

Micro and Macro Economic Policies of Government of Kosovo toward SMEs

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Abstract

The emphasis of the discussion in this paper is centered on economic policies of Kosovo government towards SMEs. The paper will analyze trends of economic policies fostered by the Government of Kosovo in attempt to maximize the development of SME's sector. Furthermore, the paper will carry out an in-depth analytical approach of SME policies taking into account their crucial role for economic growth. The critical mode of discussion will reveal advantages and disadvantages, and subsequently ultimate paybacks as a result of promoting favorable economic policies in favor of cultivating suitable business environment for SMEs.

Similarly, in concluding remarks this paper appeals for more suitable and sustainable economic policies towards SMEs taking in consideration their high potential of employment generation. The paper also suggests concrete steps the Government of Kosovo needs to undertake in terms of promoting policy opportunities in order to speed up economic development of the country, growth as well as economic welfare.

Keywords: Economic policy, Economic Development, SMEs, Job creation, Kosovo.

Introduction

In an open trade economy, small and medium enterprises ("hereinafter SMEs") play an incredible role as a driving force behind a successful economic development. SMEs outstanding potential is noticeable on economic growth, precisely, as now days, the SMEs sector is considered to be a primary source of job generation.

Putting the SMEs development path in the context of Kosovo, especially after the war, they have been and still are facing revolutionary changes as they struggle to be in line with trend markets. In Kosovo SMEs are considered to be the backbones of the country's economic development and prosperity. Nevertheless, a frank overview of micro and macroeconomic policies propagated so far by the Government of Kosovo ("hereinafter GoK") in terms of facilitating SMEs operations shows that not so much positive impact have been made. That said, it is not an easy task to achieve to the fullest SMEs contribution having in mind, unfavorable fiscal policies, bearing in mind that the perspective of young entrepreneurs is often limited due to poor fiscal policies, and the two stands closely connected one to another.

Kosovo is rapidly heading towards the free trade economy in an attempt to harmonize its fiscal policies with the European Union's policies, respectively in line with the Small Business Act (SBA) and EU's framework progress Competitiveness and Innovation (CIP). Otherwise stated, the current state of economic development in Kosovo in one hand, and the high potential of economic development that SMEs offer on the other hand, makes all so appealing that justifies researching in this field. All in all, this

paper will be an added value by presenting a comprehensive discussion on micro and macro policies of the Government of Kosovo towards SMEs. The paper also will try to make a simple case on a large complex economic nature.

Overall review of the current economic situation in Kosovo

For centuries, Kosovo always has been viewed as a place of much potential. Yet, it remains one of the last developing countries in Europe. Nevertheless, Kosovo's undeveloped economy should be seen from a wide spectrum and not from one angle alone.

At the outset of this discussion, it should be recognized, the role of the SMEs serves as a starting engine for economic development for in any country worldwide. The crucial role of SMEs is more evident especially in those underdeveloped countries, and even more in transition countries. Being a relatively new country is quite understandable to undergo through a transitional period. In this context, SMEs have a crucial role in terms of promoting economic development to bring Kosovo in the right track of an open economy.

Against this background, in case of Kosovo, recent economic development did not make any huge change or impact whatsoever in relation to high poverty rate, and high rate of unemployment (Stiftung, 2016, p. 15). Hitherto, since 1999 Kosovo has marked significantly progressed in maintaining macroeconomic stability (Stiftung, 2016, p. 18). Yet, according to European Commission, Kosovo's economic performance cannot be considered as a breakdown, "Kosovo has implemented the initial essential reforms towards establishing a fully functioning market economy" (Commission, 2012, p. 10). Similarly, IMF claims that, "the government's fiscal policy has achieved a sustainable budget and has increased the available cash buffers" (Bertelsmann Stiftung, 2014, p. 16). The economic growth of Kosovo's economy remained on right track in the first half of 2016 according to World Bank. The economic growth of the country's economy was 3.9%. According to World Bank data, "in the first quarter of 2016, growth continued at 3.8%, with investment and consumption each contributing 4.9 percentage points" (World Bank, 2016). Using the same line of arguments, often-political elite in Kosovo promotes vague arguments that Kosovo was not affected by the latest economic crises, however, one should know that Kosovo has limited amalgamation into global financial markets.

Kosovo faces enormous challenges due to its fragile economy. Foreign direct investments and exports hit high level of decline. As of October 2016, FDI in Kosovo increased by 21 euro millions. Likewise, even though Kosovo is largely depended by a huge amount of imports, yet imported items felt decline due to a slower growth rate. Frequently, in local and international surveys, Kosovo appears to be the poorest country in Europe and beyond where approximately 45% of the population lives below poverty line, and 15% are living in extreme poverty.

At the same time, the presence of the phenomenon of corruption, and widespread informal economy hits at heart the youngest economy in Europe. It is estimated that about 30,000, people joins market labor but with this slow economic growth, Kosovo has no capacity to absorb new working force power.

Production sector function on very limited capacities, and is mainly concentrated on exporting row steel materials as a result of collection. Despite all, there is a positive move by the Government of Kosovo in its attempts to improve the business environment. In other words, one can't say that the Government of Kosovo is totally ignorant at this point and does not recognize the significance of SMEs. It's the opposite but with few effects though. Government's recognition of SMEs vital role could be drawn from "SME Development Strategy for Kosovo 2012-2016 with vision 2020" (Government of Kosovo, 2011).

To increase economic growth, the Government of Kosovo has done a significant job in terms of creating and improving the regulatory climate for local business as well as potentially interested foreign businesses to extent their business activity in Kosovo. This effort has been recognized by World Bank on its doing business index as it measures regulatory quality and efficiency. In this respect, viewing the annual doing business reports few years back, it is visible that Kosovo has made significant progress. Kosovo's ranking has improved from 128 in 2012 (World Bank, 2013) to 66 in year 2016 (World Bank, 2016).

The signature of Stabilization and Association Agreement (SAA) with the EU that entered into force in April 2016 has had a significant impact in Kosovo's economy by reducing customs revenues by euro 10 million as of July 2016. Yet, this is considered milestone achievement for the government of Kosovo.

After considering a broad overview of the current state economic situation in Kosovo and in particular the position of SMEs, the next section will converse briefly on the theoretical definition of SMEs based on acceptable European norms, and an applicable definition in Kosovo.

Theoretical review

Today it is almost undisputable and well-known fact that the significance of SMEs is as much as the need for economic development in a country. Their impact does not depend much on the size rather than on its innovative work and innovation perspective. Despite this, the definition SMEs is still relevant for various reasons.

First and foremost, it should be acknowledged that defining SMEs is a challenging process, simply because there is no single conclusive definition of SMEs. It varies in different countries. Nevertheless, since Kosovo one day aspires to be part of the European Union, it is no surprise that SMEs in Kosovo will follow a European pattern of defining SMEs. As a benchmark document used to measure SMEs defining size is set out in a Recommendation of the Commission adopted on 6th May 2003, which came into effect as from 1st January 2005 (European Commission Recommendation, 2003). The Commission's recommendation expressly states, "an enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form" (European Commission Recommendation, 2003). "It includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity" (European Commission Recommendation, 2003). The significance of this definition lies due to the fact that it defines clearly SMEs in a more comprehensive manner. The new approach of defining SMEs it has open new ways of doing business in SMEs sector. It

implies a huge step of improvement in terms of doing business by promoting SMEs, investments in the SMEs sector and economic growth. Also, as it will be noted later on this discussion, the new SMEs definition is a key point for successful implementation of economic development.

The thresholds of measuring whether your business is an SME, three basic criteria are considered, explicitly: staff headcount, annual turnover, and annual balance sheet. In short, reviewing your enterprises' portfolio against the above criteria will allow you to establish whether you are operating a micro, small, or medium-sized enterprise. To better understanding this new definition, which is applied in a whole European block, the outlined below table 1 clearly shows its application.

Company category	Employees	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m" (European Commission, 2014).

Table 1. EU definition of SMEs

Close observation of the figures in the table above indicates the determination of the enterprise either from the number of employees in combining turnover or balance sheet total.

In case of Kosovo, determination of the size of an enterprise mostly depends on two main criteria: the number of employees, and turnover (at.al, 2006). It's by definition that the same criteria used in European Union applies in Kosovo as well, since Kosovo one day aspires to be a member of the block, therefore it's natural to resemble the European lines of arguments in defining SMEs. Table two (2) sets SMEs definition applicable in Kosovo more clearly.

Category of enterprise	Number of employees	Number of enterprises	Percentage of total
Large	250 or more	58	0.06
Medium	50-249	221	0.22
Small	10-49	1,406	1.35
Micro	1-9	102,070	98.37
Total		103,755	100.00"

Table 2. Source: Strategy for SME development in Kosovo, ARBK, 2011 (Ardiana Gora, 2013, p. 7).

Hence, about 99 percent of the SMEs in Kosovo have a staff number fewer than 50 people and contributing with about 60 percent of the annual turn over to the economy of Kosovo, however, the greatest challenge for Kosovo remains an informal economy with about 30 percent.

Analysis of economic policy implementation

With mounting criticism of poor state run enterprises with regard to inefficiency and unproductiveness becoming as an obstacle rather an example with respect to economic

development. Against this background, developing SMEs sector is seen the only way forward for boosting economic growth, generating employment opportunities, and reducing hardship (Jeppesen, 2005, p. 464). Also, main stakeholders such as governments and policy decision makers are well aware of the benefits associated with entrepreneurship and SMEs in terms of providing social welfare and economic development. Therefore, is needed to be in place proper economic policies that would support SMEs.

As highlighted above Kosovo's economy faces many challenges and deficiencies in many aspects, which in turn affects all sectors of society. Nevertheless, at a slower rate, Kosovo's economy continues to grow, despite the fact that global economic developments affected many countries worldwide (Bertelsmann Stiftung, 2014, p. 19).

In this context, it's worth pointing out that there are few signs of improvements from the Government of Kosovo in terms of implementing the much-needed reform in order to enable an easier functioning market economy. In this aspect, on the ease of doing business Kosovo is ranked at 86 out of 189 countries listed in "Doing Business 2014" and 66 out of 189 in "Doing Business 2016" report of World Bank (World Bank, 2016). In comparison of the last three years, Kosovo has improved in raking by going up 30 places up, as it was stated in the report of "Doing Business 2013", where Kosovo was ranked at 96 (World Bank, 2013).

Irrespective of some improvements for doing business, yet, the Kosovo's economy, including private sector is profiled as a fragile and remains weak. That said, Kosovo should work from multi-dimensional focuses in order to multiply its economic barometers. Much of its focus needs to address issues such as: enhancing the functionality of rule of law in order to improve the business environment and support private sector, development, economic policies, job generation, competitiveness issues, to promote private investments, reduce informal economy, provide instruments to fight corruption, imbalance trade, and to promote foreign direct investments in order to secure more sustainability and incisive growth. In short, creating a healthy investment environment for SMEs and other stakeholders should be the aim of everyone working to improve the economy of Kosovo.

In scrutinizing the results of economic policies promoted so far by the government of Kosovo, it is sufficient to look at figures achieved if any. Local products constitute only a minimal percentage, an indication showing that about 80 percent or more the businesses operate in the sector of service (World Bank, 2013, p. 12). According to the EU Commission, the division shared in terms of securing employment is leading by the tread sector (17%), education (13%), public administration (10%), construction (8%), and manufacturing constitutes 10% (Bertelsman Stiftung, 2012, p. 15). About 95.5 percent of the private sector in Kosovo is filed up by SMEs, which in turn contributes 43 percent of Kosovo's GDP, per capita of about EURO 2,700.

The figure highlighted above generally shows a very poor economic situation manifested in Kosovo. In fact, Kosovo stands far from being a functional market economy as well as far from being able to cope with a competitive demand of market, a standard that is required before accession to EU. Put simply, Kosovo has much to improve for ensuring effective economic policies. Paramount consideration should

be given to address huge obstacles and deficiencies in order to secure a competitive environment for SMEs.

Otherwise stated, the outline facts show best the need for change and that changes are seriously necessitated to be from multiple dimensions. It requires a strong combination of changes in judiciary system where potential investors could feel secure to pour in their money. A turning point is necessary in the dimension of economic fiscal policy in order to stimulate economic development and SMEs in particular. The implementation of fiscal policies so far did not bring any significant change since Kosovo's economy is largely depended on unstable development sources. Worth underscoring that Kosovo's sources of economic support remain government expenses, remittances from diasporas, international financial assistance, and costumes of Kosovo (Friedrich-Ebert-Stiftung, 2011). Undoubtedly, this is alarming for the society of Kosovo in general and for the government of Kosovo in particular. The very little progressing of the SME sector in Kosovo speaks volumes of how much Kosovo needs to get done in terms of promoting favorable economic policies for SMEs to be in line with European standards.

Moreover, as hinted above, the two backbone institutional policymaking of Kosovo's SMEs sector is the Ministry of Trade and Industry (MoTI) and the SME Support Agency (SMEA). Of course, both of them share responsibility for different implementation bodies that deals at specific issues.

A key role in building or shaping Kosovo's SME policy is held by SME strategy Working Group, and the Advisory Group as established by MoTI. In this regard, the main documents prepared, as a guideline for SMEs is the Government of Kosovo has adopted the SMEs strategy 2012-2016 with vision 2020, private development strategy 2013-2017. These strategies are considered to be a master plan by way of tackling the most vital issues that require specific attention in order to create opportunities for SMEs to generate new jobs in Kosovo. Some of the main aims of these strategies regarding SMEs are shaping a framework that will facilitate to increase private sector activities, increase investments, and new employment opportunities.

The network of policy decision-making also comprises different government bodies and agencies committed to performing different tasks of policy making, policy implementations, and advisory activities. Some of these key stakeholders include: the Investment Property Agency of Kosovo (IPAK); the Kosovo Business Registration Agency (KBRA); and the Agency for Standardization are consistent contributors for further development an improvement of the SMEs sector.

Despite all efforts and solid developments for the good of Kosovo's SMEs sector, yet much more needs to be done. The most visible areas that desperately demands rapid improvement actions in order to successfully overcome those barriers include, namely: working on improving lack of fully developed legal framework, work on giving a hard blow to an informal economy and unfair competition both to internal and external factors and work on improving financing sources be it from external or internal sources, but these deficiencies are not inclusive.

Additionally, it is worth stating few more words with regard to strategic goals, goals, and strategic objectives as an integral part of the institutional framework for SMEs that has taken into consideration a wide spectrum of issues and stakeholders as it is

stated the best in strategy for SMEs (Government of Kosovo, 2011, p. 19). It seems that the strategy outlines several key goals. The first strategic goal is about strengthening the regulatory and regulations framework for creation and development of SMEs in line with SBA principles. The second strategic goal is devoted to 'improving SMEs access to Finance' as a way to tackle many complaints by entrepreneurs and business, some of which are; the high interest rate, the issue of little incentives to lend to SMEs, measures for improving collateral system, and enforcement of collateral against the debt. Goal three is "promoting and developing an entrepreneurial culture" meanwhile, "strengthening domestic and international competitiveness of SMEs" is discussed in goal four. While, the fifth strategic goal has to do with attempts by administration in order to accommodate the needs of SMEs. Specifically, essential goal is to encourage the dialogue between all stakeholders by enhancing communication, cooperation and coordination among all of them. Those goals of course are being heavily discussed during the dialogue with the European commission for liberalization of economy and open market.

The theme of the strategy is "economic development of Kosovo is everybody's business". It means that SMEs sector indeed must be fully functional in terms of productivity, of creating opportunities for new entrepreneurs, strengthening SMEs position in Kosovo's economic development, including all levels of society to give their part.

All in all, the development processes of SMEs take so much effort. For the backbones of economic development to have their impact on social cohesion, many areas should be improved. Nevertheless, it remains to be seen how much they will succeed on it.

Access to Financing the SMEs

Significant aspect of economic policies that the Government of Kosovo to great extend has failed to address in one way or the other is providing easy access for SMEs to financing their projects.

Financial access is acute for SMEs progression and improvement of the SME sector. SMEs in Kosovo are no exception in terms of being the cornerstone to the market of Kosovo. Kosovo's financial sector is quite well established and functional, particularly the banking sector. Nevertheless, SMEs opportunities to finance their projects are rather limited due to high interest rate, high collateral requirements, or because of lack of willingness by banks to loan to SMEs, and dozens of other barriers alike. Three constraints have been identified as a cause of Banks unwillingness to loan to SMEs, namely: "firstly, the majority of SMEs only pass a fraction of their business through the banking system and pay only the minimum salary for their employees into the banks. Secondly, a large portion of SMEs owners/managers lacks capabilities to run their businesses in a professional manner. Thirdly, there is very little focus on the financial aspects of the business" (European Commission, 2013). This means SMEs carries part of burden constraints. Being in this situation, the SMEs sector is obliged to rely more on their own financial capacities. The current financial situation undoubtedly sends negative messages to potential investors and negatively reflects to direct foreign investments.

In total, the financial sector of Kosovo comprises of 82 financial institutions that would be able to finance SMEs, namely: there are nine (9) banks; forty (40) financial auxiliaries and eighteen (18) microfinance institutions (Central Bank of Kosovo , 2013).

The statistics concerning financing of SMEs shows best that something should be undertaken. In this regard, in an attempt to ease access to finances for SMEs, the government of Kosovo in its “SME Development Strategy for Kosovo 2012-2016” under “Strategic Goal 2” included “Improving SMEs access to finance”. Undoubtedly, this step made from the government of Kosovo signifies the realization of obstacles to access to finances as well as the need that something must be done in order to facilitating the development of SMEs sector. Also viewing this step from the EU viewpoint, the strategic goal two is enshrined in SBA’s principal VI, “which aims at facilitating Small and Medium Enterprises’ (SMEs) access to finance and development a legal and business environment supportive to timely payments in commercial transactions” (SME Support Agency and Ministry of Trade and Industry, 2012, p. 5). In terms of banking activities supporting SMEs, generally all of them provide lending to SMEs, however, there are no unified standards concerning the requirements for SMEs to apply for finances. Also in terms of amount financing SMEs, it depends entirely from the financial capacity of the Bank to lend, but it could be highlighted that local banks as compare with foreign banks here in Kosovo, are focused more in financing smaller projects. The maturities of loans for SMEs, usually is too short to pay off any significant investment, unlike for few large companies competitive rates and maturities are somehow kept for large business enterprises.

The table below, pictures banking activities in terms of lending for SMEs.

		“Headcount	Turnover	Balance sheet	Lending
EU	Small	<50	<€10m	<€10m	-
	Medium	<250	<€50m	<€43m	-
GoK	Small	<50	-	-	-
	Medium	<250	-	-	-
Law 04L-014	Small	-	-	-	-
	Medium	>10	>€2m	>€1m	
	Large	>50	>€4m	>€2m	-
CBK	Small	-	-	-	-
	Medium	-	-	-	-
Banka Ekonomike	Small	-	<€2m	-	<€500,000
	Medium	-	<€2m	-	<€500,000
Banka per Biznes	Small	-	-	-	<€50,000
	Medium	-	-	-	<€200,000
BKT	Small	-	-	-	>€50,000
	Medium	-	-	-	<€150,000
	Large	-	-	-	<€150,000
NLB	Small	-	-	-	>€500
	Medium	-	-	-	>€50,000
	Large	-	-	>€ 2m	<€50,000
ProCredit	Small	<50	<€600,000	-	<€150,000
	Medium	>50	>€600,000	-	>€150,000

RBKO	Small	-	<€1.5m	-	<€100,000
	Medium	-	<€ 5m	-	<€1.5
	Large	-	>€ 5m	-	> € 1.5
Recommended definition:					
	Small	<50	<€600,000	>€1m	
	Medium	<250	<€ 4m	>€ 2m	

Table 3. Source: SME Support Agency and Ministry of Trade and Industry”

All banks provide similar services to SMEs including long-term loans, but at the same time, they are so rigid and so they require so much security for loans like collaterals. Nevertheless, despite many obstacles to access to finance, the financing issue remains a key component for SMEs to prosper in their path to increasing productive capabilities, to build competitive abilities, to open new working places, and to give their contribution to poverty relief, especially in less developing countries like Kosovo. The figures highlighted above undoubtedly are less than sufficient as against the needs of SMEs for finance. With this flow of access to finance, SEMs in Kosovo would have many more challenges in developing their business. Specifically, if SMEs do not have a possibility of financing their projects, obviously SMEs cannot purchase or grip new and advanced technologies. Even less chances would be out there for SMEs to expend business activities to compete in global markets where large corporations in order to ensure their high level of competitiveness need finances. Also, it should be highlighted that Banks lack proper strategies that would deliver financial sources to meet the prerequisites of SMEs to compete effectively, while taking in consideration risks and to somehow sharing the costs related for services to SMEs.

In sum, the financial sector is highly significant for SME sector. It goes without saying that easing rules with regard to having access to finances for SMEs and to creating more finance opportunities is very essential before talking about growth and economic development. Otherwise, stated, relevant institutions should provide a comprehensive guide/menu to support improved access to finance for SMEs. In line with European standards, this comprehensive guide would address deficiencies, challenges, and other obstacles that financial institutions face in supporting SMEs finance. Financial reforms concerning SMEs are urgently needed in this tiny country of Kosovo.

Concluding Remarks and Suggestions

- I. This paper has addressed many challenges of policy making and policy implementations confronted by SMEs in Kosovo in their business activities.
- II. Introduction as well theoretical part of this paper mainly is focused on theoretical aspects of highlighting essential pressing problems out of daily activities. The study first analyzed various concepts of SMEs in order to understand their role and their contribution. Theoretical part of economic policy of the Government of Kosovo towards SMEs is viewed always in light of European context, such as defining SMEs. However, SMEs in Kosovo has a lot to do in terms of reaching European standards of economic policies.
- III. The concept of economic policy touches upon a wide spectrum of the

business operation that is why this study analyzed the practical aspect of SMEs that unfolds the need to support SMEs performance in terms doing business with sound theoretical basis.

- I. Policy implementation is undoubtedly one of the most important aspects for a project to be completed successfully. With regard to this point, the study argues that policy implementations depend on many other issues that were highlighted above. Focusing in more practical aspects, policy implementation depends on the quality of understanding, monitoring and dynamics of the workload. Moreover, this paper argues that during its implementation phase, the European Small Business Act should guide the design and implementation of policies both at EU and national level.
- IV. It could be observed that since then Kosovo, especially in the last decade has improved a lot the environment of doing business. It also spells out the need for further develop economic policies in order to be a functional market economy as well as to able to cope with competitive demands of the market.
- V. This study also shows that financing SMEs projects continues to be a huge problem due to many obstacles, mainly because of rigid rules to apply for loans, due to high interest rate, high collateral requirements or because of lack of willingness by banks to loan to SMEs. The study concludes in this point that financial sector is highly significant for SMEs sector; therefore easing rules with regard to having access to finances for SMEs are very essential before talking about growth and economic development.

Suggestions

- i. Kosovo has entered into the first contractual agreement with European block more than e year ago. Thus, transposing it in the context of free market economy, so to be in line with EU's economic policies, namely "Small Business Act (SBA) and the EU framework progress Competitiveness and Innovation (CIP), Kosovo has much to do in order to fight unfair competition. Thus, it is suggested that proper mechanisms designed specially to improve economic development aspect for SMEs in Kosovo should be in place as soon as possible.
- ii. The concept of globalization has brought so many challenges with regard to the issue the economic development, especially in developing countries, like Kosovo. In light of this development, it raises the need to support SMEs performance in terms of economic policies with sound theoretical basis. Therefore, it is strongly suggested the whole economic system of Kosovo, especially the SMEs sector, it needs to undergo through a deep transformation of institutional framework, starting from providing basic infrastructure, law and order, to rule out corruption, and creating favorable fiscal policy.
- iii. With regard to policy implementation, it's highly suggested that all stakeholders should be part of it throughout the project until the end. Often, the failure of a project is as a consequence of lack of interest to follow up business matter until the end. So, stakeholders should exploit all of their capabilities to generate and apply a convincing implementation policy as well as to open monitoring networks of interaction with interested parties.
- iv. In respect of SMEs development of Kosovo, there is a lot to suggest,

however, the most visible areas that desperately demands rapid improvement actions in order to successfully overcome those barriers include, namely: working on improving lack of fully developed legal framework, fighting informal economy, and unfair competition both to internal and external factors and work on improving financing by easing SMEs ways for access to finances in order to finance their prospective projects.

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