, CBRK, OECD report and other researches.

The target population in this research are two groups of SME-s: 600 (300 in each country) trading companies and manufacturing companies from all the regions in both countries Kosovo and North Macedonia, and banks in both countries.

We used a semi-structured questionnaire that contains also open questions, as mentioned above the questionnaire for SMEs contains 25 questions and the questionnaire for BANKs contains 16 questions.

The respondents of this study are general managers or owners of the companies and managers from banks. They are the ones who are enough knowledgeable to answer the problems posed in the present study. In order to have useful results we will use also Nominal, Ordinal and Interval measurements of indicators.

3.8. Ethics in the research and legal issues

There are several reasons why it is important to adhere to ethical norms in research:

- First, norms promote the aims of research, such as knowledge, truth, and avoidance of error. For example, prohibitions against fabricating, falsifying, or misrepresenting research data promote the truth and minimize error.
- Second, since research often involves a great deal of cooperation and coordination among many different people in different disciplines and institutions, ethical standards promote the values that are essential to collaborative work, such as trust, accountability, mutual respect, and fairness.

Furthermore, it is very important to mention that when conducting the research on human subjects, we will minimize harms and risks and maximize benefits, respect human dignity, privacy, and autonomy.

CHAPTER IV

4. Empirical analysis

4.1. Analyses of the questionnaires results

To complete this research in the best way, it is necessary to analyze the data collected in order to test the hypothesis and answer the research questions.

This chapter includes the analysis, presentation and interpretation of the findings results from this study. The analysis and interpretation of data collected is divided in two parts. The first part, which is based on the results of the questionnaire conducted on 300 SMEs in Kosovo and 300 SMEs in North Macedonia, deals with a quantitative analysis of data. The second, which is based on the results of the interview with Bank managers in Kosovo and North Macedonia, is a qualitative interpretation.

4.1.1. Analyses of results of the SMEs questionnaires

On this part we are going to analyze and compare the results from the questionnaires on 300 SMEs in Kosovo and 300 SMEs in North Macedonia for each question.

4.1.1.1. Business location

From the results obtained we can see that in Kosovo from our sample of research 233 (77.7%) of the businesses are located in urban areas, while, 67 (22.3%) of the businesses are located in Rural areas. While, in North Macedonia from our sample of research 271 (90.3%) of the businesses are located in urban areas, while, 29 (9.7%) of the businesses are located in rural areas.

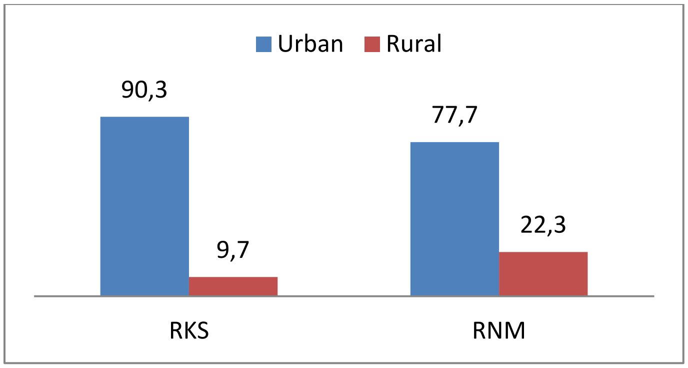


Figure 3. The percentage of the SMEs Location, Republic of Kosovo and Republic of North Macedonia *(Source: Author)*

From the results obtained from both countries we can see that SMEs in both countries are more frequented in urban areas.

<u>4.1.1.2. Age of the SME (The year of establishment)</u>

In the table below we can see the distribution of the SMEs regarding the year of their establishment. As we can see from the results obtained 224 (77.4%) of the SMEs in Kosovo are younger than 6 years, while, 76 (22.6) of the SMEs are older than 6 years where the oldest one is 45 years old.

Table 8. Age of the SME (The year of establishment), Republic of Kosovo

		Frequency	Percent
Valid	**1974**	1	.3
	1978	2	.7
	1980	1	.3
	1984	1	.3
	1987	1	.3
	1988	1	.3
	1990	2	.7
	1994	1	.3
	1995	2	.7
	1997	1	.3
	1998	1	.3
	2000	8	2.7
	2001	3	1.0
	2002	1	.3
	2003	6	2.0
	2004	3	1.0
	2006	1	.3
	2008	6	2.0
	2009	4	1.3
	2010	5	1.7
	2011	11	3.7
	2012	14	4.7
	2013	39	13.0
	2014	131	43.7
	2015	41	13.7
	2016	13	4.3
	Total	**300**	**100.0**

(Source: Author)

In the table below we can see the distribution of the SMEs regarding the year of their establishment. As we can see from the results obtained 150 (50.00%) of the SMEs in North Macedonia are younger than 13 years, while, 150 (50.00%) of the SMEs are older than 13 years where the two oldest SMEs are 45 years old.

Table 9. Age of the SME (The year of establishment), Republic of North Macedonia

		Frequency	Percent
Valid	**1922**	2	.7
	1923	2	.7
	1946	2	.7
	1950	2	.7
	1956	2	.7
	1961	2	.7
	1970	2	.7
	1972	2	.7
	1974	2	.7
	1978	2	.7
	1988	2	.7
	1989	4	1.3
	1990	4	1.3
	1991	10	3.3
	1992	22	7.3
	1993	6	2.0
	1994	10	3.3
	1995	6	2.0
	1996	6	2.0
	1997	8	2.7
	1998	10	3.3
	1999	4	1.3
	2000	8	2.7
	2001	4	1.3
	2002	4	1.3
	2004	6	2.0
	2005	16	5.3
	2006	12	4.0
	2007	10	3.3
	2008	28	9.3
	2009	10	3.3
	2010	6	2.0
	2011	6	2.0
	2012	22	7.3
	2013	14	4.7
	2014	14	4.7
	2015	20	6.7
	2016	8	2.7
	Total	**300**	**100.0**

(Source: Author)

From the results obtained in both countries we can see that SMEs in North Macedonia are more distributed regarding the year of their establishment than in Kosovo. Furthermore, results from our sample revealed that in the years 2013, 2014 and 2015 there are more new enterprises in Kosovo than in North Macedonia. One reason may be reforms, mainly fiscal, like removal of VAT on machinery and raw materials, thus reducing the cost of financing production, improving the liquidity of producers and potentially increased investment in manufacturing sectors (GAP Institute, 2015). Another reason could be removal of minimum capital and payment for registration of business, eliminating the requirements for the validation of the construction project permit, and creating a notary system that contributes to the combination of procedures for legalization of sales and purchase agreements (RIINVEST, 2017).

4.1.1.3. Size of the company

From the analyses of our sample results we can see that the number of SMEs in the Republic of Kosovo classified by the number of employees is: 272 or 90.7% are microbusinesses, 23 or 7.7% are small businesses and 5 or 1.7% are medium businesses.

From the analyses of our sample results we can see that the number of SMEs in the Republic of North Macedonia classified by the number of employees is: 182 or 60.7% are microbusinesses, 90 or 30.00% are small businesses and 28 or 9.3% are medium businesses.

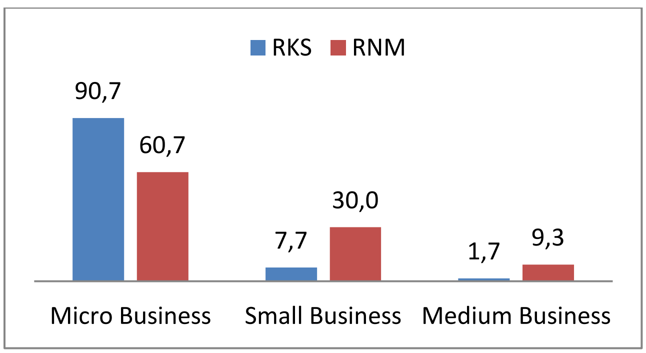


Figure 4. The percentage of the SMEs classification by the number of employees, RKS and RNM *(Source: Author)*

From the results obtained in both countries we can see that the largest number of SMEs is compound by micro businesses.

4.1.1.4. Organizational legal form of the business

From the analyses of our sample results we can see that the number of SMEs in the Republic of Kosovo classified by the organizational legal form is: 208 or 69.3% are individual businesses, 1 or 0.3% is general partnership, 2 or 0.7% are limited partnerships and 89 or 29.7% are limited liabilities companies (L.L.C).

From the analyses of our sample results we can see that the number of SMEs in the Republic of North Macedonia classified by the organizational legal form is: 44 or 14.7% are individual businesses, 12 or 4.0% are general partnership, 6 or 2.0% are partnerships, 210 or 70.0% are limited liabilities companies (L.L.C), 6 or 2.0% are foreign companies, 2 or 0.7% are social owned enterprises, 6 or 2.0% are public enterprises and 14 or 4.7% are limited partnership by shares.

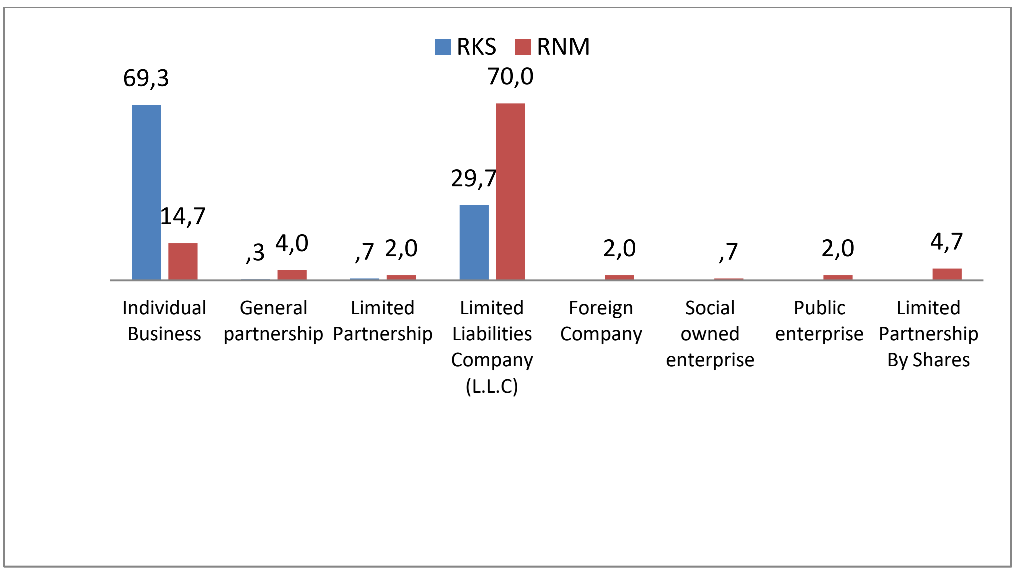


Figure 5. The percentage of the SMEs classification by the organizational legal form, Republic of Kosovo and Republic of North Macedonia *(Source: Author)*

From the results obtained in both countries we can see that owners of the SMEs in North Macedonia are more protected in case of business failure than owners of the SMEs in Kosovo. We are saying this, because, we saw that 70% of SMEs in NM from our sample are limited liability companies, and as we know the owners of L.L.C in case of failure should pay the obligations only with the invested capital and not with their private capital.

4.1.1.5. Business sector

From the results obtained from our sample of research conducted on 300 SMEs we can see that in Kosovo 189 or 63.0% are trading companies and 111 or 37.0% are manufacturing companies. From the results obtained from our sample of research conducted on 300 SMEs we can see that in North Macedonia 182 or 60.7% are trading companies and 118 or 39.3% are manufacturing companies.

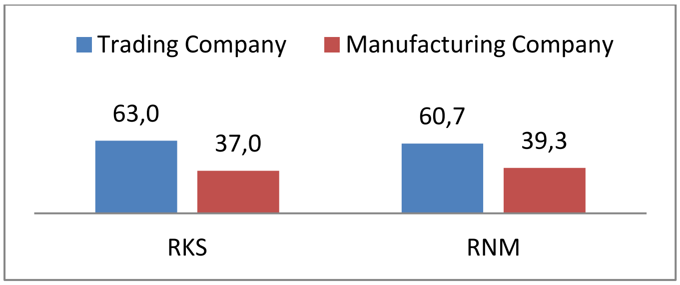


Figure 6. The percentage of business sector, Republic of Kosovo and Republic of North Macedonia *(Source: Author)*

From the results obtained in both countries we can see that we have similar percentage of the SMEs classified by the type of business.

4.1.1.6. Number of employees for years 2016, 2017, 2018

Through research we asked the SMEs about the number of employees for the years 2016, 2017 and 2018. From the results obtained in the RKS we can see that for year 2016 the minimum number of employees was 1, and, the maximum number of employees was 150, for year 2017 the minimum number of employees was 1, and, the maximum number of employees was 155, year 2018 the minimum number of employees was 1, and, the maximum number of employees was 158. In the table below we can see more details results about descriptive statistics data from RKS.

Table 10. Descriptive statistics data about the number of employees for years 2016, 2017 and 2018, RKS

		Number of employees, December 2016	Number of employees, December 2017	Number of employees, December 2018
N	**Valid**	300	300	300
	Missing	0	0	0
Mean		5.42	5.71	6.20
Std. Error of Mean		.847	.879	.957
Minimum		1	1	1
Maximum		150	155	158
Sum		1625	1714	1861

(Source: Author)

Furthermore, from the results obtained in the RNM we can see that for year 2016 the minimum number of employees was 1, and, the maximum number of employees was 180, for year 2017 the minimum number of employees was 1, and, the maximum number of employees was 185, year 2018 the minimum number of employees was 1, and, the maximum number of employees was 187. In the table below we can see more details results about descriptive statistics data from RNM.

Table 11. Descriptive statistics data about the number of employees for years 2016, 2017 and 2018, RNM

		Number of employees, December 2016	Number of employees, December 2017	Number of employees, December 2018
N	**Valid**	300	300	300
	Missing	0	0	0
Mean		21.74	22.12	22.75
Std. Error of Mean		2.282	2.310	2.346
Minimum		1	1	1
Maximum		180	185	187
Sum		6521	6635	6826

(Source: Author)

From the results obtained we can argue that SMEs in both countries has shown a tendency of growth for the years that we collected data.

4.1.1.7. Have you ever financed your business through loans by any Bank?

The SME-s were asked if they have ever financed their business through Bank loans, and, from the results we can see that in Kosovo 158 or 52.7% of SMEs answered that they have financed their business through bank loans, 140 or 46.7% answered that they haven't financed their business through bank loans and 2 or 0.7% answered that they applied for bank loan but their request was refused. While in North Macedonia, 172 or 57.3% of SMEs answered that they have financed their business through bank loans, 112 or 37.3% answered that they haven't financed their business through bank loans and 16 or 5.3% answered that they applied for bank loan but their request was refused.

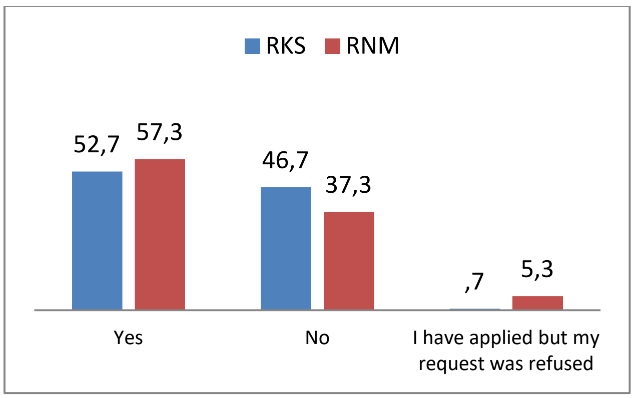


Figure 7. The percentage of the SMEs regarding the usage of bank loans, RKS and RNM *(Source: Author)*

From the results obtained we can see that more than 50% of the SMEs in both countries use bank loans to finance their business activities.

4.1.1.8. When did you get the Bank loan?

The SMEs were asked regarding the last time that they financed their business through bank loan, and, from the results obtained in Kosovo: 79 or 26.3% of the SMEs answered that the last time when they have got bank loan was last year, 46 or 15.3% of the SMEs answered two years ago and 33 or 11.0% answered more than three years ago.

Table 12. The last time when SMEs financed their business through bank loans, Republic of Kosovo

		Frequency	Percent
Valid	**Last year**	79	26.3
	Two years ago	46	15.3
	More than 3 years	33	11.0
	Total	158	52.7
Missing	**System**	142	47.3
Total		**300**	**100.0**

** Missing value of 142 or 47.3% of SMEs in the table is regarding the SMEs that didn't finance their business activities through bank loans and for SMEs that applied for bank loans but their request was refused. (Source: Author)*

The SMEs were asked regarding the last time that they financed their business through bank loan, and, from the results obtained in Kosovo: 60 or 20.0% of the SMEs answered that the last time when they have got bank loan was last year, 30 or 10.0% of the SMEs answered two years ago and 82 or 27.3% answered more than three years ago.

Table 13. The last time when SMEs financed their business through bank loans, Republic of North Macedonia

		Frequency	Percent
Valid	**Last year**	60	20.0
	Two years ago	30	10.0
	More than 3 years	82	27.3
	Total	172	57.3
Missing	**System**	128	42.7
Total		**300**	**100.0**

** Missing value of 128 or 42.7% of SMEs in the table is regarding the SMEs that didn't finance their business activities through bank loans and for SMEs that applied for bank loans but their request was refused. (Source: Author)*

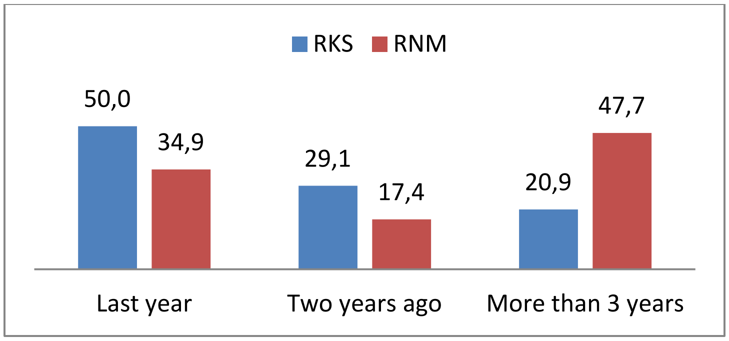


Figure 8. Valid percentage of the last time when SMEs financed their business through bank loans, Republic of Kosovo and Republic of North Macedonia *(Source: Author)*

4.1.1.9. Which type of loan did you get?

The SMEs were asked about the type of loan that they received from Bank, and, from the results obtained in Kosovo: 52 or 17.3% of the SMEs received operating loan[24], 105 or 35.0% of the SMEs received investment loan[25] and 1 or 0.3% of the SMEs received mortgage loan[26].

Table 14. Loan type that the SMEs received, Republic of Kosovo

		Frequency	Percent
Valid	**Operating loan**	52	17.3
	Investment loan	105	35.0
	Mortgage loan	1	.3
	Total	158	52.7
Missing	**System**	142	47.3
Total		**300**	**100.0**

** Missing value of 142 or 47.3% of SMEs in the table is regarding the SMEs that didn't finance their business activities through bank loans and for SMEs that applied for bank loans but their request was refused. (Source: Author)*

[24] A loan that is intended for short-term financing. This type of loan is often used for cash flow support or to cover operating expenses from day to day

[25] A loan granted by banks for the acquisition of fixed assets such as property, equipment and other machinery. The loan can be used for any development activity

[26] A loan that is secured by property or real estate is called a mortgage. In exchange for funds received by the homebuyer to buy property or a home, a lender gets the promise of that buyer to pay back the funds within a certain time frame for a certain cost. The mortgage is legally binding and secures the note in giving the lender the right to have legal claim against the borrower's home if the borrower defaults on the terms of the note. Basically, the borrower has possession of the property or the home, but the lender is the one who owns it until it is completely paid off

Regarding the type of loan that the SMEs received from bank in North Macedonia, we have the results as: 50 or 16.7% of the SMEs received operating loan, 58 or 19.3% of the SMEs received investment loan and 64 or 21.3% of the SMEs received mortgage loan.

Table 15. Loan type that the SMEs received, Republic of North Macedonia

		Frequency	Percent
Valid	**Operating loan**	50	16.7
	Investment loan	58	19.3
	Mortgage loan	64	21.3
	Total	172	57.3
Missing	**System**	128	42.7
Total		**300**	**100.0**

** Missing value of 128 or 42.7% of SMEs in the table is regarding the SMEs that didn't finance their business activities through bank loans and for SMEs that applied for bank loans but their request was refused. (Source: Author)*

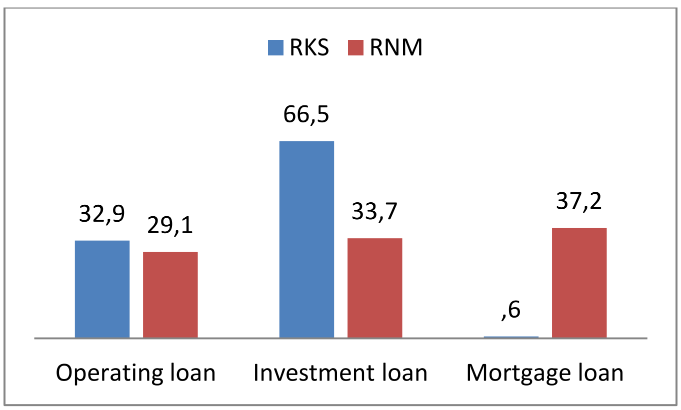


Figure 9. Valid percentage of the loan type that the SMEs received, RKS and RNM *(Source: Author)*

As we can see from the results obtained in Kosovo the SMEs are more oriented on investment loans, while, in North Macedonia the SMEs are more oriented on mortgage loans.

4.1.1.10. How much was the amount of loan?

Through our research we have asked the SMEs in both countries regarding the amount of loan that they received, and, in Kosovo we have the results as: 52 or 17.3% of the SMEs answered that the amount of loan that they have received lately was 1,000€-10,000€, 72 or 24.0% of the SMEs answered that the amount of loan that they have received lately was 10,001€-50,000€ and 34 or 11.3% answered that the amount of loan that they have received lately was over 50,001€.

While, in North Macedonia we have the results as: 34 or 11.3% of the SMEs answered that the amount of loan that they have received lately was 1,000€-10,000€, 74 or 24.7% of the SMEs answered that the amount of loan that they have received lately was 10,001€-50,000€ and 64 or 21.3% answered that the amount of loan that they have received lately was over 50,001€.

Table 16. The SMEs distribution regarding the loan amount they received lately, RKS

		Frequency	Percent
Valid	**1,000 € - 10,000 €**	52	17.3
	10,001 € - 50,000 €	72	24.0
	Over 50,001 €	34	11.3
	Total	158	52.7
Missing	**System**	142	47.3
Total		**300**	**100.0**

** Missing value of 142 or 47.3% of SMEs in the table is regarding the SMEs that didn't finance their business activities through bank loans and for SMEs that applied for bank loans but their request was refused. (Source: Author)*

Table 17. The SMEs distribution regarding the loan amount they received lately, RNM

		Frequency	Percent
Valid	**1000 € - 10000 €**	34	11.3
	10001 € - 50000 €	74	24.7
	Over 50001 €	64	21.3
	Total	172	57.3
Missing	**System**	128	42.7
Total		**300**	**100.0**

** Missing value of 128 or 42.7% of SMEs in the table is regarding the SMEs that didn't finance their business activities through bank loans and for SMEs that applied for bank loans but their request was refused. (Source: Author)*

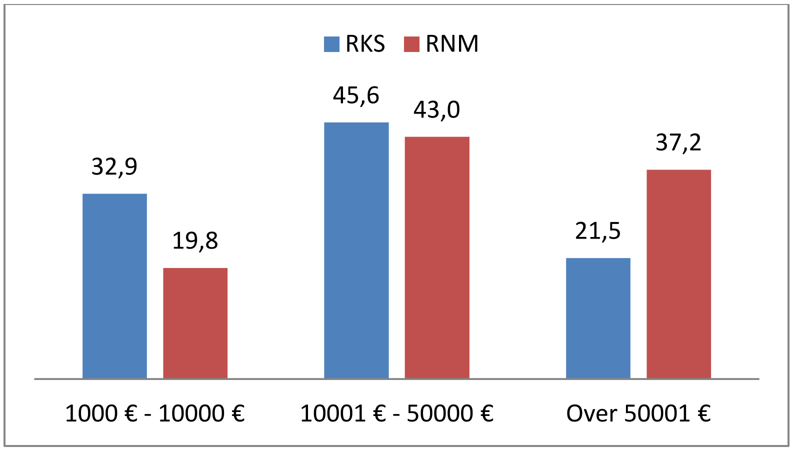


Figure 10. Valid percentage of the SMEs distribution regarding the loan amount they received lately, RKS and RNM *(Source: Author)*

From the results obtained we can see that in both countries the SMEs have received loans between the amounts 10,001-50,000 € on higher percentage than other two groups of loans.

4.1.1.11. From the total amount of loan, how much (in percentage) was destined for investment?

The SMEs were asked about the total from amount of the loan received that was destined for investment, and, in Kosovo we have the results as: 144 or 48.0% of the total number of SMEs answered that from the total amount of the loan received 100% percent was destined for investment, 11 or 3.7% of the total number of SMEs answered that from the total amount of the loan received 50-59% percent was destined for investment, 1 or 0.3% of the total number of SMEs answered that from the total amount of the loan received under 50% percent was destined for investment and 2 or 0.7% of the total number of SMEs answered that 100% of the loan was received in cash.

Table 18. The percentage of SMEs loan destined for investment, RKS

		Frequency	Percent
Valid	**100% Investment**	144	48.0
	50-99% Investment	11	3.7
	Under 50% Investment	1	.3
	100% Cash	2	.7
	Total	158	52.7
Missing	**System**	142	47.3
Total		**300**	**100.0**

** Missing value of 142 or 47.3% of SMEs in the table is regarding the SMEs that didn't finance their business activities through bank loans and for SMEs that applied for bank loans but their request was refused. (Source: Author)*

Furthermore, the results in North Macedonia regarding this question are: 104 or 34.7% of the total number of SMEs answered that from the total amount of the loan received 100% percent was destined for investment, 32 or 10.7% of the total number of SMEs answered that from the total amount of the loan received 50-59% percent was destined for investment, 22 or 7.3% of the total number of SMEs answered that from the total amount of the loan received under 50% percent was destined for investment and 14 or 4.7% of the total number of SMEs answered that 100% of the loan was received in cash.

Table 19. The percentage of SMEs loan destined for investment, RNM

		Frequency	Percent
Valid	**100% Investment**	104	34.7
	51-99% Investment	32	10.7
	Under 50% Investment	22	7.3
	100% Cash	14	4.7
	Total	172	57.3
Missing	**System**	128	42.7
Total		**300**	**100.0**

** Missing value of 128 or 42.7% of SMEs in the table is regarding the SMEs that didn't finance their business activities through bank loans and for SMEs that applied for bank loans but their request was refused. (Source: Author)*

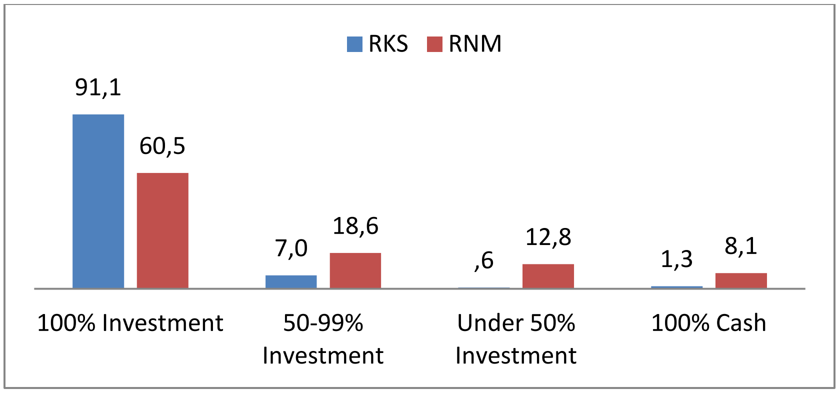


Figure 11. The valid percentage of the SMEs loan destined for investment, RKS and RNM *(Source: Author)*

From the results obtained we can see that in both countries SMEs have invested for around approximately more than 70% of the total amount of the loan received.

It is very important to mention that in our country if the bank does not follow the destination of the loan from business correctly, under the CBK rules on banking supervision, the commercial bank is obliged to allocate 20% of the loan value in the reserve for allowed loans.

4.1.1.12. The deadline of the repayment in months of loan received

About the question regarding the deadline of the repayment in months of loan received the SMEs in Kosovo answered that the deadline to repay e loan differs where it goes from 6 months till 120 months.

Table 20. The deadline of the repayment in months of loan received, RKS

	Months	Frequency	Percent	Valid Percent
Valid	**6**	1	.3	.6
	7	1	.3	.6
	12	11	3.7	7.0
	18	2	.7	1.3
	24	27	9.0	17.1
	36	59	19.7	37.3
	48	25	8.3	15.8
	60	29	9.7	18.4
	84	1	.3	.6
	108	1	.3	.6
	120	1	.3	.6
	Total	158	52.7	100.0
Missing	**System**	142	47.3	
Total		**300**	**100.0**	

** Missing value of 142 or 47.3% of SMEs in the table is regarding the SMEs that didn't finance their business activities through bank loans and for SMEs that applied for bank loans but their request was refused. (Source: Author)*

Furthermore, in North Macedonia the SMEs answered that the deadline to repay e loan differs where it goes from 12 months till 240 months.

Table 21. The deadline of the repayment in months of loan received, RNM

	Months	Frequency	Percent	Valid Percent
Valid	**12**	10	3.3	5.8
	15	4	1.3	2.3
	18	4	1.3	2.3
	24	24	8.0	14.0
	30	2	.7	1.2
	36	26	8.7	15.1
	40	4	1.3	2.3
	48	14	4.7	8.1
	60	26	8.7	15.1
	72	22	7.3	12.8
	84	4	1.3	2.3
	90	2	.7	1.2
	96	12	4.0	7.0
	120	14	4.7	8.1
	220	2	.7	1.2
	240	2	.7	1.2
	Total	**172**	**57.3**	**100.0**
Missing	**System**	**128**	**42.7**	
Total		**300**	**100.0**	

** Missing value of 128 or 42.7% of SMEs in the table is regarding the SMEs that didn't finance their business activities through bank loans and for SMEs that applied for bank loans but their request was refused. (Source: Author)*

As we can analyze from the figure below we can see that the mean of the repayment is different between two countries, where in Kosovo the average or mean of the repayment in months of the loan received is 39.27 months, while, in North Macedonia the average or mean of the repayment in months of the loan received is 58.53 months. So, in North Macedonia we have longer repayment deadline than in Kosovo.

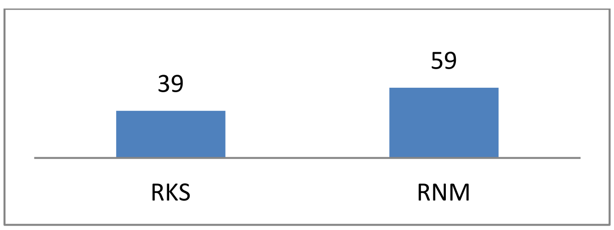


Figure 12. The mean of the repayment of loan in months, RKS and RNM *(Source: Author)*

4.1.1.13. Interest rate

During the research we have asked the SMEs in both countries about the interest rate of the loan that they received and in Kosovo they answered that the interest rates were from 2.0%-21.0%. While, in North Macedonia the SMEs answered that the interest rates of the loan that they received were from 1.0%-13.0%.

Table 22. Interest rates of the SMEs loans, RKS

		Frequency	Percent	Valid Percent
Valid	**2.0000**	2	.7	1.3
	3.0000	5	1.7	3.2
	4.0000	3	1.0	1.9
	5.0000	25	8.3	15.8
	6.0000	38	12.7	24.1
	7.0000	25	8.3	15.8
	8.0000	27	9.0	17.1
	9.0000	14	4.7	8.9
	10.0000	8	2.7	5.1
	11.0000	2	.7	1.3
	12.0000	5	1.7	3.2
	13.0000	1	.3	.6
	14.0000	1	.3	.6
	16.0000	1	.3	.6
	21.0000	1	.3	.6
	Total	**158**	**52.7**	**100.0**
Missing	**System**	**142**	**47.3**	
Total		**300**	**100.0**	

** Missing value of 142 or 47.3% of SMEs in the table is regarding the SMEs that didn't finance their business activities through bank loans and for SMEs that applied for bank loans but their request was refused. (Source: Author)*

Table 23. Interest rates of the SMEs loans, RNM

		Frequency	Percent	Valid Percent
Valid	**1.0000**	3	1.0	1.7
	1.3000	1	.3	.6
	2.0000	2	.7	1.2
	2.3000	2	.7	1.2
	3.9000	2	.7	1.2
	4.0000	8	2.7	4.7
	4.5000	16	5.3	9.3
	5.0000	25	8.3	14.5
	5.5000	19	6.3	11.0
	5.6000	2	.7	1.2
	5.9000	6	2.0	3.5
	6.0000	22	7.3	12.8
	6.5000	4	1.3	2.3
	7.0000	8	2.7	4.7
	7.5000	6	2.0	3.5
	7.9000	4	1.3	2.3
	8.0000	10	3.3	5.8
	8.3000	2	.7	1.2
	8.5000	6	2.0	3.5
	9.0000	10	3.3	5.8
	10.0000	1	.3	.6
	11.0000	2	.7	1.2
	11.5000	2	.7	1.2
	12.0000	8	2.7	4.7
	13.0000	1	.3	.6
	Total	**172**	**57.3**	**100.0**
Missing	**System**	**128**	**42.7**	
Total		**300**	**100.0**	

** Missing value of 128 or 42.7% of SMEs in the table is regarding the SMEs that didn't finance their business activities through bank loans and for SMEs that applied for bank loans but their request was refused. (Source: Author)*

From the results obtained we can see that interest rates of loans for SMEs in Kosovo are higher than in North Macedonia, where, in Kosovo they vary from 2-21%, while, in North Macedonia they vary from 1-13%. The interest rates we consider as a very important factor, because, they influence the demand of the SMEs for bank loans as external means of financing, through which they finance their business activities.

4.1.1.14. Collateral requirements

Through our research we wanted to find out if the collateral was required from banks when the SMEs received loans. In Kosovo the SMEs answered: 137 or 45.7% Yes it was needed to leave a collateral, 20 or 6.7% No, and 1 or 0.3% No Answer.

In North Macedonia regarding the collateral requirements from Banks 126 or 42.0% of the SMEs answered that Yes it was needed to leave something as a collateral, 40 or 13.3% answered that it wasn't necessary to leave something as a collateral, while, 6 or 2.0% didn't want to answer.

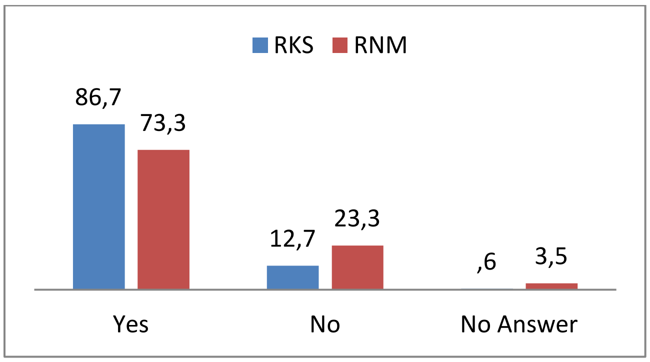


Figure 13. Valid percentage of the results for the collateral requirements, RKS and RNM *(Source: Author)*

From the results obtained we can see that in both countries more than 70% of the SMEs answered that it was necessary to leave collateral when they received Bank loans.

4.1.1.15. What was used as a collateral?

Through our research we wanted to know what was used as a collateral from SMEs, and, in Kosovo we have the results as: 89 or 29.7% answered that they used company's fixed assets as a collateral, 46 or 15.3% answered that they used family real estate as a collateral and 2 or 0.7% answered that they it was necessary to have warrantors when receiving loans from bank.

Furthermore, in North Macedonia we have the results as: 52 or 17.3% answered that they used company's fixed assets as a collateral, 70 or 23.3% answered that they used family real estate as a collateral and 4 or 1.3% answered that they it was necessary to have warrantors when receiving loans from bank.

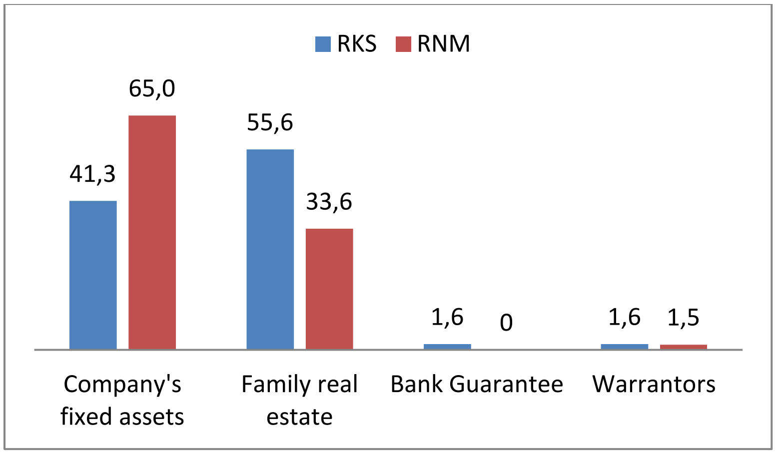


Figure 14. Valid percentage of the SMEs collateral types used, RKS and RNM *(Source: Author)*

From the results obtained we can see that the SMEs in North Macedonia use in higher percentage company's fixed assets as a collateral, while, in Kosovo the SMEs use in higher percentage family real estate as a collateral.

4.1.1.16. Collateral evaluation from Bank

During the research we have asked the SMEs about the evaluation of collateral from Banks, and, in Kosovo we have the results as: 54 or 18.0% of the total SMEs answered that their collateral was evaluated correctly, 17 or 5.7% answered that their collateral was evaluated more than it's real value, 61 or 20.3% answered that the collateral was evaluated less than it's real value and 5 or 1.7% had no answer.

Furthermore, in North Macedonia we have the results as: 32 or 10.7% of the total SMEs answered that their collateral was evaluated correctly, 2 or 0.7% answered that their collateral was evaluated more than it's real value, 80 or 26.7% answered that the collateral was evaluated less than it's real value and 12 or 4.0% had no answer.

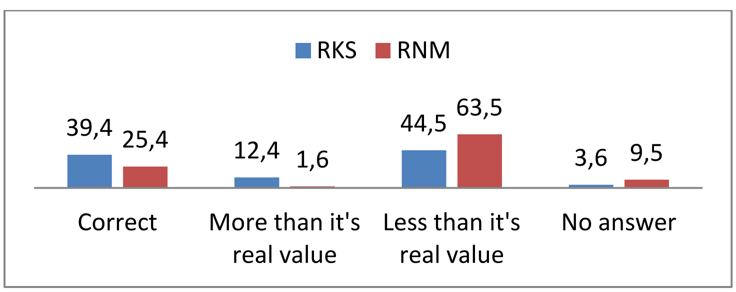


Figure 15. Valid percentage of the collateral evaluation from Banks, RKS and RNM *(Source: Author)*

From the results obtained we can see that in both countries most of the SMEs answered that the collateral was evaluated from Banks less than it's real value.

4.1.1.17. Business Plan

Through our research we asked the SMEs if they have a written business plan, and, in Kosovo we have the results as: 71 or 23.7% of the SMEs answered that Yes they have a written business plan, 48 or 16.0% answered that No they don't have a written business plan and 39 or 13.0% had no answer.

In North Macedonia we have the results as: 106 or 35.3% of the SMEs answered that Yes they have a written business plan, 46 or 15.3% answered that No they don't have a written business plan and 20 or 6.7% had no answer.

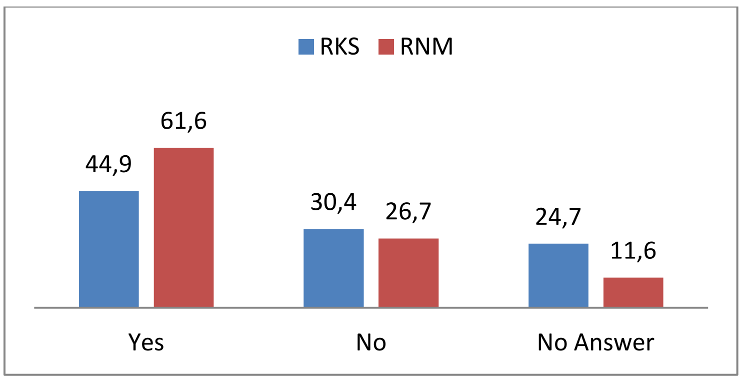


Figure 16. Valid percentage of the SMEs with written business plan, RKS and RNM *(Source: Author)*

From the results obtained we can see that in North Macedonia the SMEs are in better position in terms of having a business plan, where, in Macedonia more than 60.0% of the SMEs have written business plan, while, in Kosovo only 45.0% have written business plan.

4.1.1.18. If yes, do you believe that it helped you to access on the bank loan?

We asked the SMEs that answered that have a written business plan if it helped them to access on the bank loan, and, in Kosovo we have the results as: 68 or 22.7% of the total number of SMEs answered that Yes they think that it helped them to access on the bank loan, while, 3 or 1.0% of them answered that No they don't thing that it helped them to access on the bank loan.

In North Macedonia we have the results as: 64 or 21.3% of the total number of SMEs answered that Yes they think that it helped them to access on the bank loan, 30 or 10.0% of them answered that No they don't thing that it helped them to access on the bank loan, while, 12 or 4.0% of them had No Answer.

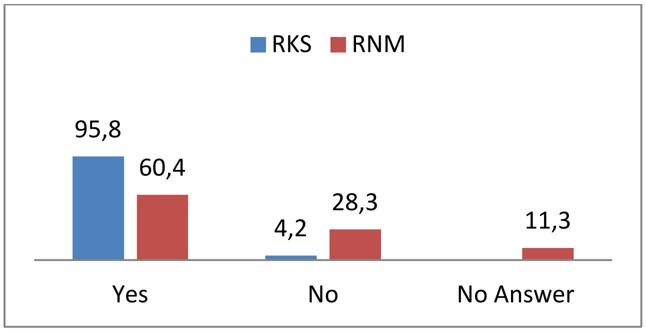


Figure 17. The valid percentage of the SMEs opinion regarding the role of the business plan on bank loans access, RKS and RNM *(Source: Author)*

From the results obtained we could see that the SMEs in Kosovo are more optimist than the SMEs in North Macedonia regarding the role of the written business plan on their access to bank loans, where, 95% of the SMEs in Kosovo answered that they believe that the written business plan helped them to access on bank loans, while, in North Macedonia answered with Yes 60.4%.

4.1.1.19. How long did it take "in days" to complete the documents that the bank required to apply for loan?

Through our research we have asked the SMEs about the duration in days of the process of completion of the documents that the bank required when applying for loan, and in Kosovo they answered that it took from 1-30 days to complete the documents required by bank. While, in North Macedonia they answered that it took from 1-120 days to complete the documents required by bank.

Table 24. The duration of the completion of documents to apply for bank loan, RKS

		Frequency	Percent	Valid Percent
Valid	**1**	7	2.3	4.4
	2	4	1.3	2.5
	3	15	5.0	9.5
	4	9	3.0	5.7
	5	17	5.7	10.8
	6	4	1.3	2.5
	7	19	6.3	12.0
	8	10	3.3	6.3
	10	35	11.7	22.2
	12	1	.3	.6
	14	1	.3	.6
	15	24	8.0	15.2
	20	4	1.3	2.5
	21	4	1.3	2.5
	30	4	1.3	2.5
	Total	158	52.7	100.0
Missing	**System**	142	47.3	
Total		**300**	**100.0**	

** Missing value of 142 or 47.3% of SMEs in the table is regarding the SMEs that didn't finance their business activities through bank loans and for SMEs that applied for bank loans but their request was refused. (Source: Author)*

Table 25. The duration of the completion of documents to apply for bank loan, RNM

		Frequency	Percent	Valid Percent
Valid	**1**	6	2.0	3.5
	2	10	3.3	5.8
	3	14	4.7	8.1
	5	26	8.7	15.1
	7	22	7.3	12.8
	8	2	.7	1.2
	10	32	10.7	18.6
	13	4	1.3	2.3
	14	2	.7	1.2
	15	16	5.3	9.3
	18	2	.7	1.2
	20	2	.7	1.2
	30	10	3.3	5.8
	40	2	.7	1.2
	45	4	1.3	2.3
	50	2	.7	1.2
	60	14	4.7	8.1
	120	2	.7	1.2
	Total	172	57.3	100.0
Missing	**System**	128	42.7	
Total		**300**	**100.0**	

** Missing value of 128 or 42.7% of SMEs in the table is regarding the SMEs that didn't finance their business activities through bank loans and for SMEs that applied for bank loans but their request was refused. (Source: Author)*

From the results obtained we can see that in Kosovo the SMEs are in better position than in North Macedonia regarding the duration of the completion of the documents required by banks.

4.1.1.20. The reason of not applying for loan

Through our research in Kosovo we saw that 137 of the SMEs answered that didn't apply for loan as an external source of financing their business. It was very important for us to find out the reasons of not applying for loan, where, one of the questions on our research questionnaire was the reason of not applying for loan. The SMEs had the answers as: company had sufficient capital, application procedure very complex, high interest rates, collateral requirements to high, repayment period was not sufficient, I didn't know to apply and I was not confident that my loan application would be approved, which, they had to rank from 1 for the most important to 7 for the least important. In the Republic of Kosovo the SMEs ranked the reasons of not applying for loan as below:

- High interest rates as the most important;
- Company had sufficient capital as the 2nd choice;
- Collateral requirements to high as the 3rd choice;
- Repayment period was not sufficient as the 4rth choice;
- Application procedure very complex as the 5th choice;
- I was not confident that my loan application would be approved as the 6th choice; and
- I didn't know to apply as the least important.

Table 26. The ranking of the reasons of not applying for loan by SMEs, RKS

	N	Minimum	Maximum	Mean	Std. Deviation
Company had sufficient capital	137	1	6	**2.31**	2.114
Application procedure very complex	137	1	5	**4.28**	1.071
High interest rates	137	1	4	**1.76**	.522
Collateral requirements to high	137	2	6	**2.91**	.752
Repayment period was not sufficient	137	1	7	**4.04**	.483
I didn't know to apply	137	1	7	**6.88**	.687
I was not confident that my loan application would be approved	137	5	7	**5.80**	.502
Valid N (list wise)	137				

(Source: Author)

Furthermore, through our research in North Macedonia we saw that 112 of the SMEs answered that didn't apply for loan as an external source of financing their business. It was very important for us to find out the reasons of not applying for loan, where, one of the questions on our research questionnaire was the reason of not applying for loan. The SMEs had the answers as: company had sufficient capital, application procedure very complex, high interest rates, collateral requirements to high, repayment period was not sufficient, I didn't know to apply and I was not confident that my loan application would be approved, which, they had to rank from 1 for the most important to 7 for the least important. In the Republic of North Macedonia the SMEs ranked the reasons of not applying for loan as below:

- High interest rates as the most important;

- Collateral requirements to high as the 2nd choice;
- Application procedure very complex as the 3rd choice;
- Company had sufficient capital as the 4rth choice;
- Repayment period was not sufficient as the 5th choice;
- I was not confident that my loan application would be approved as the 6th choice; and
- I didn't know to apply as the least important.

Table 27. The ranking of the reasons of not applying for loan by SMEs, RNM

	N	Minimum	Maximum	Mean	Std. Deviation
Company had sufficient capital	112	1	7	**3.70**	2.229
Application procedure very complex	112	1	7	**3.57**	1.505
High interest rates	112	1	6	**2.52**	1.483
Collateral requirements to high	112	1	7	**2.95**	1.488
Repayment period was not sufficient	112	1	7	**3.88**	1.356
I didn't know to apply	112	2	7	**6.20**	1.293
I was not confident that my loan application would be approved	112	1	7	**5.20**	1.775
Valid N (list wise)	112				

(Source: Author)

From the results obtained we could see that in both countries the most important reason of not applying for loan were the high interest rates. While, the second choice was different in two countries, where, in RKS was that companies had sufficient capital, while, in RNM the second choice was the collateral requirements to high. The other answers were ranked similarly in both countries.

4.1.1.21. The reason of refusal by bank

From the results of our research we could see that in Kosovo only two of the total number of SMEs answered that they applied for loans but they were refused, while, in North Macedonia 16 of the total number of SMEs answered that they were refused when applied for loan on banks. This group of SMEs we asked about the reason of refusal by bank, and, in Kosovo we have the result as: 1 SME answered that the reason of refusal by bank was lack of collateral and 1 SME answered that doesn't know the reason of refusal.

In North Macedonia from 16 SMEs that were refused we have the results as: 6 SMEs answered that the reason of refusal by bank when applied for loan was lack of collateral and 10 SMEs answered that the reason of refusal was the fact that they hasn't fulfilled the documents required by bank.

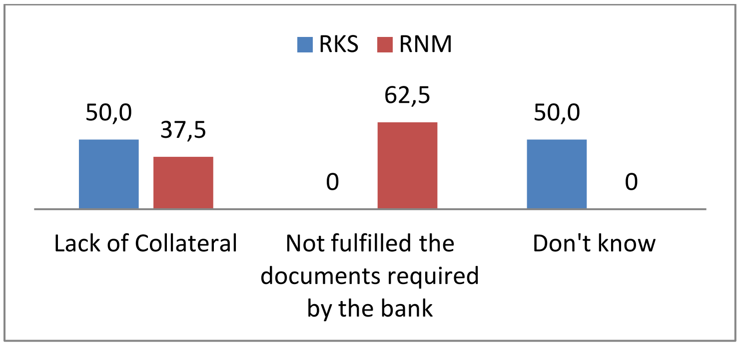


Figure 18. The valid percentage of the reason of refusal by bank when applying for loan, RKS and RNM *(Source: Author)*

From the results obtained we could see that the main reason of refusal from Banks in both countries is different, where in Kosovo the main reason is lack of collateral, while, in North Macedonia the mail reason is the lack of completion of the required documents by Bank.

4.1.1.22. Financing conditions by banks

It was very important for our research to find out how do the entrepreneurs perceive the financing conditions by banks in their respective countries. In the Republic of Kosovo we could see that from our sample 7 or 2.3% of the SMEs think that the financing conditions by banks are very favorable, 40 or 13.3% of the SMEs think that the financing conditions by banks are favorable, 56 or 18.7% of the SMEs stay neutral about the financing conditions by banks, 106 or 35.3% of the SMEs think that the financing conditions by banks are unfavorable and 91 or 30.3% think that the financing conditions by banks are very unfavorable.

In the Republic of North Macedonia we could see that from our sample 6 or 2.0% of the SMEs think that the financing conditions by banks are very favorable, 14 or 4.7% of the SMEs think that the financing conditions by banks are favorable, 84 or 28.0% of the SMEs stay neutral about the financing conditions by banks, 140 or 46.7% of the SMEs think that the financing conditions by banks are unfavorable and 56 or 18.7% think that the financing conditions by banks are very unfavorable.

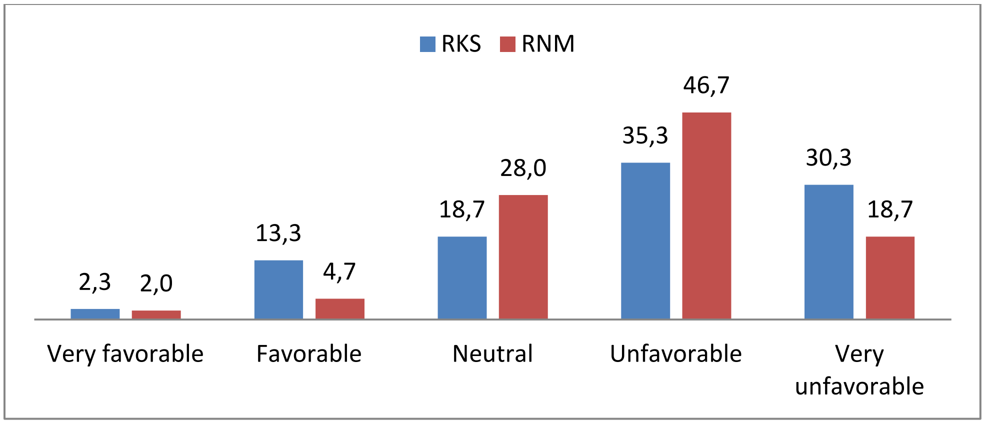


Figure 19. The percentage of the financing conditions for SMEs by banks, RKS *(Source: Author)*

From the results obtained we found out that in both countries more than 65% of the SMEs perceive the financing conditions by banks as a unfavorable and very unfavorable.

4.1.1.23. Business experience before starting as an owner

In order to analyze the variables that influence the SMEs growth it was important to find out if the owners of the SMEs had business experiences before starting their own business. In the Republic of Kosovo 238 or 79.3% of the entrepreneurs answered that they had experience before starting as owners, 60 or 20.0% of the entrepreneurs answered that they doesn't have experience before starting as owners and 2 or 0.7% didn't want to answer on this question.

In the Republic of North Macedonia 184 or 61.3% of the entrepreneurs answered that they had experience before starting as owners, 104 or 34.7% of the entrepreneurs answered that they doesn't have experience before starting as owners and 12 or 4.0% didn't want to answer on this question.

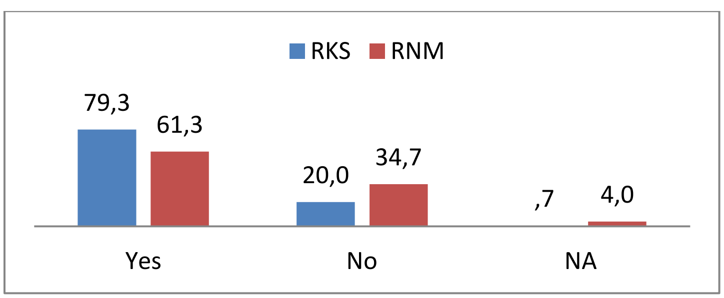


Figure 20. The percentage of the entrepreneurs experience, RKS and RNM *(Source: Author)*

From the results obtained we can see that in the RKS the entrepreneurs that had business experience before starting as owners are in higher percentage than in the RNM.

4.1.1.24. Owners level of education

Through our research we have asked the SMEs regarding the owners level of education, because, we wanted to know if it influences the SMEs growth. In the RKS we have the results as: 24 or 8.0% of the owners from the SMEs of our sample have finished primary school, 168 or 56.0% of the owners have finished high school, 88 or 29.3% are with bachelor degree, 18 or 6.0% have finished master studies and 2 or 0.7% have finished PhD studies.

Furthermore, in the RNM, 52 or 17.3% of the owners from the SMEs of our sample have finished high school, 166 or 55.3% are with bachelor degree, 56 or 18.7% have finished master studies, 18 or 6.0% have finished PhD studies, 2 or 0.7% are academics and 6 or 2.0% didn't want to answer on this question.

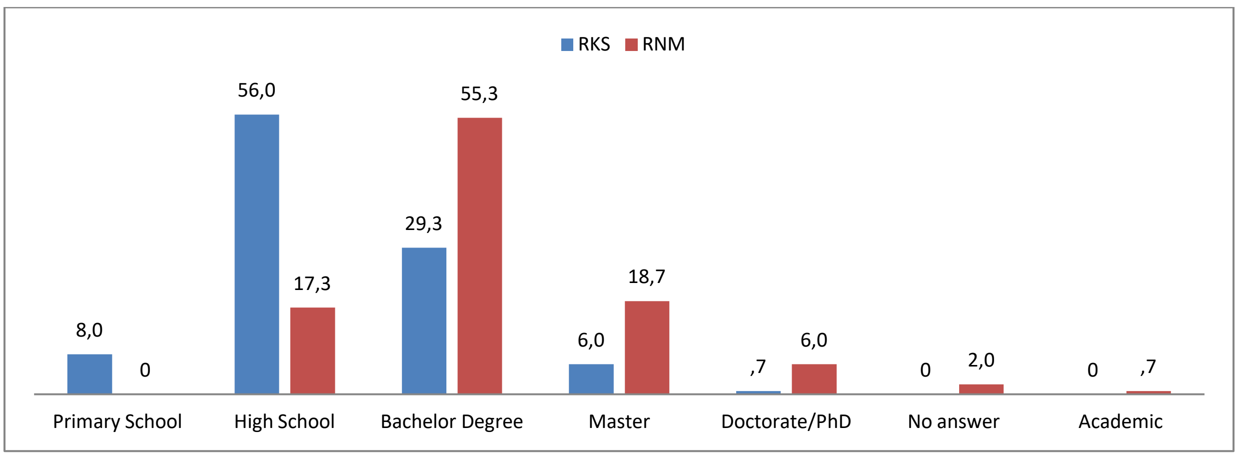


Figure 21. The percentage of the owners level of education, RKS and RNM *(Source: Author)*

From the results obtained from our research while comparing results from both countries we can see that the owners level of education is higher in the Republic of North Macedonia than in the Republic of Kosovo.

4.1.1.25. Owners gender

Through our research we asked the SMEs about the gender of their owners, and, in Kosovo 272 or 90.7% of the owners of the SMEs from our sample are males, while, 28 or 9.3% are female owners. Furthermore, in North Macedonia 233 or 77.7% of the owners of the SMEs from our sample are males, 49 or 16.3% are female owners, 10 or 3.3% of the SMEs owners are partnerships compound from female and male owners and 8 or 2.7% of the general managers of the SMEs answered that they don't know the gender of the owner, because, these businesses are controlled by another businesses.

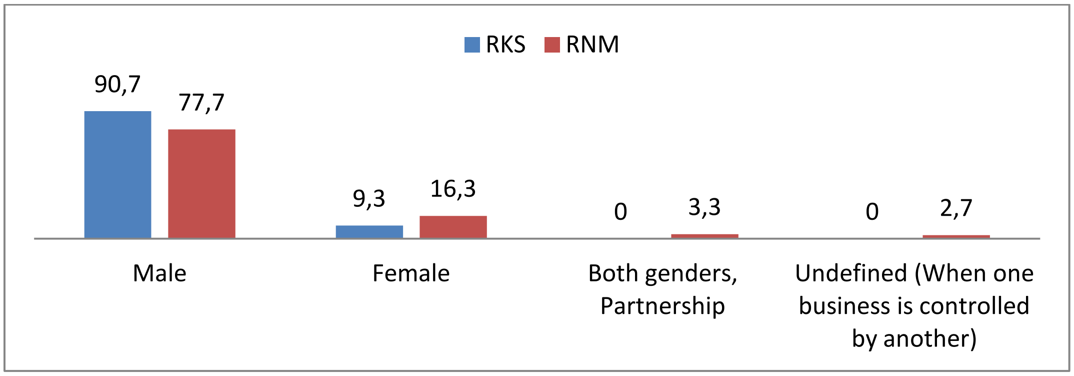


Figure 22. The percentage of the SME owners gender, RKS and RNM *(Source: Author)*

From the results obtained we can see that in both countries the SMEs are dominated by male owners. Also, it is very important to mention that from the results we can see that in the RNM the percentage of SMEs owned by females is higher than in the RKS, as we can see it is almost the double of the percentage of the SMEs in Kosovo.

4.1.2. Analyses of results of the BANK questionnaires

On this part we are going to analyze and compare the results from the interviews that we had on 10 Banks in Kosovo and 15 Banks in North Macedonia for each question.

4.1.2.1. Special program for financial support of SMEs

In order to analyze the role of the banking system in the development of SMEs, in both countries we have asked the Banks if they have any special program through which they offer financial support for SME. In the Republic of Kosovo 7 of the Banks answered that yes they have a special program for financial support of the SMEs and 3 answered that no they don't have any special program. Furthermore, in the Republic of North Macedonia 12 of the Banks answered that yes they have a special program for financial support of the SMEs and 3 answered that no they don't have any special program.

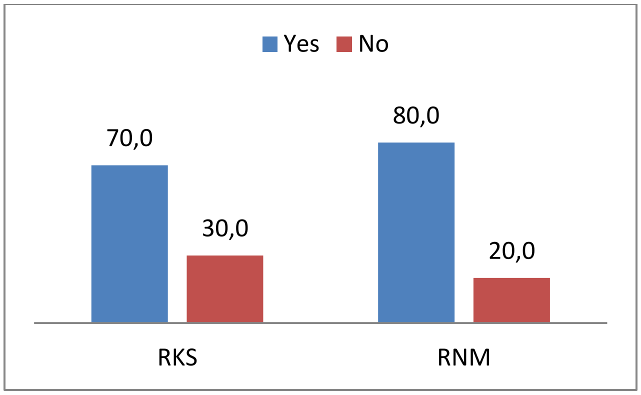


Figure 23. The percentage of the banks answers regarding the special program for financial support of the SMEs, RKS and RNM *(Source: Author)*

From the results obtained we can see that the percentage of banks that have special programs for financial support of the SMEs is higher in North Macedonia than in Kosovo.

4.1.2.2. Specify the program for financial support of SMEs

Through our interviews we have asked the banks that answered that they have special program for financial support of the SMEs to specify this kind of programs. In the tables below we will present the list of the special programs for SMEs financial support that banks in Kosovo and North Macedonia have.

Table 28. The list of the banks programs offered for financial support of the SMEs in Kosovo

		Frequency	Percent
Valid		3	30.0
	Credit lines for SMEs	4	40.0
	Credit lines for SMEs, Start-up financing and women entrepreneurs	1	10.0
	Guarantee Fund	1	10.0
	Special offer of loan products for entrepreneurs, micro and small businesses	1	10.0
	Total	**10**	**100.0**

(Source: Author)

Table 29. The list of the banks programs offered for financial support of the SMEs in North Macedonia

		Frequency	Percent
Valid		3	20.0
	Credit lines for development, support of the export and credit lines for financing the permanent turnover and working capital of the SMEs through DBNM	2	13.3
	Credit lines through DBNM and EIF	1	6.7
	Financing Innovative Projects Guarantee Scheme, USAID Guarantee Scheme, Western Balkans Guarantee Scheme, EIB Funding Fund, Credit lines for SMEs also in cooperation with DBNM	1	6.7
	Loan products specially designed by the needs of the SMEs as clients	5	33.3
	Loan products specially designed by the needs of the SMEs as clients, Credit lines from DBNM and USAID Guarantee Schemes	1	6.7
	More than 12 credit lines for SMEs	1	6.7
	Special credit lines for SMEs, for women entrepreneurs and credit lines for SMEs in cooperation with DBNM	1	6.7
	Total	**15**	**100.0**

(Source: Author)

From the results obtained we can see that the banking system in North Macedonia provides more special programs for financial support of the SMEs than in Kosovo.

4.1.2.3. Businesses that require loans from banks

We have asked the banks to rank by relevance (from 4 the most important to 1 the least important) the businesses that require financial support (loans) from them. In Kosovo the banks ranked the businesses as: medium businesses as the most important, large and small businesses were ranked in the same position as the second choice and micro businesses as the least important.

Table 30. The ranking of the businesses as a borrowers from banks by relevance, RKS

		Micro Business	Small Business	Medium Business	Large Business
N	**Valid**	10	10	10	10
	Missing	0	0	0	0
Mean		1.7000	2.5000	3.3000	2.5000
Std. Deviation		1.05935	.70711	.82327	1.35401
Minimum		1.00	2.00	2.00	1.00
Maximum		4.00	4.00	4.00	4.00

(Source: Author)

In North Macedonia the banks ranked the businesses as: the medium businesses as the most important, large and small businesses were ranked in the same position as the second choice and micro businesses as the least important.

Table 31. The ranking of the businesses as a borrowers from banks by relevance, RNM

		Micro Business	Small Business	Medium Business	Large Business
N	**Valid**	15	15	15	15
Mean		2.2667	2.3333	3.0667	2.3333
Median		2.0000	2.0000	3.0000	2.0000
Mode		1.00	2.00	3.00	1.00
Std. Deviation		1.16292	1.11270	.59362	1.39728
Minimum		1.00	1.00	2.00	1.00
Maximum		4.00	4.00	4.00	4.00

(Source: Author)

From the results obtained we can see that in the banks of both countries we have the same business ranking results.

4.1.2.4. Criteria's applied by bank to determine one SME as a good and reliable client

Through our interviews we have asked the banks to specify us the criteria's that they apply to determine one SME as a good and reliable client. In Kosovo the banks apply the criteria's like: financial performance in the current and last 2 years, positive capital, appropriate security/collateral, the history of the obligations settlement toward bank, data analyses/credit history from Loan Registry, business solvency, goodwill of the enterprise and written business plan.

Table 32. The list of the criteria's applied by banks to determine one SME as a good and reliable client, RKS

	N	Sum
Financial performance in the current and last 2 years	10	10.00
Goodwill of the enterprise	3	3.00
Data analyses/Credit history from Loan Registry	8	8.00
Positive capital	10	10.00
Appropriate security/collateral	10	10.00
Business plan	1	1.00
Enterprise solvency	6	6.00
The history of the obligations settlement toward bank	10	10.00
Valid N (list wise)		

(Source: Author)

While, in North Macedonia the banks apply the criteria's like: financial performance in the current and last 2 years, positive capital, appropriate security/collateral, data analyses/credit history from Loan Registry, business solvency, goodwill of the enterprise, the history of the obligations settlement toward bank, Macedonian Credit Bureau data, written business plan, investment type and the amount of credit exposure.

Table 33. The list of the criteria's applied by banks to determine one SME as a good and reliable client, RNM

	N	Sum
Financial performance in the current and last 2 years	13	13.00
Goodwill of the enterprise	7	7.00
Data analyses/Credit history from Loan Registry	8	8.00
Macedonian Credit Bureau	4	4.00
Positive capital	10	10.00
Appropriate security/collateral	10	10.00
Business plan	4	4.00
Enterprise solvency	8	8.00
The history of the obligations settlement toward bank	7	7.00
The amount of credit exposure	1	1.00
Investment type	2	2.00
Valid N (list wise)		

(Source: Author)

From the results obtained we can see that banks in North Macedonia have higher number of the criteria's through which they determine one SME as a good and a reliable borrower than the banks in Kosovo.

4.1.2.5. Criteria's applied by bank to determine one SME as a loyal client

It was very important for us to find out the criteria that banks apply to determine one SME as a loyal client. And from our interviews we found out that in Kosovo the criteria's that banks apply to determine one SME as a loyal client are: credit history in their institution, the history of the obligations settlement toward bank, the volume of turnover performed through bank, the percentage of usage of banking products, appropriate security/collateral, data analyses/credit history from Loan Registry, if the employees of the SME are getting their salary through their bank, to be banks client for more than one year and written business plan.

Table 34. The list of the criteria's applied by banks to determine one SME as a loyal client, RKS

	N	Sum
Credit history in our institution	10	10.00
Data analyses/Credit history from Loan Registry	8	8.00
The history of the obligations settlement toward bank	10	10.00
The volume of turnover performed in our institution	10	10.00
The percentage of usage of our banking products	10	10.00
Business plan	1	1.00
Appropriate security/collateral	9	9.00
Employees of the business are getting salary through our bank	4	4.00
To be our client for over more than 1 year	4	4.00
Valid N (list wise)		

Furthermore, from our interviews in North Macedonia we found out that the criteria's that banks apply to determine one SME as a loyal client are: the percentage of usage of banking products, credit history in their institution, , if the employees of the SME are getting their salary through their bank, to be banks client for more than one year, the percentage of domestic and international payment operations through their bank, the history of the obligations settlement toward bank, the volume of turnover performed through their institution, data analyses/Credit Loan Registry, Macedonian Credit Bureau, appropriate security/collateral, written business plan and participation percentage in the total financing.

Table 35. The list of the criteria's applied by banks to determine one SME as a loyal client, RNM

	N	Sum
Credit history in our institution	8	8.00
Data analyses/Credit history from Loan Registry	4	4.00
Macedonian Credit Bureau	3	3.00
The history of the obligations settlement toward bank	5	5.00
The volume of turnover performed in our institution	5	5.00
The percentage of usage of our banking products	11	11.00
Participation percentage in the total financing	1	1.00
Business plan	2	2.00
Appropriate security/collateral	3	3.00
The percentage of domestic and international payment operations through our bank	7	7.00
Employees of the business are getting salary through our bank	8	8.00
To be our client for over more than 1 year	8	8.00
Valid N (list wise)		

(Source: Author)

From the results obtained we can see that banks in North Macedonia have higher number of the criteria's through which they determine one SME as a loyal client than the banks in Kosovo. For example the most important criteria to determine one client as a loyal in North Macedonia banks is the percentage of usage of banking products, while, in Kosovo banks the most important criteria is credit history in their institution. So, through comparing the answers from both countries we can see that we have different approaches regarding the criteria's used.

4.1.2.6. The list of all products and services provided for the SMEs

Through our interviews we asked the banks about the list of all products and services that they provide for SMEs. In Kosovo the banks answered that the services and products they provide for SMEs are: short term loans, long term loans, overdrafts, debit and credit cards, deposits, all types of guarantees, e-banking, letters of credit, business credit card Micro (loans for SMEs), POS terminals, e-commerce, business credit card Growth (loans for investments), agricultural loans, loans for turnover assets and working capital, home and exchange account.

Table 36. The list of products and services provided from SMEs by banks, RKS

	N	Sum
Short term Loans	10	10.00
Long term Loans	10	10.00
Overdraft	10	10.00
All types of guarantees	9	9.00
Business credit card Turn, for turnover assets and working capital	6	6.00
Business credit card Growth, for investments	7	7.00
Business credit card Micro, for SMEs	8	8.00
Agricultural Loans	7	7.00
Letters of Intent	1	1.00
E-Banking	9	9.00
Letters of credit	9	9.00
Debit and Credit Cards	10	10.00
Deposits	10	10.00
POS Terminals	8	8.00
E-Commerce	8	8.00
Home and foreign exchange account	2	2.00
Valid N (list wise)		

(Source: Author)

In North Macedonia the banks answered that the services and products they provide for SMEs are: short term loans, long term loans, debit and credit cards, deposits, home and exchange accounts, overdraft, e-banking, letters of credit, e-commerce, business credit card Growth (loans for investments), POS terminals, all types of guarantees, loans for turnover assets and working capital, business credit card Micro (loans for SMEs), letters of intent, agricultural loans and saving products and services.

Table 37. The list of products and services provided from SMEs by banks, RNM

	N	Sum
Short term Loans	14	14.00
Long term Loans	14	14.00
Savings products and services	4	4.00
Overdraft	12	12.00
All types of guarantees	9	9.00
Business credit card Turn, for turnover assets and working capital	9	9.00
Business credit card Growth, for investments	10	10.00
Business credit card Micro, for SMEs	9	9.00
Agricultural Loans	6	6.00
Letters of Intent	9	9.00
E-Banking	12	12.00
Letters of credit	11	11.00
Debit and Credit Cards	14	14.00
Deposits	14	14.00
POS Terminals	10	10.00
E-Commerce	11	11.00
Home and foreign exchange account	13	13.00
Valid N (list wise)	**0**	

(Source: Author)

From the results obtained we can see that banks in North Macedonia offer more products and services for SMEs than the banks in Kosovo.

4.1.2.7. SMEs age as criteria

During our interviews we asked the banks if they consider as a criteria the SMEs age when approving a loan for them. In Kosovo 10 or 100% of the banks answered that Yes they consider as a criteria the SMEs age when approving a loan, while, in North Macedonia 13 or 86.7 of the banks answered that Yes they consider as a criteria the SMEs age when approving a loan, 1 or 6.7% of the banks answered No they do not consider SMEs age as a criteria when approving a loan and 1 or 6.7% had No answer on this question.

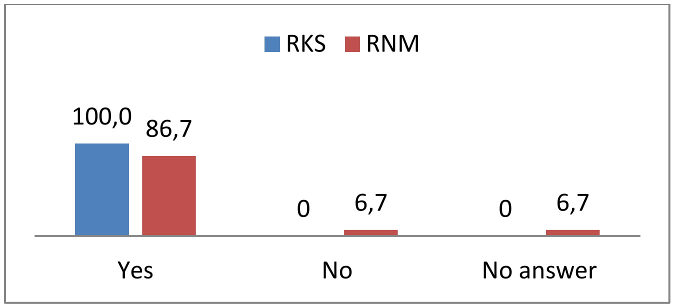


Figure 24. The percentage of the banks answers regarding their consideration about the SMEs age as a criteria when approving a loan, RKS and RNM *(Source: Author)*

From the results obtained we can see that in banks from both countries the role of the SMEs age is very important when approving a loan.

4.1.2.8. SMEs loyalty as criteria by banks

During our interviews we asked the banks if they have any considerations about their loyalty clients when approving a loan for them. In Kosovo 10 or 100% of the banks answered that Yes they consider as a criteria the SMEs loyalty when approving a loan, while, in North Macedonia 13 or 86.7 of the banks answered that Yes they consider as a criteria the SMEs loyalty when approving a loan and 2 or 13.3% had No answer on this question.

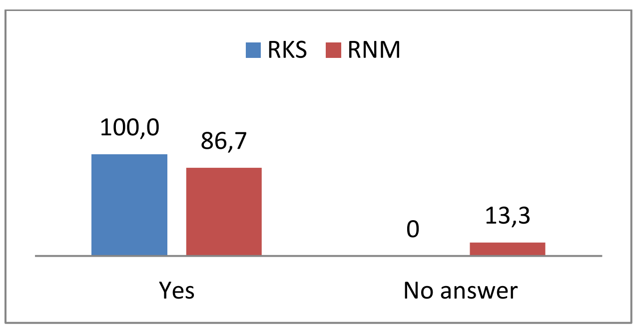


Figure 25. The percentage of the banks answers regarding their consideration about the SMEs loyalty as a criteria when approving a loan, RKS and RNM *(Source: Author)*

From the results obtained we can see that in banks from both countries the role of the SMEs loyalty is very important when approving a loan.

4.1.2.9. The determination of the interest rates from banks

During our research we were very interested to know from banks how do they determine the interest rates for loans. In Kosovo we have the answers like: 1) 6 or 60% of the banks answered that they determine the interest rates as a combination of loan history in their institution and from other financial institutions, the type of activity, financial indicators, and type of collateral provided; 2) 2 or 20% of the banks answered that they determine the interest rates through their credit internal policy; and 3) 2 or 20% of the banks answered that they determine the interest rates as a combination of credit internal policy, credit history, financial indicators of the SME and type of collateral provided.

Table 38. Factors influencing the determination of interest rates by banks, RKS

		Frequency	Percent
Valid	Loan history in our institution and from other financial institutions, The type of activity, Financial indicators, Type of collateral	6	60.0
	Credit Internal policy	2	20.0
	Credit Internal policy, Credit history, Financial indicators, Type of collateral	2	20.0
	Total	**10**	**100.0**

(Source: Author)

In North Macedonia we have the answers like: 1) 9 or 60% of the banks answered that they determine the interest rates as a combination of risk, financial reports, loan type, loan deadline and collateral provided; 2) 2 or 13.3% as a combination of SMEs size, currency, deadline of the repayment and the loan amount; 3) 1 or 6.7% of the banks answered that they determine the interest rates as a combination of loan history in our institution and from other financial institutions and the type of activity; 4) 1 or 6.7% of the banks answered that they determine the interest rates as a combination of loan policy and tariff of the bank, collateral and risk; and 5) 1 or 6.7% of the banks answered that they determine the interest rates according to an internal risk assessment tool.

Table 39. Factors influencing the determination of interest rates by banks, RNM

		Frequency	Percent
Valid		1	6.7
	According to an internal risk assessment tool of the bank	1	6.7
	Loan history in our institution and from other financial institutions, The type of activity, Financial indicators, Type of collateral	1	6.7
	Loan policy and tariff of the Bank, collateral and risk	1	6.7
	Risk, financial reports, loan type, loan deadline and collateral	9	60.0
	SMEs size, currency, deadline of the repayment and the loan amount	2	13.3
	Total	**15**	**100.0**

(Source: Author)

From the results obtained we can see that banks in both countries consider the similar factors while determining the interest rates.

4.1.2.10. Interest rates

Through our research we have asked the banks in both countries about the average interest rates that they apply for SMEs as a borrowers. In Kosovo the banks answered that the interest rates that they apply for SMEs as a borrowers are from 6.80%-12.00%.

Table 40. Interest rates for SMEs, RKS

	N	Minimum	Maximum	Mean
What are the interest rates that you apply for SMEs as a borrowers (Last year)	10	6.80	12.00	8.8200
Valid N (list wise)	**10**			

(Source: Author)

Furthermore, in North Macedonia the banks answered that the interest rates that they apply for SMEs as a borrowers are from 3.00%-9.50%.

Table 41. Interest rates for SMEs, RNM

	N	Minimum	Maximum	Mean
What are the interest rates that you apply for SMEs as a borrowers (Last year)	15	3.00	9.50	5.6600
Valid N (list wise)	**15**			

(Source: Author)

From the results obtained when we compare the means from both countries we can see that banks in North Macedonia offer loans for SMEs with lower interest rates than in Kosovo, where, the mean of the interest rates in North Macedonia is 5.66%, while, in Kosovo the mean of the interest rates for SMEs is 8.82%.

4.1.2.11. Interest rates regarding business size

Through our research we have asked the banks if they apply the same interest rates for all business sizes as a borrowers. In Kosovo 3 or 30% of the banks answered that Yes they apply the same interest rates for all business sizes, and, 7 or 70% of the banks answered that No they do not apply the same interest rates for all business sizes. While, in North Macedonia 3 or 20% of the banks answered that Yes they apply the same interest rates for all business sizes, and, 12 or 80% of the banks answered that No they do not apply the same interest rates for all business sizes.

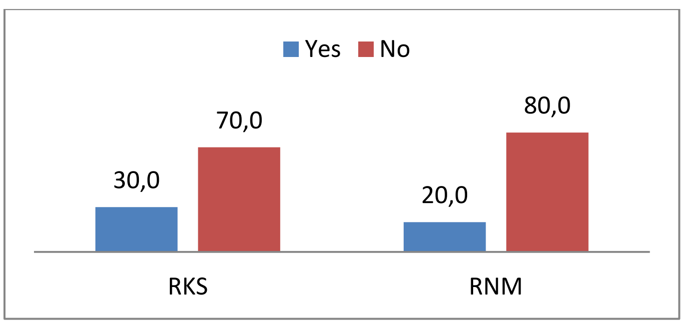


Figure 26. The percentage of the banks answers about the consideration regarding business sizes when determining interest rates, RKS and RNM *(Source: Author)*

From the results obtained we can see that in both countries more than 70% of the banks do not apply the same interest rates for all business sizes.

4.1.2.12. Differences of interest rates regarding business size

The banks that answered with No in the previous question, we have asked to specify the differences of the interest rates they apply based on the business size, where in Kosovo we have 7 banks, while, in North Macedonia we have 12 banks.

In both countries the banks divided in two groups the factors that affect the determination of the interest rates for different sizes of business which are:

- Smaller enterprises are riskier and are credited with higher interest rates, where, in Kosovo 28% of the banks has specified this as a factor that influences the determination of the interest rate, while, in North Macedonia 16.67% of the banks has specified this as a factor that influences the determination of the interest rate.
- Combination of SMEs size, turnover, solvency, collateral provided and loan history, where, in Kosovo 71.43% of the banks has specified this as a factor that influences the determination of the interest rate, while, in North Macedonia 83.33% of the banks has specified this as a factor that influences the determination of the interest rate.

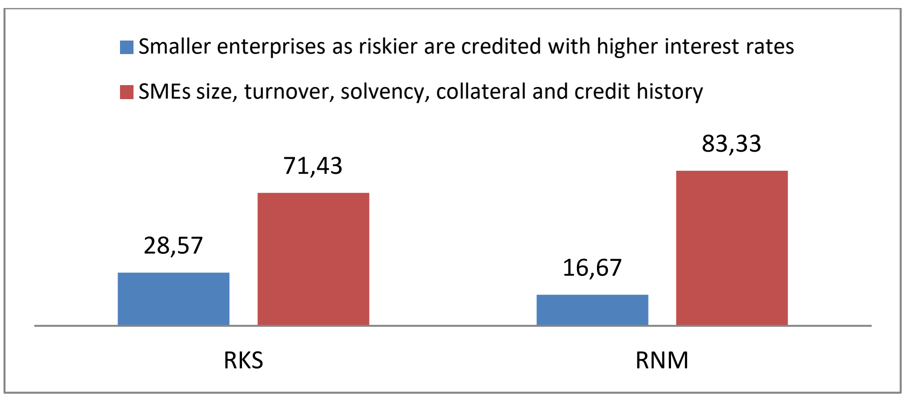


Figure 27. The percentage of differences of interest rates regarding business size, RKS and RNM *(Source: Author)*

4.1.2.13. Within the bank do you have any organizational unit that researches the market, through which you determine the interest rates

Through our research in banks we wanted to find out if they have any organizational unit that researches the market and through which the banks determine the interest rates. Regarding this in Kosovo we have the results as: 8 or 80% of the banks answered that Yes they have an organizational unit that researches the market and through which they determine the interest rates, 1 or 10% of the banks answered that No they do not have an organizational unit that researches the market and through which they determine the interest rates and 1 or 10% has no answer regarding this question. While in North Macedonia we have the results as: 13 or 86.7% of the banks answered that Yes they have an organizational unit that researches the market and through which they determine the interest rates, 1 or 6.7% of the banks answered that No they do not have an organizational unit that researches the market and through which they determine the interest rates and 1 or 6.7% has no answer regarding this question.

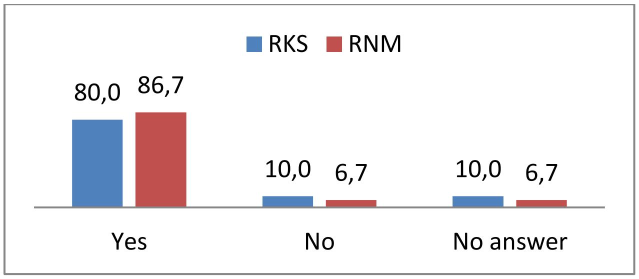


Figure 28. The percentage of the answers about the research organizational unit within bank, RKS and RNM *(Source: Author)*

From the results obtained we can see that we have similar results from both countries banks.

4.1.2.14. SMEs classification as a borrowers by bank

Through our research we wanted to find out about the perception of the banks regarding SMEs as a borrowers, do they percept as correct and reliable client or not. In Kosovo 9 or 90% of the banks answered that Yes they consider SMEs as a correct and reliable clients, while, 1 or 10% of the banks had no answer regarding this question. Furthermore, in North Macedonia 12 or 80% of the banks answered that Yes they consider SMEs as a correct and reliable clients, while, 3 or 20% of the banks had no answer regarding this question.

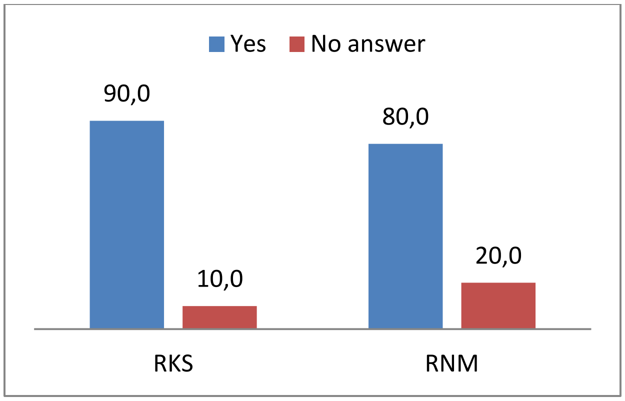


Figure 29. The percentage of the SMEs classification as a correct or reliable clients by banks, RKS and RNM *(Source: Author)*

4.1.2.15. Future plans

Through our research we asked the banks if they plan to undertake any supporting activity for SMEs in the future. In Kosovo 9 or 90% of the banks answered that Yes they plan to undertake supportive activities for SMEs, and, 1 or 10% of the banks had no answer about this question. While, in North Macedonia 11 or 73.3% of the banks answered that Yes they plan to undertake supportive activities for SMEs, 1 or 6.7% of the banks answered that No they do not plan to undertake any supportive activity for SMEs, and, 3 or 20% of the banks had no answer about this question.

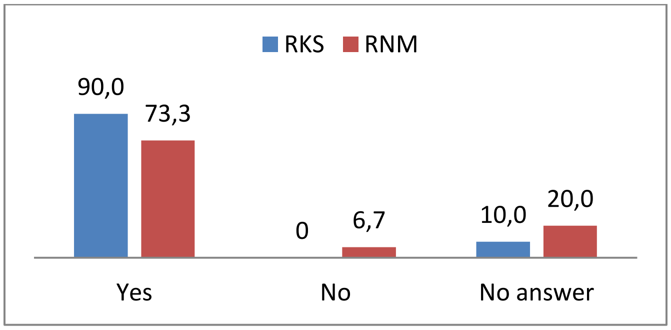


Figure 30. The percentage of the banks regarding their future plans for SMEs, RKS and RNM *(Source: Author)*

From the results obtained in both countries we can see that more than 70% of the banks in both countries answered that they have future plans to undertake supporting activities for SMEs.

4.1.2.16. Obstacles that faces the banks for financing SMEs

At the end of our interview with banks we asked them to rank by relevance the obstacles that they face for financing SMEs. In Kosovo the banks ranked the obstacles from the most important till the least important (from 1-6), and, we have the results like: informality was ranked as the most important, collateral provided from SMEs was ranked as the 2nd, legal restrictions were ranked as the 3rd, regulative institutions ranked as the 4rth, banks low benefit ranked as the 5th and banks internal regulations ranked as the least important.

Table 42. The obstacles that faces the banks for financing SMEs (ranked by relevance from 1 the most important-6 the least important, RKS

	N	Minimum	Maximum	Mean
Banks internal regulations	10	2.00	6.00	5.1000
Legal restrictions	10	2.00	3.00	2.8000
Regulative institutions	10	3.00	4.00	3.9000
Banks low benefit	10	4.00	5.00	4.9000
Informality	10	1.00	6.00	1.7000
Collateral	10	1.00	6.00	2.6000
Valid N (list wise)	**10**			

(Source: Author)

Furthermore, in North Macedonia the banks ranked the obstacles from the most important till the least important (from 1-6), and, we have the results like: legal restrictions were ranked as the most important, informality was ranked as the 2nd, banks low benefit was ranked as the 3rd, regulative institutions ranked as the 4rth, banks internal regulations ranked as the 5th and collateral provided from SMEs was ranked as the least important.

Table 43. The obstacles that faces the banks for financing SMEs (ranked by relevance from 1 the most important-6 the least important, RNM

	N	Minimum	Maximum	Mean
Banks internal regulations	15	1.00	6.00	4.2000
Legal restrictions	15	1.00	5.00	2.4667
Regulative institutions	15	2.00	5.00	3.4667
Banks low benefit	15	1.00	5.00	3.2000
Informality	15	1.00	5.00	2.5333
Collateral	15	1.00	6.00	5.1333
Valid N (list wise)	**15**			

(Source: Author)

From the results obtained we can see that we have different ranking of the obstacles by banks in two countries, where, for example legal restrictions was ranked as the most important in Macedonia, while, in Kosovo it was ranked as the 3rd, or, collateral was ranked as the 2nd important obstacle that banks face in Kosovo, while, in Macedonia it was ranked as the least important.

4.2. Econometric model and Correlation analyses

To analyze the effect of the independent variables that are loan, interest rate, SMEs age and educational level of the owners in the dependent variable of this study that is SMEs growth we decided to use the multinomial logistic regression which is used to predict categorical placement in or the probability of category membership on a dependent variable based on multiple independent variables. The independent variables can be either dichotomous (i.e., binary) or continuous (i.e., interval or ratio scale). Multinomial logistic regression is a simple extension of binary logistic regression that allows for more than two categories of the dependent or outcome variable (Starkweather & Kay Moske).

Multinomial Logistic Regression models how *multinomial response* variable Y depends on a set of k explanatory variables, $X=(X_1, X_2, \ldots, X_k)$. This is also a GLM where the *random component* assumes that the distribution of Y is *Multinomial(n, π), where* π *is a vector with probabilities of "success" for each category. The systematic component* are explanatory variables (can be continuous, discrete, or both) and are linear in the parameters, e.g., $\beta_0 + \beta xi + \ldots + \beta_0 +$

βxk. Again, transformation of the X's themselves are allowed like in linear regression. The *link function* is the *generalized Logit*, the logit link for each pair of non-redundant logits as discussed below. The model for our analyses is presented below:

$$Logit[P(Y=1)] = \alpha + \beta_1 x_{i1} + \beta_2 x_{i2} + \dots + \beta_k x_k \qquad (1)$$

And the alternative formula, directly specifying π(x), is:

$$\pi(x) = \frac{\exp(\alpha+\beta_1 x_1+\beta_2 x_2+\dots+\beta_k x_k)}{1+\exp(\alpha+\beta_1 x_1+\beta_2 x_2+\dots+\beta_k x_k)} \qquad (2)$$

The parameter β_k refers to the effect of x_k on the log odds that Y=1.

The dependent variable presents the SMEs growth through the number of employees for the years 2016, 2017 and 2018.

Independent variables are coded as follows:

Loan_amount - expresses the amount of loan that the SMEs got from banks

Interest_rate - expresses the interest rate of loans that SMEs got from banks

SMEs_age - expresses the years of the business since its development

Owner_Education_Level - is coded as: 1 for primary school, 2 for high school, 3 for bachelor degree, 4 for master, 5 for doctorate/PhD, 6 for no answer, 7 for academic.

We run also correlation analyses in order to reveal the relationships between variables. Correlation analysis is a statistical method used to evaluate the strength of relationship between two quantitative variables. A high correlation means that two or more variables have a strong relationship with each other, while a weak correlation means that the variables are hardly related. In other words, it is the process of studying the strength of that relationship with available statistical data. This technique is strictly connected to the linear regression analysis that is a statistical approach for modeling the association between a dependent variable, called response, and one or more explanatory or independent variables.[27]

In order to analyze the influence of loan, interest rates, SMEs age and owners level of education as independent variables in the SMEs growth as dependent variable we have conducted a research on 600 small and medium enterprises, from which 300 in Kosovo and 300 in North Macedonia that are from the trade and manufacturing sector.

The dependent variable used in the model is the SMEs growth that was measured using the number of employees for three years 2016, 2017 and 2018.

[27] https://www.sciencedirect.com/topics/medicine-and-dentistry/correlation-analysis

4.2.1. The results of multinomial regression model, RKS

Below we will analyze the influence of the independent variables to the dependent variable for years 2016, 2017 and 2018 from the data collected in the Republic of Kosovo.

Table 44. Model fitting information for the year 2016, RKS

Model	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC	**BIC**	**-2 Log Likelihood**	**Chi-Square**	**df**	**Sig.**
Intercept Only	58.877	68.064	52.877			
Final	58.073	104.012	28.073	24.804	12	.016

(Source: Author)

The likelihood ratio test shows whether the model fits the data better than a null model. Since the significance level of the test is less than .05, in our case .016, we can conclude the Final model is outperforming the Null.

Table 45. Pseudo R-Square for the year 2016, RKS

Cox and Snell	.145
Nagelkerke	.451
McFadden	.404

(Source: Author)

We run the pseudo R^2 test also to see if the model fits our data. From the results of McFadden in our case .404 we revealed that we have an excellent model fit[28].

[28] The interpretation of McFadden's pseudo R^2 between 0.2-0.4 comes from a book chapter he contributed to: Behavioral Travel Modeling, edited by David Hensher and Peter Stopher. 1979, and, values from 0.2-0.4 indicate (in McFadden's words) excellent model fit.

Table 46. Likelihood ratio tests for year 2016, RKS

Effect	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC of Reduced Model	BIC of Reduced Model	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
Intercept	66.411	103.162	42.411	14.338	3	.002
Loan_amount	69.635	106.386	45.635	17.562	3	.001
Interest_rate	55.764	92.515	31.764	3.691	3	.297
SME_Age	60.137	96.888	36.137	8.064	3	.045
Owner_Education_Level	60.595	97.346	36.595	8.522	3	.036

The chi-square statistic is the difference in -2 log-likelihoods between the final model and a reduced model. The reduced model is formed by omitting an effect from the final model. The null hypothesis is that all parameters of that effect are 0.

(Source: Author)

Likelihood ratio tests were run to determine the influence of the independent variables in the dependent variable. From the results obtained based on the level of significance value less than .05 of each independent variable we can argue that loan (p=.001), SMEs age (p=.045), owners level of education (p=.036) influence significantly the SMEs growth as a dependent variable. Furthermore, the results revealed that loan interest rate (p=.297)has no influence on the SMEs growth for the year 2016.

Table 47. Model fitting information for the year 2017, RKS

Model	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC	BIC	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	65.375	77.626	57.375			
Final	69.934	131.186	29.934	27.441	16	.037

(Source: Author)

The likelihood ratio test shows whether the model fits the data better than a null model. Since the significance level of the test is less than .05, in our case .037, we can conclude the Final model is outperforming the Null.

Table 48. Pseudo R-Square for the year 2017, RKS

Cox and Snell	**.159**
Nagelkerke	.467
McFadden	.416

(Source: Author)

We run the pseudo R^2 test also to see if the model fits our data. From the results of McFadden in our case .416 we revealed that we have an excellent model fit[29].

Table 49. Likelihood ratio tests for year 2017, RKS

Effect	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC of Reduced Model	BIC of Reduced Model	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
Intercept	79.008	128.009	47.008	17.074	4	.002
Loan_amount	80.924	129.925	48.924	18.989	4	.001
Interest_rate	65.795	114.797	33.795	3.861	4	.425
SME_Age	71.067	120.068	39.067	9.132	4	.058
Owner_Education_Level	70.878	119.879	38.878	8.943	4	.063

The chi-square statistic is the difference in -2 log-likelihoods between the final model and a reduced model. The reduced model is formed by omitting an effect from the final model. The null hypothesis is that all parameters of that effect are 0.

(Source: Author)

Likelihood ratio tests were run to determine the influence of the independent variables in the dependent variable. From the results obtained based on the level of significance value less than .05 of each independent variable we can argue that only loan (p=.001) influences significantly the SMEs growth as a dependent variable. Furthermore, the results revealed that loan interest rate (p=.425), SMEs age (p=.058) and owners level of education (p=.063) have no influence on the SMEs growth for the year 2017.

Table 50. Model fitting information for the year 2018, RKS

Model	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC	BIC	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	83.559	95.810	75.559			
Final	69.854	131.106	29.854	45.706	16	.000

(Source: Author)

[29] The interpretation of McFadden's pseudo R^2 between 0.2-0.4 comes from a book chapter he contributed to: Behavioral Travel Modeling, edited by David Hensher and Peter Stopher. 1979, and, values from 0.2-0.4 indicate (in McFadden's words) excellent model fit.

The likelihood ratio test shows whether the model fits the data better than a null model. Since the significance level of the test is less than .05, in our case .000, we can conclude the Final model is outperforming the Null.

Table 51. Pseudo R-Square for the year 2018, RKS

Cox and Snell	.251
Nagelkerke	.616
McFadden	.552

(Source: Author)

We run the pseudo R^2 test also to see if the model fits our data. From the results of McFadden in our case .552 we revealed that we have an excellent model fit[30].

Table 52. Likelihood ratio tests for year 2018, RKS

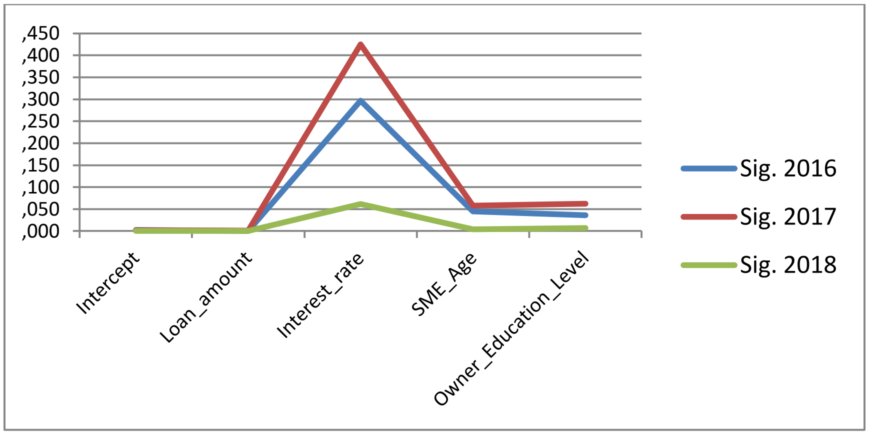
Effect	**Model Fitting Criteria**			**Likelihood Ratio Tests**		
	AIC of Reduced Model	**BIC of Reduced Model**	**-2 Log Likelihood of Reduced Model**	**Chi-Square**	**df**	**Sig.**
Intercept	86.058	135.059	54.058	24.204	4	.000
Loan_amount	87.751	136.753	55.751	25.898	4	.000
Interest_rate	70.833	119.835	38.833	8.980	4	.062
SME_Age	77.215	126.216	45.215	15.361	4	.004
Owner_Education_Level	75.896	124.898	43.896	14.042	4	.007

The chi-square statistic is the difference in -2 log-likelihoods between the final model and a reduced model. The reduced model is formed by omitting an effect from the final model. The null hypothesis is that all parameters of that effect are 0.

(Source: Author)

Likelihood ratio tests were run to determine the influence of the independent variables in the dependent variable. From the results obtained based on the level of significance value less than .05 of each independent variable we can argue that only loan (p=.000), SMEs age (p=.004) and owners level of education (p=.007) influence significantly the SMEs growth as a dependent variable. Furthermore, the results revealed that loan interest rate (p=.062), has no influence on the SMEs growth for the year 2018.

[30] The interpretation of McFadden's pseudo R^2 between 0.2-0.4 comes from a book chapter he contributed to: Behavioral Travel Modeling, edited by David Hensher and Peter Stopher. 1979, and, values from 0.2-0.4 indicate (in McFadden's words) excellent model fit.



Graph. 1. The line of the level of significance of the independent variables for years 2016, 2017, 2018, RKS *(Source: Author)*

From the graph lines we reveal that the level of significance has decreased on the year 2018.

4.2.2. The results of multinomial regression model, RNM

Below we will analyze the influence of the independent variables to the dependent variable for years 2016, 2017 and 2018 from the data collected in the Republic of Kosovo.

Table 53. Model fitting information for the year 2016, RNM

Model	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC	BIC	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	378.500	406.827	360.500			
Final	315.254	456.891	225.254	135.247	36	.000

(Source: Author)

The likelihood ratio test shows whether the model fits the data better than a null model. Since the significance level of the test is less than .05, in our case .000, we can conclude the Final model is outperforming the Null.

Table 54. Pseudo R-Square for the year 2016, RNM

Cox and Snell	.544
Nagelkerke	.606
McFadden	.343

(Source: Author)

We run the pseudo R^2 test also to see if the model fits our data. From the results of McFadden in our case .343 we revealed that we have an excellent model fit[31].

Table 55. Likelihood ratio tests for year 2016, RNM

Effect	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC of Reduced Model	BIC of Reduced Model	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
Intercept	372.256	485.566	300.256	75.002	9	.000
Loan_amount	382.347	495.657	310.347	85.093	9	.000
Interest_rate	357.531	470.841	285.531	60.278	9	.000
SME_Age	354.535	467.845	282.535	57.282	9	.000
Owner_Education_Level	340.699	454.008	268.699	43.445	9	.000

The chi-square statistic is the difference in -2 log-likelihoods between the final model and a reduced model. The reduced model is formed by omitting an effect from the final model. The null hypothesis is that all parameters of that effect are 0.

(Source: Author)

Likelihood ratio tests were run to determine the influence of the independent variables in the dependent variable. From the results obtained based on the level of significance value less than .05 of each independent variable we can argue that loan (p=.000), loan interest rate (p=.000), SMEs age (p=.000) and owners level of education (p=.000) influence significantly the SMEs growth as a dependent variable. Furthermore, the results revealed that all the independent variables have influence on the SMEs growth for the year 2016.

Table 56. Model fitting information for the year 2017, RNM

Model	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC	BIC	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	385.806	414.133	367.806			
Final	320.661	462.298	230.661	137.145	36	.000

(Source: Author)

[31] The interpretation of McFadden's pseudo R^2 between 0.2-0.4 comes from a book chapter he contributed to: Behavioral Travel Modeling, edited by David Hensher and Peter Stopher. 1979, and, values from 0.2-0.4 indicate (in McFadden's words) excellent model fit.

The likelihood ratio test shows whether the model fits the data better than a null model. Since the significance level of the test is less than .05, in our case .000, we can conclude the Final model is outperforming the Null.

Table 57. Pseudo R-Square for the year 2017, RNM

Cox and Snell	.549
Nagelkerke	.609
McFadden	.342

(Source: Author)

We run the pseudo R^2 test also to see if the model fits our data. From the results of McFadden in our case .342 we revealed that we have an excellent model fit[32].

Table 58. Likelihood ratio tests for year 2017, RNM

Effect	**Model Fitting Criteria**			**Likelihood Ratio Tests**		
	AIC of Reduced Model	**BIC of Reduced Model**	**-2 Log Likelihood of Reduced Model**	**Chi-Square**	**df**	**Sig.**
Intercept	362.212	475.522	290.212	59.551	9	.000
Loan_amount	383.075	496.385	311.075	80.414	9	.000
Interest_rate	356.150	469.460	284.150	53.489	9	.000
SME_Age	353.097	466.407	281.097	50.436	9	.000
Owner_Education_Level	323.872	437.182	251.872	21.211	9	.012

The chi-square statistic is the difference in -2 log-likelihoods between the final model and a reduced model. The reduced model is formed by omitting an effect from the final model. The null hypothesis is that all parameters of that effect are 0.

(Source: Author)

Likelihood ratio tests were run to determine the influence of the independent variables in the dependent variable. From the results obtained based on the level of significance value less than .05 of each independent variable we can argue that loan (p=.000), loan interest rate (p=.000), SMEs age (p=.000) and owners level of education (p=.012) influence significantly the SMEs growth as a dependent variable. Furthermore, the results revealed that all the independent variables have influence on the SMEs growth for the year 2017.

[32] The interpretation of McFadden's pseudo R^2 between 0.2-0.4 comes from a book chapter he contributed to: Behavioral Travel Modeling, edited by David Hensher and Peter Stopher. 1979, and, values from 0.2-0.4 indicate (in McFadden's words) excellent model fit.

Table 59. Model fitting information for the year 2018, RNM

Model	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC	BIC	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	400.738	429.065	382.738			
Final	366.519	508.156	276.519	106.219	36	.000

(Source: Author)

The likelihood ratio test shows whether the model fits the data better than a null model. Since the significance level of the test is less than .05, in our case .000, we can conclude the Final model is outperforming the Null.

Table 60. Pseudo R-Square for the year 2018, RNM

Cox and Snell	.461
Nagelkerke	.506
McFadden	.255

(Source: Author)

We run the pseudo R^2 test also to see if the model fits our data. From the results of McFadden in our case .255 we revealed that we have an excellent model fit[33].

Table 61. Likelihood ratio tests for year 2018, RNM

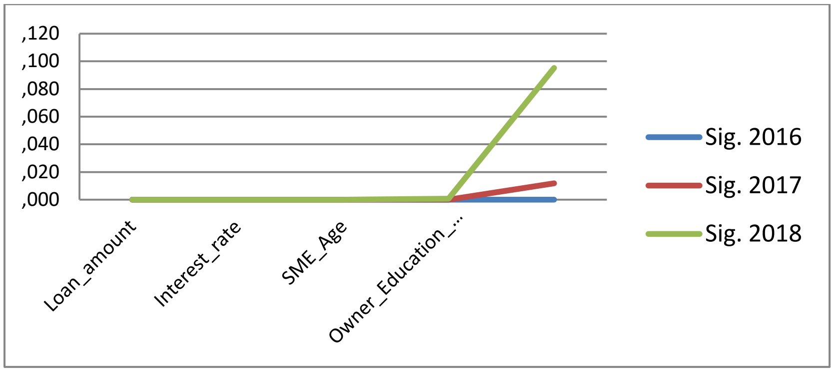
Effect	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC of Reduced Model	BIC of Reduced Model	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
Intercept	397.332	510.642	325.332	48.814	9	.000
Loan_amount	409.628	522.938	337.628	61.110	9	.000
Interest_rate	384.852	498.162	312.852	36.333	9	.000
SME_Age	377.319	490.628	305.319	28.800	9	.001
Owner_Education_Level	363.365	476.674	291.365	14.846	9	.095

The chi-square statistic is the difference in -2 log-likelihoods between the final model and a reduced model. The reduced model is formed by omitting an effect from the final model. The null hypothesis is that all parameters of that effect are 0.

(Source: Author)

[33] The interpretation of McFadden's pseudo R^2 between 0.2-0.4 comes from a book chapter he contributed to: Behavioral Travel Modeling, edited by David Hensher and Peter Stopher. 1979, and, values from 0.2-0.4 indicate (in McFadden's words) excellent model fit.

Likelihood ratio tests were run to determine the influence of the independent variables in the dependent variable. From the results obtained based on the level of significance value less than .05 of each independent variable we can argue that loan (p=.000), loan interest rate (p=.000) and SMEs age (p=.001) influence significantly the SMEs growth as a dependent variable. Furthermore, the results revealed that owners level of education (p=.095) has no influence on the SMEs growth for the year 2018.



Graph. 2. The line of the level of significance of the independent variables for years 2016, 2017, 2018, RNM *(Source: Author)*

The graph line reveals that the level of significance on 2018 for the owners level of education raised enormously.

4.3. Hypothesis testing

In order to complete the objectives of research we are going to confirm the null hypothesis that we set. Moreover, we are going to analyze if there is a correlation between the variables in order to understand the strength of relationship between them.

1. ***Bank loans influence the SMEs growth***

Multinomial logistic model was run to identify the influence of the independent variables in our dependent variable SMEs growth. From the results generated from the model (Table 46, 47, 48) we argue that there was a significant (year 2016: p=.001; year 2017: p=.001; year 2018: p=.000) influence of the bank loans on the SMEs growth for the years 2016, 2017 and 2018 in Kosovo, moreover, through these results we confirm this hypothesis.

Table 62. Correlation between loan amount and SMEs growth for years 2016, 2017 and 2018, RKS

			Number of employees, December 2016	**Number of employees, December 2017**	**Number of employees, December 2018**
Spearman's rho	**How much was the amount of loan?**	Correlation Coefficient	.250**	.251**	.302**
		Sig. (2-tailed)	.002	.002	.000
		N	158	158	158

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

(Source: Author)

A Spearman's rank-order correlation was run to determine the relationship between loan and SMEs growth measured by the number of employees for the years 2016, 2017 and 2018. From the results obtained from Kosovo we argue that there was a weak, positive correlation between loan amount and SMEs growth (year 2016: r = .250**, p=.002; year 2017: r = .251**, p=.002; year 2018: r = .302**, p=.000).

Multinomial logistic model was run to identify the influence of the independent variables in our dependent variable SMEs growth. From the results generated from the model (Table 55, 56, 57) we argue that there was a significant (2016: p=.000; 2017: p=.000; 2018: p=.000) influence of the bank loans on the SMEs growth for the year 2016, 2017 and 2018 in North Macedonia, moreover, through these results we confirm this hypothesis.

Table 63. Correlation between loan amount and SMEs growth for years 2016, 2017 and 2018, RNM

			Number of employees, December 2016	**Number of employees, December 2017**	**Number of employees, December 2018**
Spearman's rho	**How much was the amount of loan?**	Correlation Coefficient	.419**	.443**	.430**
		Sig. (2-tailed)	.000	.000	.000
		N	172	172	172

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

(Source: Author)

A Spearman's rank-order correlation was run to determine the relationship between loan and SMEs growth. From the results obtained from North Macedonia we argue that there was a moderate, positive correlation between loan amount and SMEs growth (year 2016: r = .419**, p=.000; year 2017: r = .443**, p=.000; year 2018: r = .430**, p=.000).

2. *Loans interest rates influence the SMEs growth*

Multinomial logistic model was run to identify the influence of the independent variables in our dependent variable SMEs growth. From the results generated from the model (Table 46, 47, 48) we argue that there wasn't significant (2016: p=.297; 2017: p=.425; 2018: p=.062) influence of the loan interest rates on the SMEs growth for the year 2016, 2017 and 2018 in Kosovo, moreover, through these results we can't confirm this hypothesis for Kosovo.

Table 64. Correlation between loan interest rates and SMEs growth for years 2016, 2017 and 2018, RKS

			Number of employees, December 2016	**Number of employees, December 2017**	**Number of employees, December 2018**
Spearman's rho	**How much was the yearly interest rate (%)?**	Correlation Coefficient	.001	.001	-.050
		Sig. (2-tailed)	.992	.987	.536
		N	158	158	158

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

(Source: Author)

A Spearman's rank-order correlation was run to determine the relationship between loan interest rates and SMEs growth. From the results obtained from Kosovo we argue that there was no correlation between loan interest rates and SMEs growth (year 2016: p=.992; year 2017: p=.987; year 2018: p=.536).

Multinomial logistic model was run to identify the influence of the independent variables in our dependent variable SMEs growth. From the results generated from the model (Table 55, 56, 57) we argue that there was a significant (2016: p=.000; 2017: p=.000; 2018: p=.000) influence of the loan interest rates on the SMEs growth for the year 2016, 2017 and 2018 in North Macedonia, moreover, through these results we confirm this hypothesis.

Table 65. Correlation between loan interest rates and SMEs growth for years 2016, 2017 and 2018, RNM

			Number of employees, December 2016	Number of employees, December 2017	Number of employees, December 2018
Spearman's rho	How much was the yearly interest rate (%)?	Correlation Coefficient	-.205**	-.178*	-.157*
		Sig. (2-tailed)	.007	.019	.039
		N	172	172	172

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

(Source: Author)

A Spearman's rank-order correlation was run to determine the relationship between loan interest rates and SMEs growth. From the results obtained from North Macedonia we argue that there was a very weak, negative correlation between loan interest rates and SMEs growth (year 2016: r = -.205**, p=.007; year 2017: r = -.178*, p=.019; year 2018: r = -.157*, p=.039).

3. ***SMEs in Kosovo and North Macedonia use bank loans as a source of external financing for their business***

This hypothesis is confirmed through the question raised to SMEs regarding the fact that they have used banking loans as external sources to finance their business activities, where, in RKS 52.7 % answered Yes, while, in RNM 57.3 % answered that Yes they have financed their business activities through loans. So, from the results obtained we confirm that more than 51% of the SMEs in RKS and RNM use bank loans as a source of external financing for their business.

4. ***Age of the SMEs in the market influence the SMEs growth***

Multinomial logistic model was run to identify the influence of the independent variables in our dependent variable SMEs growth. From the results generated from the model (Table 46, 47, 48) we argue that there was a significant (2016: p=.045; 2018: p=.004) influence of the SMEs age on the SMEs growth for the years 2016 and 2018 in Kosovo, while, there wasn't significant influence of the SMEs age on the SMEs growth for the year 2017 (p=.058). Therefore, we confirm this hypothesis only for the years 2016 and 2018, moreover, can't confirm for the year 2017 for the SMEs in RKS.

Table 66. Correlation between SMEs age and SMEs growth for years 2016, 2017 and 2018, RKS

			Number of employees, December 2016	**Number of employees, December 2017**	**Number of employees, December 2018**
Spearman's rho	**Age of the SME (The year of establishment)**	Correlation Coefficient	.149**	.149**	.178**
		Sig. (2-tailed)	.010	.010	.002
		N	300	300	300

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

(Source: Author)

A Spearman's rank-order correlation was run to determine the relationship between loan interest rates and SMEs growth. From the results obtained from Kosovo we argue that there was a very weak, positive correlation between SMEs age and SMEs growth (year 2016: r = .149**, p=.010; year 2017: r = .149**, p=.010; year 2018: r = .178**, p=.002).

Multinomial logistic model was run to identify the influence of the independent variables in our dependent variable SMEs growth. From the results generated from the model (Table 55, 56, 57) we argue that there was a significant (2016: p=.000; 2017: p=.000; 2018: p=.001) influence of the SMEs age on the SMEs growth for the year 2016, 2017 and 2018 in North Macedonia, moreover, through these results we confirm this hypothesis.

Table 67. Correlation between SMEs age and SMEs growth for years 2016, 2017 and 2018, RNM

			Number of employees, December 2016	Number of employees, December 2017	Number of employees, December 2018
Spearman's rho	**Age of the SME (The year of establishment)**	Correlation Coefficient	.327**	.338**	.327**
		Sig. (2-tailed)	.000	.000	.000
		N	300	300	300

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

(Source: Author)

A Spearman's rank-order correlation was run to determine the relationship between SMEs age and SMEs growth. From the results obtained from Macedonia we argue that there was a weak, positive correlation between SMEs age and SMEs growth (year 2016: r = .327**, p=.000; year 2017: r = .338**, p=.000; year 2018: r = .327**, p=.000).

5. The owners level of education influence the SMEs growth

Multinomial logistic model was run to identify the influence of the independent variables in our dependent variable SMEs growth. From the results generated from the model (Table 46, 47, 48) we argue that there was a significant influence for the years 2016 (p=.036) and 2018 (p=.007), and, wasn't significant (2017: p=.063) influence of the owners level of education on the SMEs growth for the year 2017 in Kosovo, moreover, through these results we can confirm this hypothesis only for the years 2016, 2018, and, can't confirm for the year 2017.

Table 68. Correlation between owners level of education and SMEs growth for years 2016, 2017 and 2018, RKS

			Number of employees, December 2016	**Number of employees, December 2017**	**Number of employees, December 2018**
Spearman's rho	**Owner's level of education**	Correlation Coefficient	.099	.099	.153**
		Sig. (2-tailed)	.088	.088	.008
		N	300	300	300

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

(Source: Author)

A Spearman's rank-order correlation was run to determine the relationship between owners level of education and SMEs growth. From the results obtained from Kosovo we argue that there was a very weak, positive correlation between owners level of education and SMEs growth only for the year 2018 (r=.153**, p=008).

Multinomial logistic model was run to identify the influence of the independent variables in our dependent variable SMEs growth. From the results generated from the model (Table 55, 56, 57) we argue that there was a significant influence for the years 2016 (p=.000), 2017 (p=.012), and, wasn't significant (2018: p=.095) influence of the owners level of education on the SMEs growth for the year 2018 in North Macedonia, moreover, through these results we can confirm this hypothesis only for the years 2016, 2017, and, can't confirm for the year 2018.

Table 69. Correlation between owners level of education and SMEs growth for years 2016, 2017 and 2018, RNM

			Number of employees, December 2016	Number of employees, December 2017	Number of employees, December 2018
Spearman's rho	Owner's level of education	Correlation Coefficient	.233**	.232**	.224**
		Sig. (2-tailed)	.000	.000	.000
		N	300	300	300

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

(Source: Author)

A Spearman's rank-order correlation was run to determine the relationship between owners level of education and SMEs growth. From the results obtained from Kosovo we argue that there was a weak, positive correlation between owners level of education and SMEs growth (year 2016: r = .233**, p=.000; year 2017: r = .232**, p=.000; year 2018: r = .224**, p=.000).

4.4. Discussion of the research results/findings

The final chapter is going to summarize the main findings of the research and will provide a discussion of the general purpose and main objectives of the doctoral thesis. Furthermore, considering the research results, we will provide some theoretical implications which can be used for further researches in the field of banking system and its role on SMEs development. Moreover, through the identification of influence of the independent variables we can provide the SMEs with a list of predictors which they may consider for future growth. Before going to limitations and future lines of research we are going to provide also some recommendations for policymakers, SMEs and banks, and, some concluding remarks.

Through our literature review we have revealed that a considerable number of researches is done about the barriers of SMEs development, financing sources of SMEs and other studies related to SMEs management, but, we have revealed a gap on researches based on comparative analyses between developing countries regarding their banking systems, services that they provide for SMEs, special programs for SMEs and the restrictions they have to provide financial support for SMEs. In most of the banking system researches was elaborated mostly the interest rate and not very much the other elements. Moreover, to our knowledge there are no studies regarding the role of the banking system in the development of SMEs based on comparative analyses between Kosovo and North Macedonia.

Considering the gaps in the literature and the importance of this field, the general purpose of the dissertation was:

To examine the role of the banking system in the development of SMEs through comparative analyses between Kosovo and North Macedonia.

From the general purpose of the dissertation, we have derived four specific objectives:

1. **To find out the importance of the banking system in the development of SMEs for both countries.**

Through research in both countries we wanted to find out the importance of the banking system in the development of SMEs for both countries. We tried to analyze this through the financial support, products and services provided by banks to SMEs, and, through the influence of loan on SMEs growth.

From the research analyses of our sample on 300 SMEs (Manufacturing and Trade) in Kosovo and 300 SMEs in North Macedonia (Manufacturing and Trade) we have revealed that in the Republic of Kosovo 52.7% of the SMEs have used bank loans as sources of external finances, while, in the Republic of North Macedonia 57.3% of the SMEs have used bank loans as sources of external finances. Our findings are in compliance with previous researches conducted in both countries.

Small firms use various sources of funding in order to meet their financing needs. These funds can be supplied either by the company's own resources, bank loans, new equity, or a grant from public sector assistance. The most commonly used source of external finance for small firms is bank loan (see Hughes and Storey 1991; Riinvest 2006). The resources of small firm owners are usually limited, especially for new and small businesses. Thus, the growth-oriented small firms will need external sources of finance supplied by banks (Krasniqi B. A., 2010).

The crediting, as an external source for financing small and medium enterprises is traditionally most frequent, but at the same time it is an expensive way of financing (Risteska, Nikoloski, Gveroski, Spaseska, & Risteska, Analysis of SMEs Financing in the Republic of Macedonia - Conditions and Perspectives, 2014).

Financing SMEs and their access to finance plays a crucial role in the growth and development and it is a key determinant for business start-ups. It is worth mentioning that SMEs have very different needs and face different challenges with regard to financing compared to large businesses (Risteska, Nikoloski, Gveroski, Spaseska, & Risteska, Analysis of SMEs Financing in the Republic of Macedonia - Conditions and Perspectives, 2014).

The importance of the banking system we can explain also by the products and services provided by banks for SMEs. These data we have collected through our interviews that we had on 10 banks in Kosovo and 15 banks in North Macedonia. From the results obtained from research we revealed that the list of products and services that banks in Kosovo provide for SMEs are: short term loans, long term loans, overdrafts, debit and credit cards, deposits, all types of guarantees, e-banking, letters of credit, business credit card Micro (loans for SMEs), POS terminals, e-commerce, business credit card Growth (loans for investments), agricultural loans, loans for turnover assets and working capital, home and exchange account. Furthermore, the list of products and services that banks in North Macedonia provide for SMEs are: short term loans, long term loans, debit and credit cards, deposits, home and exchange accounts, overdraft, e-banking, letters of credit, e-commerce, business credit card Growth (loans for investments), POS terminals, all types of guarantees, loans for turnover assets and working capital, business credit card Micro (loans for SMEs), letters of intent, agricultural loans and saving products and services. From the results obtained we revealed that the banks in North Macedonia offer wider range of products and services than in Kosovo.

Access to finance is key to business development. Investment and innovation are not possible without adequate financing. A difficulty in getting finance is one of the main obstacles to the growth of many businesses, particularly small and medium sized enterprises (SMEs). Financial flows to SMEs are increasing but remain subdued. Access to finance is still perceived as an important problem by several SMEs. Comparing different types of enterprises, micro-enterprises and more innovative businesses in particular consider their financing as the most pressing problem. Bank loans remains the most important source of external financing for SMEs in the EU (Commission, Survey on the access to finance of enterprises, 2014).

The key finding of research is that bank loans has significant positive influence on SMEs growth in Kosovo and North Macedonia for the years of our observation 2016, 2017 and 2018. Spearman correlation results revealed that in both countries there was a positive correlation between loan amount and SMEs growth. The findings of research are in a compliance with other researches previously done as explained below.

The findings suggest that the access to external sources of financing through loan is an important factor that influences the investment growth of the SMEs (Tmava, Peci, & Luboteni, 2013). The role of bank loans offered by commercial banks is very important in the development of entrepreneurship, thus, in the development of small and medium enterprises (SMEs) (Mazreku, Morina, & Mazreku, 2016).

Furthermore, our research is not in line with the econometric results on the effects of credit on SMEs growth measuring by sales growth which indicates that there isn't any strong evidence to support the hypothesis that amount of credit (loan amount) influences SMEs growth as measured by increase in sales. These findings for SMEs in Tanzania tend to support findings by Babajide (2012) that access to credit does not influence sales growth. His study was based on panel data analysis of 502 SMEs in Nigeria. However, the findings in this study contradict the findings by Brown et al. (2004) on 297 SMEs in Romania that access to finance increases the growth of sales (Williams & Gurto, 2017).

2. To analyze which of the business variables influence the SMEs growth

The second specific objective of dissertation was analyzed through determining the influence of the independent variables of research that were loan amount, loan interest rates, SMEs age and owners level of education in the SMEs growth that was measured by the number of employees of SMEs for three years (2016, 2017 and 2018). To analyze the influence of the independent variables in the dependent variable we run multinomial logistic regression analyses. From the results obtained we argue that:

Bank loans has significant influence on SMEs growth in Kosovo (p=001; p=001; p=000) and North Macedonia (p=000; p=000; p=000) for the years 2016, 2017 and 2018. In order to determine the correlation between the two variables we run Spearman's rank order correlation, and, from the results obtained we released that there was a positive relationship between the two variables in Kosovo (year 2016 r=.250**, p=002; year 2017 r=.251**, p=.002; year 2018 r=.302**, p=.000) and North Macedonia (year 2016 r=.419**, p=000; year 2017 r=.443**, p=.000; year 2018 r=.430**, p=.000) for the years 2016, 2017 and 2018. Our findings are in a compliance with other researches previously done as explained in the previous objective (Tmava, Peci, & Luboteni, 2013) (Risteska, Nikoloski, Gveroski, Spaseska, & Risteska, Analysis of SMEs Financing in the Republic of Macedonia - Conditions and Perspectives, 2014).

Loans interest rate has not significant influence on SMEs growth in Kosovo (p=.297; p=425; p=.062) for the years 2016, 2017 and 2018. In order to determine the correlation between the two variables we run Spearman's rank order correlation, and, from the results obtained we released that in Kosovo there was no correlation between variables for the years 2016, 2017 and 2018. Furthermore, loan interest rate has significant influence on SMEs growth in North Macedonia (p=.000; p=000; p=.000) for the years 2016, 2017 and 2018. Spearman's rank order correlation results revealed that was a negative correlation between the two variables in North Macedonia (year 2016 r=-.205**, p=007; year 2017 r=-.178*, p=.019; year 2018 r=-.157*, p=.039) that means that the lower interest rates we have the growth rate of SMEs is higher. Our results for the sample of research in North Macedonia are in line with previous researches.

The results demonstrate that the interdependence between the SMEs profitability and interest rate, bank loans and the size of business is paramount. A positive relationship between profitability and interest rate, as well as the capital structure but a negative relationship with the size of the business.

Analysis on SMEs start-ups and sustainability has brought skepticism as to whether higher interest rates are the major factor obstructing SMEs demand for financing in Mozambique. Several studies in Mozambique including (Kaufmann & Parlmeyer, 2006; Osano & Languitone, 2016) have mentioned the problem of financing as an impediment to SMEs start-up and growth. The authors stated that high interest rates charged on loans in Mozambique, which were higher than average African banks' rates, were the main hindrance to SMEs start-up and development (Sawaya & Bhero, 2017).

It is found that lower bank interest rates have a positive effect on profitability. This means that when interest rate is lower, SMEs can borrow more from banks and hence they can invest in profitability projects that may lead to a higher profitability for SMEs as a measure variable of the SMEs growth (Belas, Cepel, Kotaskova, & Dvorsky, 2018).

Lower interest rates may mean that it is a good time for the business and a higher interest rate will make a manager consider delaying expansion or growth until the cost of borrowing decreases (Godsway, 2017).

SMEs age has significant influence on SMEs growth in Kosovo for the years 2016 (p=.045), 2018 (p=.004), while, it hasn't significant influence for the year 2017 (p=.058). Furthermore, SMEs age has significant influence on SMEs growth in North Macedonia (p=.000; p=000; p=.001) for the years 2016, 2017 and 2018. In order to determine the correlation between the two variables we run Spearman's rank order correlation, and, from the results obtained we released that there was a positive relationship between the two variables in Kosovo (year 2016 r=.149**, p=010; year 2017 r=.149**, p=.010; year 2018 r=.178**, p=.002) and North Macedonia (year 2016 r=.327**, p=000; year 2017 r=.338**, p=.000; year 2018 r=.327**, p=.000) for the years 2016, 2017 and 2018.

Our results are not in line with previous researches which revealed a negative correlation between SMEs age and SMEs growth. Evans (1987) established that the smaller and younger firms grow faster which enables that the smaller and younger firms grow faster which enables them to quickly reach an effective size and survive competitive markets. Variyam and Kraybill (1992), Liu et al. (1999) and Yasuda (2005) reached the same conclusion. This confirms Jovanovic's (1982) growth theory, according to which a company's growth rate should decrease with age (Etemad, 2013, p. 196). But are in line with other researches like for example, in 1995 Das investigated the growth of young firms in their respective sectors in developing countries (especially in India's computer industry) and discovered a positive correlation between age and growth rates (Etemad, 2013, p. 196).

Owners level of education has significant influence on SMEs growth in Kosovo for the years 2016 (p=.036), 2018 (p=.007), while, it hasn't significant influence for the year 2017 (p=.063). Furthermore, owners level of education has significant influence on SMEs growth in North Macedonia for the years 2016 (p=.000), 2017 (p=012), while, it hasn’t significant influence for the year 2018 (p=.095). In order to determine the correlation between the two variables we run Spearman's rank order correlation, and, the results obtained released that there was a positive relationship between the two variables in Kosovo only for the year 2018 (r=.153**, p=.008), while, in North Macedonia the results obtained released that there was a positive relationship between the two variables (year 2016 r=.233**, p=000; year 2017 r=.232**, p=.000; year 2018 r=.224**, p=.000) for the years 2016, 2017 and 2018.

The results for the year 2017 in Kosovo and 2018 in North Macedonia that reveal that owners level of education has no significant influence on SMEs growth are in line with the research that did not find any significant statistical relation for the positive effect of the entrepreneur's education on SMEs' sales growth (Avdullahi & Ademi, 2020). This results also are in line with results concerning the negative impact of formal education on both start-up size and growth (Hoxha, 2013). Furthermore, the results revealed for years 2016 and 2018 from Kosovo sample of research, and, the results revealed for years 2016 and 2018 from North Macedonia sample of research are in line with Mead and Leidholm's (1998) survey of the evidence for developing countries provides further support to the hypothesis that an entrepreneur's education tends to have a positive influence on firm growth (Coad, 2009).

Table 70. Hypothesis confirmation

	Republic of Kosovo			Republic of North Macedonia		
Hypothesis	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**
H1: Bank loans influence the SMEs growth	Confirmed	Confirmed	Confirmed	Confirmed	Confirmed	Confirmed
H2: Loan Interest Rates influence the SMEs growth	Can't confirm	Can't confirm	Can't confirm	Confirmed	Confirmed	Confirmed
H3: SMEs in Kosovo and North Macedonia use bank loans as a source of external financing for their business	Confirmed	Confirmed	Confirmed	Confirmed	Confirmed	Confirmed
H4: Age of the SMEs in the market influence the SMEs growth	Confirmed	Can't confirm	Confirmed	Confirmed	Confirmed	Confirmed
H5: The owners level of education influence the SMEs growth	Confirmed	Can't confirm	Confirmed	Confirmed	Confirmed	Can't confirm

(Source: Author)

3. **To analyze the differences between the perception of entrepreneurs concerning the financing conditions for SMEs in Kosovo and North Macedonia**

The third specific objective of dissertation was analyzed through the evaluation of the financing conditions of banks by SMEs. From the results obtained we revealed that in both countries more than 65% of the entrepreneurs perceive the financing conditions by banks as a unfavorable and very unfavorable.

4. **To compare the banking systems between Kosovo and North Macedonia**

The fourth specific objective of dissertation was analyzed through qualitative results that we revealed from interviews conducted in 10 banks in Kosovo and 15 banks in North Macedonia. From the results obtained in both countries we revealed that:

- 70% of the banks in Kosovo have special programs for financial support of the SMEs, while, in North Macedonia 80% of the banks have special programs for financial support of the SMEs.
- The list of the special programs offered for SMEs by banks in Kosovo is: Credit lines for SMEs, Credit lines for start-up financing and women entrepreneurs, Guarantee fund, and, Special offer of loan products for entrepreneurs, micro and small businesses. Furthermore, the list of the special programs offered for SMEs by banks in North Macedonia is: Credit lines for development, support of the export and credit lines for financing the permanent turnover and working capital of the SMEs through DBNM, Credit lines through DBNM and EIF, Financing Innovative Projects Guarantee Scheme, USAID Guarantee Scheme, Western Balkans Guarantee Scheme, EIB Funding Fund, Credit lines for SMEs also in cooperation with DBNM, Loan products specially designed by the needs of the SMEs as clients, Credit lines from DBNM and USAID Guarantee Schemes, Special credit lines for SMEs, for women entrepreneurs and credit lines for SMEs in cooperation with DBNM and more than 12 credit lines for SMEs.
- The banks ranked by relevance (from 4 the most important to 1 the least important) the businesses that require financial support (loans) from them. In Kosovo and North Macedonia banks ranked the businesses like: medium businesses as the most important, large and small businesses were ranked in the same position as the second choice and micro businesses as the least important.

- Criteria's applied by banks in Kosovo to determine one SME as a good and reliable client are: financial performance in the current and last 2 years, positive capital, appropriate security/collateral, the history of the obligations settlement toward bank, data analyses/credit history from Loan Registry, business solvency, goodwill of the enterprise and written business plan. While, in North Macedonia the banks apply the criteria's like: financial performance in the current and last 2 years, positive capital, appropriate security/collateral, data analyses/credit history from Loan Registry, business solvency, goodwill of the enterprise, the history of the obligations settlement toward bank, Macedonian Credit Bureau data, written business plan, investment type and the amount of credit exposure.
- Criteria's applied by banks (ranked by relevance) to determine one SME as a loyal client in Kosovo are: credit history in their institution, the history of the obligations settlement toward bank, the volume of turnover performed through bank, the percentage of usage of banking products, appropriate security/collateral, data analyses/credit history from Loan Registry, if the employees of the SME are getting their salary through their bank, to be banks client for more than one year and written business plan. Furthermore, in North Macedonia we found out that the criteria's that banks apply to determine one SME as a loyal client are: the percentage of usage of banking products, credit history in their institution , if the employees of the SME are getting their salary through their bank, to be banks client for more than one year, the percentage of domestic and international payment operations through their bank, the history of the obligations settlement toward bank, the volume of turnover performed through their institution, data analyses/Credit Loan Registry, Macedonian Credit Bureau, appropriate security/collateral, written business plan and participation percentage in the total financing.
- There is a list of factors in both countries based on which banks determine the interest rates. From these factors as the most important considered by banks in RKS are: Loan history in our institution and from other financial institutions, The type of activity, Financial indicators, Type of collateral , while, in North Macedonia the most important are considered: Risk, financial reports, loan type, loan maturity and collateral.

- In Kosovo the banks answered that the interest rates that they apply for SMEs as a borrowers are from 6.80%-12.00%, while, in North Macedonia the banks answered that the interest rates that they apply for SMEs as a borrowers are from 3.00%-9.50%.
- In Kosovo the banks ranked the obstacles they face for financing SMEs from the most important till the least important (from 1-6), and, we have the results like: informality was ranked as the most important, collateral provided from SMEs was ranked as the 2nd, legal restrictions were ranked as the 3rd, regulative institutions ranked as the 4rth, banks low benefit ranked as the 5th and banks internal regulations ranked as the least important. Furthermore, in North Macedonia the banks ranked the obstacles from the most important till the least important (from 1-6), and, we have the results like: legal restrictions were ranked as the most important, informality was ranked as the 2nd, banks low benefit was ranked as the 3rd, regulative institutions ranked as the 4rth, banks internal regulations ranked as the 5th and collateral provided from SMEs was ranked as the least important.

From the results obtained it is also worthy to discuss the results from some of the SMEs answers. Results obtained revealed that 70% of the SMEs in North Macedonia are registered as limited liability companies, while, in Kosovo only 29.7% are registered as LLC (Figure 3). Furthermore, results revealed that more than 60% of the SMEs are trading companies in both countries. Through quantitative research we revealed that the owners level of education is higher in North Macedonia than in Kosovo, where 55.3% of the owners have bachelor degree in North Macedonia, while in Kosovo 56.0% of the owners are with high school. Regarding the gender, as we revealed from results in North Macedonia the number of female owners is 16.3%, while, in Kosovo 9.3%.

In both countries more than 70% of the loan amount was used for investment.

The descriptive results reveals that the mean of the repayment is different between two countries, where in Kosovo the average or mean of the repayment in months of the loan received is 39.27 months, while, in North Macedonia the average or mean of the repayment in months of the loan received is 58.53 months.

In both countries more than 70% of the SMEs answered that it was necessary to leave collateral when they received Bank loans. The SMEs in North Macedonia use in higher percentage company's fixed assets as a collateral, while, in Kosovo the SMEs use in higher percentage family real estate as a collateral. More than 45% of the SMEs in both countries answered that the collateral was evaluated less than its real value.

From the results obtained we revealed that the duration of completion of the documents to apply for bank loan in days is longer in North Macedonia than in Kosovo.

Results revealed that the main reason that the SMEs haven't applied for bank loans in both countries was high interest rates. The results are in line with the authors (Kaufmann & Parlmeyer, 2006; Osano & Languitone, 2016) suggestions that high interest rates affected negatively SMEs financing (Sawaya & Bhero, 2017).

CHAPTER V

5. Conclusions and Recommendations

5.1. Concluding remarks

This doctoral study has analyzed the role of the banking system in the development of the SMEs and has compared the banking system between Kosovo and North Macedonia, moreover, econometric model has identified the influence and the type of correlation of the independent variables as loan amount, loan interest rates, SMEs age and owners level of education in SMEs growth as a dependent variable.

In terms of the first objective of doctoral thesis, we conclude that the role of the banking system in the development of SMEs is very important. Our conclusion is based on the results from our research where more than 52% of the SMEs in Kosovo and North Macedonia use bank loans as external sources of financial support, there was a wide list of products and services provided by banks for SMEs, and, the bank loans has a significant positive influence on the SMEs growth in Kosovo (p=001; p=001; p=000) and North Macedonia (p=000; p=000; p=000) during our comparative analyses for the years 2016, 2017 and 2018.

In terms of the second objective of doctoral thesis, we conclude that:

- In Kosovo for the year 2016 we revealed that the independent variables that influenced significantly the SMEs growth as a dependent variable were loan amount (p=.001), SMEs age (p=.045) and owners level of education (p=.036), while, loan interest rates (p=.297) has no significant influence on the SMEs growth.
- In North Macedonia for the year 2016 and 2017 we revealed that the independent variables that influenced significantly the SMEs growth as a dependent variable were loan amount (p=.000), loan interest rates (p=.000), SMEs age (p=.000) and owners level of education (p=.000). Findings reveal that for the year 2016 in North Macedonia all independent variables have significant influence on SMEs growth.
- In Kosovo for the year 2017 we revealed that the independent variable that influenced significantly the SMEs growth as a dependent variable was only loan amount (p=.001),

while, loan interest rates (p=.425), SMEs age (p=.058) and owners level of education (p=.063), have no significant influence on the SMEs growth.

- In Kosovo for the year 2018 we revealed that the independent variables that influenced significantly the SMEs growth as a dependent variable were loan amount (p=.000), SMEs age (p=.004) and owners level of education (p=.007), while, loan interest rates (p=.062) has no significant influence on the SMEs growth.
- In North Macedonia for the year 2018 we revealed that the independent variables that influenced significantly the SMEs growth as a dependent variable were loan amount (p=.000), loan interest rates (p=.000) and SMEs age (p=.001), while, owners level of education (p=.095) has no significant influence on the SMEs growth.

Results revealed that in Kosovo the loan interest rates has no significance influence on the SMEs growth, maybe this can be explained by the fact that the SMEs in Kosovo has bank loans as the only option of the external sources of financing and regardless high level of interest rates they use bank loans as external sources of financing. From the results obtained we conclude that the independent variables must be considered as very important factors by SMEs from both countries because they could be used to predict which of the SMEs have potential to grow.

In terms of the third objective of doctoral thesis, we conclude that in both countries more than 65% of the entrepreneurs percept the financing conditions by banks as a "very unfavorable" and "unfavorable".

In terms of our fourth objective we conclude that there are differences between the banking system in Kosovo and North Macedonia which we are going to elaborate further.
Through qualitative research in banks results revealed that the banking system in North Macedonia provides more special programs and more products and services for financial support of the SMEs than in Kosovo. Results also revealed that banks in North Macedonia have higher number of the criteria's through which they determine one SME as a good and a reliable borrower than the banks in Kosovo. From the results obtained we revealed that banks in North Macedonia have higher number of the criteria's through which they determine one SME as a loyal client than the banks in Kosovo. For example the most important criteria to determine one client as a loyal in North Macedonia banks is the percentage of usage of banking products, while,

in Kosovo banks the most important criteria is credit history in their institution. So, through comparing the answers from both countries we can see that we have different approaches regarding the criteria's used.

According the data analyzed we revealed that the banks consult many factors when determining loans interest rates for SMEs as a borrowers, but, there is no any minimum or maximum threshold imposed by state institutions which they must respect. Thus, it is a free market where the banks can determine the interest rates. From the results obtained when we compared the means from both countries we could see that banks in North Macedonia offer loans for SMEs with lower interest rates than in Kosovo, where, the mean of the interest rates in North Macedonia is 5.66%, while, in Kosovo the mean of the interest rates for SMEs is 8.82%. This is from the qualitative research with banks. Moreover, when we analyzed the answers about the interest rates from our quantitative research on SMEs we revealed a gap between banks answers and SMEs answers regarding the loans interest rates. The SMEs declared higher interest rates than banks. The interest rates we consider as a very important factor, because, they influence the demand of the SMEs for bank loans as external means of financing, through which they finance their business activities. This means that when interest rate is lower, SMEs can borrow more from banks and hence they can invest in profitability projects that may lead to a higher profitability for SMEs as a measure variable of the SMEs growth (Belas, Cepel, Kotaskova, & Dvorsky, 2018).

Results revealed that we have different ranking of the obstacles by banks in two countries, where, for example legal restrictions was ranked as the most important in Macedonia, while, in Kosovo it was ranked as the 3rd, or, collateral was ranked as the 2nd important obstacle that banks face in Kosovo, while, in Macedonia it was ranked as the least important.

Regarding the deadline of the repayment of loan and the evaluation of collateral, from the results in both countries we conclude that the deadline of the repayment of loan in months is shorter in RKS than RNM, while, more than 45% of the SMEs in both countries revealed that the collateral was evaluated less than its real value.

From results obtained in both countries we revealed that 70% of the SMEs in North Macedonia are LLC, while, 69.3% of the SMEs in Kosovo are individual businesses. Regarding this we conclude that the owners of the SMEs in North Macedonia are more protected in case of business failure than owners of the SMEs in Kosovo. We are saying this, because, as we know the owners of LLC in case of business failure should pay the obligations only with the invested capital and not with their private capital (family real estate) as in the case of individual businesses.

Research results also revealed that the owners of the SMEs are more educated in North Macedonia than in Kosovo. This issue maybe I can explain through linking it with last war in Kosovo. It is important to mention that the low level of owners education in Kosovo can be linked with the fact that in Kosovo from 1990-1999 the high schools and higher education institutions in Albanian language where closed from that times regime, and, those generations couldn't attend very qualitative education because the teaching were held in private houses and was accompanied by difficult challenges.

Findings revealed that the number of women entrepreneurs was in higher percentage in North Macedonia than in Kosovo, and, this could be explained with the higher number of financial supportive special programs offered by banks in North Macedonia. To find out the exact reasons of this we will do it through future researches, by trying to measure the main reasons they decided to start their own business.

Thus, at the end we can conclude that we have arrived to explain the role of the banking system through different elements like loan amount, the usage of loans as external sources of finance from SMEs and products and services provided by banks for SMEs, than, we identified some of the variables that influence the SMEs growth, identified the perceptions of the entrepreneurs regarding the financing conditions by banks and finally we identified some differences of the banking systems between two countries.

The research with the results obtained will contribute positively in the field of SMEs growth and banking system role on SMEs development in Kosovo and North Macedonia.

5.2. Recommendations

Econometric analyses results and research findings of doctoral thesis provides some recommendations that will serve the stakeholders of the field studied with a number of issues that they should consider. We have classified the recommendations in three groups as below.

5.2.1. Recommendations for policy-makers

Recommendations for policy makers are as follow:

- To develop policies that support the continual development of SMEs from the start-up stage
- To develop legal restrictions to fight the informality among businesses
- To develop legal restrictions to fight the informality among financial institutions
- To develop programs for financial support of the SMEs
- Having in mind the proportion of the trade SMEs and manufacturing SMEs from research, we recommend the policy makers to develop special programs for financial support of the manufacture SMEs, because they will impact positively in the trade balance through exports
- To develop special funds through which will provide support for the payment of interest rates of the SMEs loans
- To develop special programs for financial support of the women entrepreneurs
- To develop more special programs for financial support of the innovators
- To increase the banking offer through licensing the new banks in the banking system, which will raise the banking competition, and, will provide: improvement on the financing conditions for SMEs, lower interest rates and other banking expenses, higher grays period, facilitation of the collateral requirements, higher repayment deadlines for SMEs.

5.2.2. Recommendations for Banks

Recommendations for banks are as follow:

- Banks in Kosovo should consider and extend the offer of special programs for financial support of the SMEs
- Banks in Kosovo should provide SMEs with higher loans repayment deadlines
- Banks in Kosovo should extend their offer of products and services for SMEs
- Banks in North Macedonia must consider the procedures of lending because the deadline of the completion of documents from SMEs in North Macedonia was higher than in Kosovo

- Banks in Kosovo and North Macedonia should provide for SMEs loans with lower interest rates
- Banks in Kosovo and North Macedonia should be more careful when evaluating the collaterals provided by SMEs
- Banks in Kosovo and North Macedonia should improve the financing conditions for SMEs

5.2.3. Recommendations for SMEs

Recommendations for SMEs are as follow:

- SMEs oriented toward growth in both countries must consider the independent variables examined in this research because through analyzing those relationships with SMEs growth they can predict if they are going in the right direction
- SMEs in Kosovo must consider to improve the criteria's applied by banks to determine them as a good and reliable client that are: financial performance in the current and last 2 years, positive capital, appropriate security/collateral, the history of the obligations settlement toward bank, data analyses/credit history from Loan Registry, business solvency, goodwill of the enterprise and written business plan.
- SMEs in North Macedonia must consider to improve the criteria's applied by banks to determine them as a good and reliable client that are: financial performance in the current and last 2 years, positive capital, appropriate security/collateral, data analyses/credit history from Loan Registry, business solvency, goodwill of the enterprise, the history of the obligations settlement toward bank, Macedonian Credit Bureau data, written business plan, investment type and the amount of credit exposure.

5.3. Limitations of research and future lines for further researches

The doctoral thesis has a number of limitations, but, at the same time opens some directions for future researches.

As a limitation of research is considered the willingness of owners and managers to give concrete and sincere answers to the questions posed.

The data presented by the majority of SMEs usually aren't audited data and this lowers the level of reliability.

It should be noted that we have used business registry data from Statistical Office in Kosovo, and, Macedonian Statistics Database to select the representative samples of SMEs in Kosovo and North Macedonia. This is a problematic way of selecting a sample, particularly in our countries that are developing countries because of the informal economy and unfair competition the business registries may be not entirely reliable.

For this stage of research we have selected only few independent variables to analyze how they influence the SMEs growth. Moreover, we are aware that there are other variables that might influence the SMEs growth. Furthermore, this opens some lines for future researches. Therefore, future studies should consider analyzing other variables that might influence the SMEs growth.

As we analyzed the role of bank loans on the SMEs growth, future studies must be oriented in identification of the variables that facilitate the access on bank loans for SMEs.

Future studies should consider also analyzing obstacles evaluated by banks which they face when providing financial support for SMEs, also, should consider the identification of the differences that we revealed through finding of this research.

Although the above mentioned limitations of our research are important and we completely agree that they should be addressed in future researches, however we are convinced that this findings contributes positively on the understanding of the role of the banking system in the development of small and medium enterprises.

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https://bqk-kos.org/?id=270
https://bqk-kos.org/index.php?id=117
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Annexes

<u>Research Questionnaire for SMEs</u>

Purpose of research and Confidentiality

The undersigned will conduct a thesis entitled ***"The role of the banking system in the development of SMEs - Comparative analyses between Kosovo and Macedonia"***, for the Joint Regional Doctoral
Program: Entrepreneurship and SMEs Management.

The purpose of this research is to understand the role of the banking system in the development of SMEs, to identify some variables that influence the SMEs growth and to try to find out the differences between the banking system in Kosovo and Macedonia.

Therefore, I need your sincere cooperation to complete this questionnaire and I would appreciate a lot if you could spend 5-7 minutes of your time to complete the questionnaire. There is no right or wrong answers as long as you did it honestly. The respondents can withdraw from the research at any time.

The respondents data of this survey are confidential, only the results will be used for academic and research purposes.

Thank you for your kind cooperation in the conduct of this study.

1. ***<u>Business location</u>***
   a. Urban ☐
   b. Rural ☐

2. ***<u>Age of the SME (The year of establishment)</u>***

Click here to enter text.

3. ***Size of the company***
   a. Micro Business (1-9 employees) ☐
   b. Small Business (10-49 employees) ☐
   c. Medium Business (50-249 employees) ☐

4. ***Organizational legal form of the business***
   a. Individual business ☐
   b. General Partnership ☐
   c. Limited Partnership ☐
   d. Limited Liability Company (LLC) ☐
   e. Joint Stock Company (JSC) ☐
   f. Foreign Company ☐
   g. Social Owned Enterprise ☐
   h. Public Enterprise ☐
   i. Limited Partnership by Shares ☐

5. ***Business type***
   a. Trading company ☐
   b. Manufacturing company ☐

6. ***The number of employees (Please write the total number of employees for each year):***

   On 31.12.2016__________Click here to enter text.

   On 31.12.2017__________Click here to enter text.

   On 31.12.2018__________Click here to enter text.

7. ***Have you ever financed your business through loans by any Bank?***

   a. Yes ☐
   b. No (Go to question 19) ☐
   c. I was refused (Go to question 20) ☐

8. ***When did you get the Bank loan?***

   a. Last year ☐
   b. Two years ago ☐
   c. More than three years ago ☐

9. ***Which type of loan did you get?***

   a. Operating loan (A loan that is intended for short-term financing. This type of loan is often used for cash flow support or to cover operating expenses from day to day.) ☐
   b. Investment loan (A loan granted by banks for the acquisition of fixed assets such as property, equipment and other machinery. The loan can be used for any development activity.) ☐
   c. Mortgage loan (A loan that is secured by property or real estate is called a mortgage. In exchange for funds received by the homebuyer to buy property or a home, a lender gets the promise of that buyer to pay back the funds within a certain time frame for a certain cost. The mortgage is legally binding and secures the note in giving the lender the right to have legal claim against the borrower's home if the borrower defaults on the terms of the note. Basically, the borrower has possession of the property or the home, but the lender is the one who owns it until it is completely paid off.) ☐

10. ***How much was the amount of loan?***

   a. 1,000 € - 10,000 € ☐

b. 10,001 € - 50,000 € ☐

c. Over 50,001 € ☐

11. ***From the total amount of loan, how much (in percentage) was destined for investment and how much you could get in cash?***

Click here to enter text.

12. ***The deadline of the repayment in months?***

Click here to enter text.

13. ***How much was the yearly interest rate (%)?***

Click here to enter text.

14. ***To obtain loan, was it needed a collateral?***

a. Yes ☐

b. No ☐

c. No answer ☐

15. ***If yes, what was used as a collateral?***

a. Company's fixed assets ☐

b. Family real estate ☐

c. Other (Please specify): Click here to enter text.

16. ***Comparing to the loan sum, how was the collateral evaluated?***

a. Correctly ☐

b. More than it's real value ☐

c. Less than it's real value ☐

d. No answer ☐

17. *Do you have a written business plan?*

a. Yes ☐

b. No ☐

c. No answer ☐

18. *If yes, do you believe that it helped you to access on the bank loan?*

a. Yes ☐

b. No ☐

c. No answer ☐

19. *How long did it take "in days" to complete the documents that the bank required to apply for loan?*

Click here to enter text.

20. *If your answer was "No" in the question: Have you ever financed your business through loans by any Bank?, what was the reason for not applying for loan? (Each of the answers below, the respondents must rate from 1 to 7, by relevance)*

a. Company had sufficient capital ☐

b. Application procedure very complex ☐

c. High interest rates ☐

d. Collateral requirements to high ☐

e. Repayment period was not sufficient ☐

f. I didn't know to apply ☐

g. I was not confident that my loan application would be approved ☐

21. *If your answer was "I was refused" in the question: Have you ever financed your business through loans by any Bank?, what was the reason that you were refused?*

a. Lack of collateral ☐

b. Not fulfilled the documents required by the bank ☐

c. Lack of Business Plan ☐

d. Other (Please specify):Click here to enter text.

22. What do you think about the bank financing conditions in your country? (The respondents must mark only one answer)

a. Very favorable ☐

b. Favorable ☐

c. Neutral ☐

d. Not favorable ☐

e. Very unfavorable ☐

23. Business experience before starting as an owner

a. Yes ☐

b. No ☐

c. No answer ☐

24. Owner's level of education

a. Primary school ☐

b. High School ☐

c. Bachelor degree ☐

d. Master degree ☐

e. PhD degree ☐

f. No answer ☐

g. Other: Click here to enter text.

25. Owner's gender

a. Male ☐

b. Female ☐

c. Both (It is partnership) ☐

d. Un-defined (When one business is controlled by another one) ☐

Surveyor	**Respondent**
Filloreta Kunoviku – Demiri	
PhD Candidate	
Signature	Signature

Research Questionnaire for BANKs

Purpose of research and Confidentiality

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Therefore, I need your sincere cooperation to complete this questionnaire and I would appreciate a lot if you could spend 5-7 minutes of your time to complete the questionnaire. There is no right or wrong answers as long as you did it honestly. The respondents can withdraw from the research at any time.

The respondents data of this survey are confidential, only the results will be used for academic and research purposes.

Thank you for your kind cooperation in the conduct of this study.

1. ***Do you have any special program for financial support of SMEs?***
   a. YES ☐
   b. NO ☐

2. ***If YES please specify***

   Click here to enter text.

3. ***Which from the businesses below require financial support (loans) from your institution (Rank by relevance from 4-1)***
   a. Micro Business ☐
   b. Small Business ☐

c. Medium Business ☐

d. Large Business ☐

4. ***Please, specify the criteria's that your bank applies to determine one SME as a good and reliable client?***

Click here to enter text.

5. ***Please, specify the criteria's that your bank applies to determine one SME as a loyal client? (Rank by relevance)***

Click here to enter text.

6. ***Please, describe the list of all products and services that you provide for the SMEs***

Click here to enter text.

7. ***When approving a loan for SMEs do you consider as a criteria also the SMEs age?***

a. YES ☐

b. NO ☐

c. No answer ☐

8. ***When approving a loan for SMEs do you have any consideration for your loyalty clients?***

a. YES ☐

b. NO ☐

c. No answer ☐

9. ***How do you determine the interest rate of the SMEs loans?***

Click here to enter text.

10. ***What are the interest rates that you apply for SMEs as a borrowers (Last year)?***

Click here to enter text.

11. Do you apply same interest rates for all business sizes?

a. YES ☐

b. NO ☐

12. If NO, please specify the differences

Click here to enter text.

13. Within the bank do you have any organizational unit that researches the market, through which you determine the interest rates?

a. YES ☐

b. NO ☐

c. No answer ☐

14. Based on your practice do you consider SMEs as a correct and reliable borrowers?

a. YES ☐

b. NO ☐

c. No answer ☐

15. In the near future do you plan to undertake any supporting activity for SMEs?

a. YES ☐

b. NO ☐

c. No answer ☐

16. Obstacles that faces the banks for financing SMEs (Rank by relevance 1-5)

a. Banks internal regulations ☐

b. Legal restrictions ☐

c. Regulative Institutions ☐

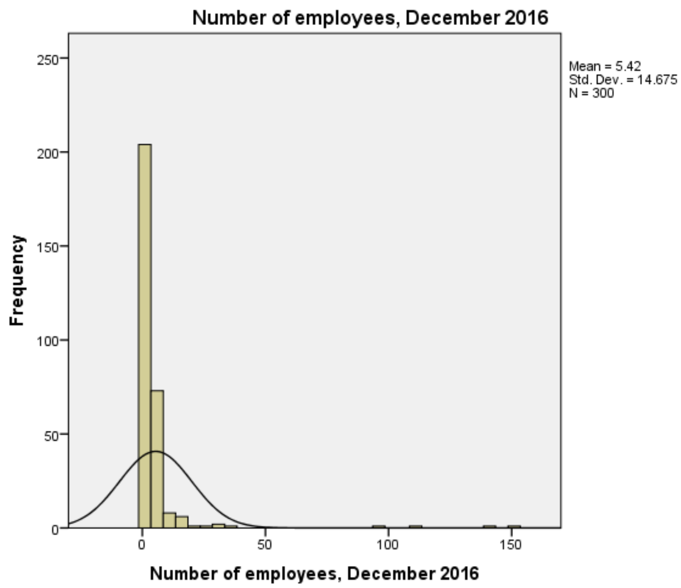
d. Banks low benefit ☐

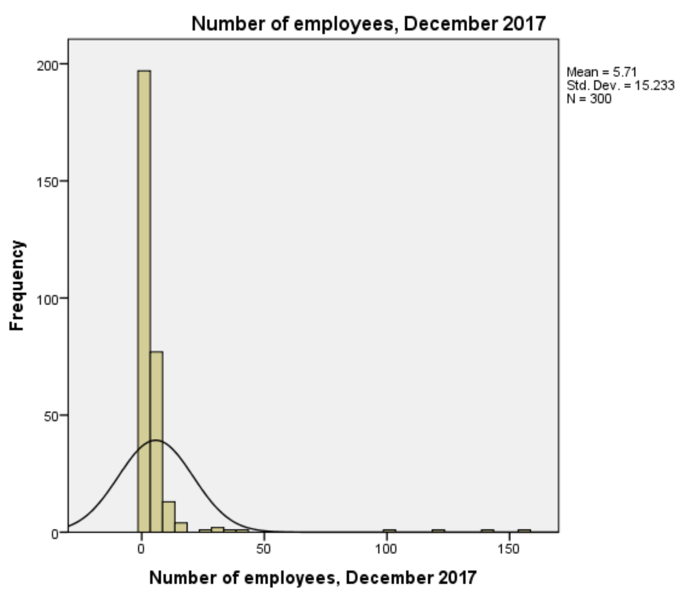
e. Informality______ ☐

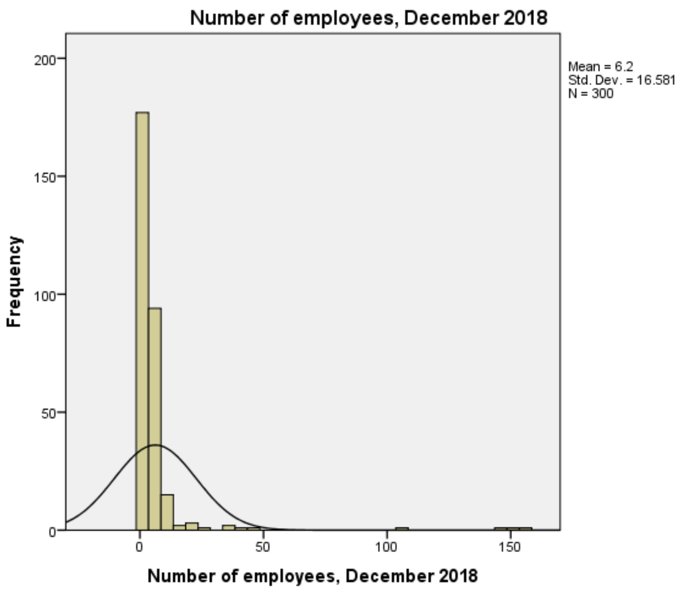
f. Other (Please specify) ☐

Surveyor	**Respondent**
Filloreta Kunoviku – Demiri	
PhD Candidate	
Signature	Signature

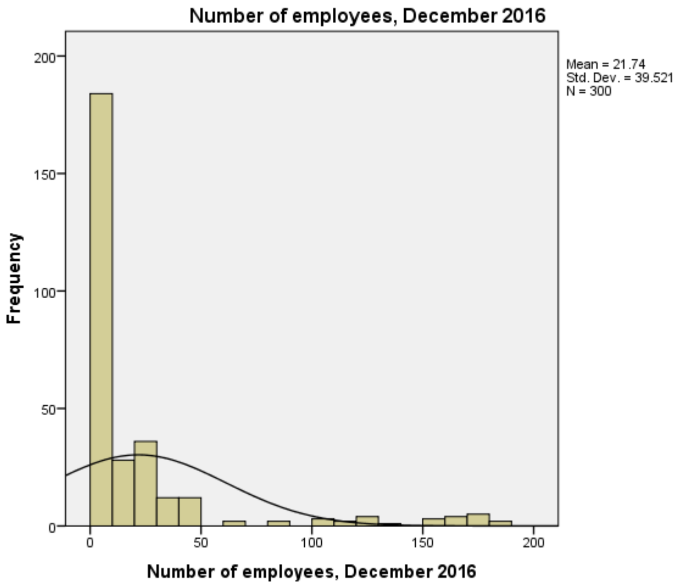
The number of employees for years 2016, 2017 and 2018, RKS

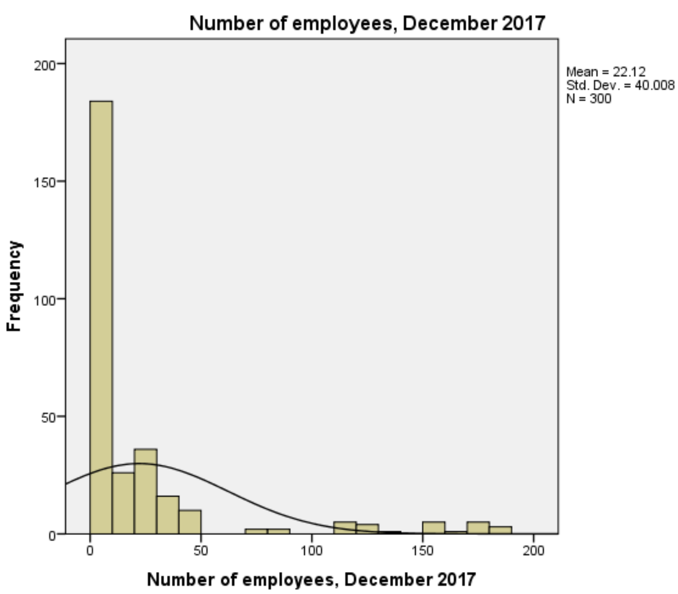


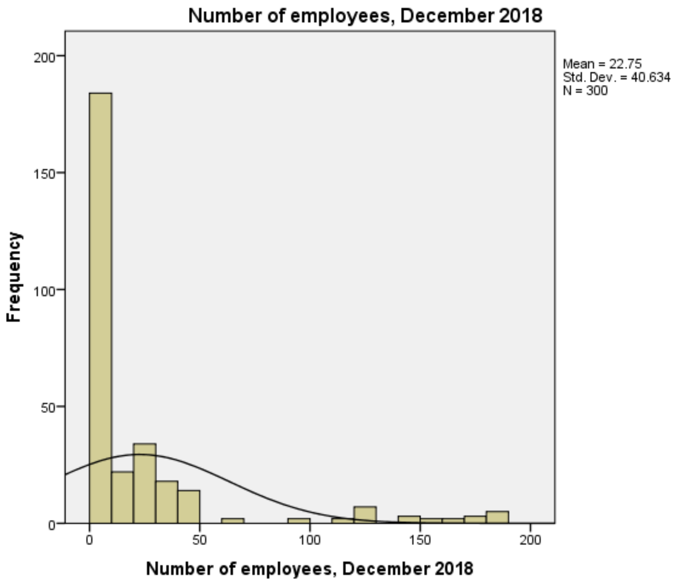



Number of employees, December 2018
Mean = 6.2
Std. Dev. = 16.581
N = 300
Frequency
Number of employees, December 2018

The number of employees for years 2016, 2017 and 2018, RNM







Number of employees, December 2018
Mean = 22.75
Std. Dev. = 40.634
N = 300
Frequency
200
150
100
50
0
0
50
100
150
200
Number of employees, December 2018

Multinomial Regression Analysis for the year 2016, RKS

Model Fitting Information

Model	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC	BIC	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	58.877	68.064	52.877			
Final	58.073	104.012	28.073	24.804	12	.016

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	36.232	258	1.000
Deviance	21.855	258	1.000

Pseudo R-Square

Cox and Snell	.145
Nagelkerke	.451
McFadden	.404

Likelihood Ratio Tests

Effect	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC of Reduced Model	BIC of Reduced Model	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
Intercept	66.411	103.162	42.411	14.338	3	.002
Loan_amount	69.635	106.386	45.635	17.562	3	.001
Interest_rate	55.764	92.515	31.764	3.691	3	.297
SME_Age	60.137	96.888	36.137	8.064	3	.045
Owner_Education_Level	60.595	97.346	36.595	8.522	3	.036

The chi-square statistic is the difference in -2 log-likelihoods between the final model and a reduced model. The reduced model is formed by omitting an effect from the final model. The null hypothesis is that all parameters of that effect are 0.

Classification

Observed	Predicted				
	1-19	20-39	80-99	100-119	Percent Correct
1-19	152	0	0	0	100.0%
20-39	4	0	0	0	0.0%
80-99	0	0	1	0	100.0%
100-119	1	0	0	0	0.0%
Overall Percentage	99.4%	0.0%	0.6%	0.0%	96.8%

Multinomial Regression Analysis for the year 2017, RKS

Model Fitting Information

Model	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC	BIC	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	65.375	77.626	57.375			
Final	69.934	131.186	29.934	27.441	16	.037

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	42.023	344	1.000
Deviance	23.717	344	1.000

Pseudo R-Square

Cox and Snell	.159
Nagelkerke	.467
McFadden	.416

Likelihood Ratio Tests

Effect	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC of Reduced Model	BIC of Reduced Model	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
Intercept	79.008	128.009	47.008	17.074	4	.002
Loan_amount	80.924	129.925	48.924	18.989	4	.001
Interest_rate	65.795	114.797	33.795	3.861	4	.425
SME_Age	71.067	120.068	39.067	9.132	4	.058
Owner_Education_Level	70.878	119.879	38.878	8.943	4	.063

The chi-square statistic is the difference in -2 log-likelihoods between the final model and a reduced model. The reduced model is formed by omitting an effect from the final model. The null hypothesis is that all parameters of that effect are 0.

Classification

Observed	Predicted					
	1-19	20-39	40-59	100-119	120-139	Percent Correct
1-19	152	0	0	0	0	100.0%
20-39	3	0	0	0	0	0.0%
40-59	1	0	0	0	0	0.0%
100-119	0	0	0	1	0	100.0%
120-139	1	0	0	0	0	0.0%
Overall Percentage	99.4%	0.0%	0.0%	0.6%	0.0%	96.8%

Multinomial Regression Analysis for the year 2018, RKS

Model Fitting Information

Model	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC	BIC	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	83.559	95.810	75.559			
Final	69.854	131.106	29.854	45.706	16	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	51.433	344	1.000
Deviance	25.022	344	1.000

Pseudo R-Square

Cox and Snell	.251
Nagelkerke	.616
McFadden	.552

Likelihood Ratio Tests

Effect	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC of Reduced Model	BIC of Reduced Model	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
Intercept	86.058	135.059	54.058	24.204	4	.000
Loan_amount	87.751	136.753	55.751	25.898	4	.000
Interest_rate	70.833	119.835	38.833	8.980	4	.062
SME_Age	77.215	126.216	45.215	15.361	4	.004
Owner_Education_Level	75.896	124.898	43.896	14.042	4	.007

The chi-square statistic is the difference in -2 log-likelihoods between the final model and a reduced model. The reduced model is formed by omitting an effect from the final model. The null hypothesis is that all parameters of that effect are 0.

Classification

Observed	Predicted					
	1-19	20-39	40-59	100-119	140-159	Percent Correct
1-19	150	0	0	0	0	100.0%
20-39	1	3	0	0	0	75.0%
40-59	2	0	0	0	0	0.0%
100-119	0	0	0	1	0	100.0%
140-159	0	1	0	0	0	0.0%
Overall Percentage	96.8%	2.5%	0.0%	0.6%	0.0%	97.5%

Multinomial Regression Analysis for the year 2016, RNM

Model Fitting Information

Model	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC	BIC	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	378.500	406.827	360.500			
Final	315.254	456.891	225.254	135.247	36	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	282.615	639	1.000
Deviance	206.527	639	1.000

Pseudo R-Square

Cox and Snell	.544
Nagelkerke	.606
McFadden	.343

Likelihood Ratio Tests

Effect	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC of Reduced Model	BIC of Reduced Model	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
Intercept	372.256	485.566	300.256	75.002	9	.000
Loan_amount	382.347	495.657	310.347	85.093	9	.000

Interest_rate	357.531	470.841	285.531	60.278	9	.000
SME_Age	354.535	467.845	282.535	57.282	9	.000
Owner_Education_Level	340.699	454.008	268.699	43.445	9	.000

The chi-square statistic is the difference in -2 log-likelihoods between the final model and a reduced model. The reduced model is formed by omitting an effect from the final model. The null hypothesis is that all parameters of that effect are 0.

Classification

Observed	Predicted										
	1-19	20-39	40-59	60-79	80-99	100-119	120-139	140-159	160-179	180-200	Percent Correct
1-19	110	0	0	0	0	0	0	0	0	2	98.2%
20-39	36	0	0	0	0	0	0	0	0	0	0.0%
40-59	6	0	0	0	0	0	0	0	0	0	0.0%
60-79	2	0	0	0	0	0	0	0	0	0	0.0%
80-99	0	0	0	0	2	0	0	0	0	0	100.0%
100-119	1	0	0	0	0	0	0	0	0	0	0.0%
120-139	5	0	0	0	0	0	0	0	0	0	0.0%
140-159	0	0	0	0	0	0	0	0	1	0	0.0%
160-179	0	0	0	0	0	0	0	0	5	0	100.0%
180-200	2	0	0	0	0	0	0	0	0	0	0.0%
Overall Percentage	94.2%	0.0%	0.0%	0.0%	1.2%	0.0%	0.0%	0.0%	3.5%	1.2%	68.0%

Multinomial Regression Analysis for the year 2017, RNM

Model Fitting Information

Model	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC	BIC	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	385.806	414.133	367.806			
Final	320.661	462.298	230.661	137.145	36	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	289.531	639	1.000
Deviance	211.935	639	1.000

Pseudo R-Square

Cox and Snell	.549
Nagelkerke	.609
McFadden	.342

Likelihood Ratio Tests

Effect	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC of Reduced Model	BIC of Reduced Model	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
Intercept	362.212	475.522	290.212	59.551	9	.000
Loan_amount	383.075	496.385	311.075	80.414	9	.000
Interest_rate	356.150	469.460	284.150	53.489	9	.000
SME_Age	353.097	466.407	281.097	50.436	9	.000

Owner_Education_Level	323.872	437.182	251.872	21.211	9	.012

The chi-square statistic is the difference in -2 log-likelihoods between the final model and a reduced model. The reduced model is formed by omitting an effect from the final model. The null hypothesis is that all parameters of that effect are 0.

Classification

Observed	Predicted										
	1-19	20-39	40-59	60-79	80-99	100-119	120-139	140-159	160-179	180-200	Percent Correct
1-19	104	0	0	0	0	0	4	0	0	2	94.5%
20-39	38	0	0	0	0	0	0	0	0	0	0.0%
40-59	6	0	0	0	0	0	0	0	0	0	0.0%
60-79	2	0	0	0	0	0	0	0	0	0	0.0%
80-99	0	0	0	0	0	0	0	0	0	2	0.0%
100-119	1	0	0	0	0	0	0	0	0	0	0.0%
120-139	5	0	0	0	0	0	0	0	0	0	0.0%
140-159	0	0	0	0	0	0	0	3	0	0	100.0%
160-179	0	0	0	0	0	0	0	0	2	0	100.0%
180-200	2	0	0	0	0	0	0	1	0	0	0.0%
Overall Percentage	91.9%	0.0%	0.0%	0.0%	0.0%	0.0%	2.3%	2.3%	1.2%	2.3%	63.4%

Multinomial Regression Analysis for the year 2018, RNM

Model Fitting Information

Model	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC	BIC	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	400.738	429.065	382.738			
Final	366.519	508.156	276.519	106.219	36	.000

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	730.328	639	.007
Deviance	257.792	639	1.000

Pseudo R-Square

Cox and Snell	.461
Nagelkerke	.506
McFadden	.255

Likelihood Ratio Tests

Effect	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC of Reduced Model	BIC of Reduced Model	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
Intercept	397.332	510.642	325.332	48.814	9	.000
Loan_amount	409.628	522.938	337.628	61.110	9	.000

Interest_rate	384.852	498.162	312.852	36.333	9	.000
SME_Age	377.319	490.628	305.319	28.800	9	.001
Owner_Education_Level	363.365	476.674	291.365	14.846	9	.095

The chi-square statistic is the difference in -2 log-likelihoods between the final model and a reduced model. The reduced model is formed by omitting an effect from the final model. The null hypothesis is that all parameters of that effect are 0.

Classification

Observed	Predicted										
	1-19	20-39	40-59	60-79	80-99	100-119	120-139	140-159	160-179	180-200	Percent Correct
1-19	106	0	0	0	0	0	0	0	0	2	98.1%
20-39	36	0	0	0	0	0	0	0	0	0	0.0%
40-59	10	0	0	0	0	0	0	0	0	0	0.0%
60-79	2	0	0	0	0	0	0	0	0	0	0.0%
80-99	0	0	0	0	0	0	0	0	0	2	0.0%
100-119	1	0	0	0	0	0	0	0	0	0	0.0%
120-139	4	0	0	0	0	0	0	0	0	0	0.0%
140-159	1	0	0	0	0	0	0	2	0	0	66.7%
160-179	0	0	0	0	0	0	0	0	0	1	0.0%
180-200	2	0	0	0	0	0	0	0	0	3	60.0%
Overall Percentage	94.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%	0.0%	4.7%	64.5%