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SME impact on economy

Abstract

SME-s are important for all economies, especially for countries like ours taht is in transition phase. SMEs are playing an important role in the economic development of Kosovo and are the main source of new job creation and income generation, also have shown rapid revitalization in the postwar period. Employment in SMEs is increasing and structural changes are observed within them, which are expressed through a decline in the number of commercial (trading) enterprises and the participation of manufacturing enterprises is increasing. It is estimated that the contribution of private businesses in the share of GDP in the postwar period has increased in value significantly.

SMEs have a direct impact in strengthening competitiveness and productivity, inciting at the same time the increase of global income and income per capita in the country. These contributions are very important in terms of the economic crisis and unemployment reduction. SMEs also contribute to addressing many issues related to the effects of social inequality, fastening growing demographic and paramount necessity for structural changes in the economy. The paper will address the issues and impact of SMEs in the economy during the process of growth and sustainable development of economy and will make an analysis of the sources, with the aim of establishing a more stable economy and stable country.

Key words: SME-s, Economy, GDP, sustainable, growth

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I. The influence of the private sector in the economic development of Kosovo

Kosovo in general has a good basis for the development of the private sector. Legal framework in a country and the country's legal regulations are based on the best practices possible for the private sector which are stimulating the development of this sector.

There are also other competitive forces in the market of goods and services in the country. Currently the administrative costs of establishing new business and other legal acts generally do not pose obstacles to the current work to establish businesses, their work and rapid development. Tax rates that are relatively low for a number of businesses, particularly those for employees, are at a level acceptable to the private sector. Kosovo has free trade agreements with several countries in Europe and has a number of competitive advantages of being closer to the markets of the European Union and Western Europe and some other countries, resulting in a relatively low cost of transport. Despite these developments, the private sector in the Republic of Kosovo and still rely on some low-productivity activities, which are still largely dependent on external donor assistance and revenues from employees abroad. Support in retail trade makes very unstable private sector to be the mainstay of the overall activities in high economic development and the development of appropriate creation of new jobs.

The majority of SMEs (98%) are micro-level enterprises employing from 1 to 9 employees, who engage in activities with low added value, such as trade, wholesale / retail, services, hotels and restaurants (more than 56% of all enterprises). About 10% of enterprises are engaged in manufacturing and some other 7% in the construction sector. It is especially important not only due to the reduction of the high level of unemployment, but also a significant role for the private sector in undertaking activities that are currently funded by other grants and remittances from the Diaspora which are every day more in decline across the country.

II. Impact of Small and Medium Enterprises in economic development

Small and medium enterprises should be given strategic importance, because they are counted as a promoter of economic development and overall employment in Kosovo.

Small and medium enterprises play a major role in economic and social development but also are very important because of their contribution to the economic network operation and the creation of new jobs. These contributions are very important to the economic crisis and rising unemployment. Especially in these years in Kosovo, the development of SMEs contributes to addressing many of the issues related to economic development, the effects of social inequality, with high levels of unemployment, with the fastest population growth and the need for very large structural changes in general. SMEs Development provides employment opportunities, which will help reduce unemployment, and demographic problems facing the population, which is growing very fast. Development of SMEs also contributes to strengthening the competitiveness and productivity, encouraging the growth of global income and income per capita in Kosovo.

Development will promote the overall transformation of the SME sector, due to its links with technological innovations and the development of these enterprises. Therefore, the development of the SME sector is important for Kosovo, especially when considering social problems in the

country, which are largely a result of uneven economic growth. Sustainable development of the regions requires delivery culture and investment promotion territories among local actors, enabling better separation of investment, job creation, and face real competition, which constantly intensified recently in Kosovo.

For a long period, the SME sector will increase the participation of GDP. This means that in the *development of the country it is very important the service sector that dominates in all modern economies and Western European countries.*

For many small businesses ownership, due to greater independence and financial income that brings, is very attractive², and it makes possible and factored SMEs to be a source of sustainable economic development of the country. Future strategic objectives are to improve the environment for the development of the sector of small and medium enterprises.

Sectoral strategies in this area provide medium and long term framework for the development of these sectors. Some sectors of industries based primarily in small and medium enterprises in the future will be agents of change, primarily food processing, construction materials, wood processing, plastic materials, rubber materials and its product, etc.

More favorable sector in the future will be information technology sector, in terms of infrastructure and human resource development and beyond.

Trade policies of the country must remain on open market principles, but in mutual relations with other countries to ensure fair competition principles and reciprocity. Domestic producers from SMEs need support and equal status that enjoy the enterprises in the region and beyond.

More specific measures that should be taken into account, in this regard, should include:

- ✓ Cooperation with local authorities and agencies to support SMEs;
- ✓ Designing training programs for employees, and categories of potential entrepreneurs, start up's and existing ones in order to increase the performance of SMEs;
- ✓ Work at the institutional level to change the approach and culture of Kosovo entrepreneurs;
- ✓ Coordinating support for innovation leaders and stakeholders of new sectors;
- ✓ Creating the database, with the Web page of the information system of export and export information systems;
- ✓ Adequate mechanisms to best practices from EU countries to reduce the execution time of cases and commercial disputes between parties;
- ✓ Sustainable economic development, employment and improving social welfare is based on the implementation of policies and concrete actions focused on the areas of power, rule of law, transport, telecommunications, education, health, agriculture and food production.

²Donika KERÇINI: Entrepreneurship and small business management, p. 17.

III. Private sector development and the impact on the economy in transition in Kosovo

Since 1999, Kosovo has gone through the transition from the socialist social system of the Yugoslavia in the free market economy. Under the former system, the majority of Kosovo's economy consisted of social enterprises (SEs). During the 90 years up to 1999, a large number of SEs remain unused (even up in poor conditions and a large number of these companies suffered physical damage. So based on this the whole development of the country in these years of transition was made in the private sector where the sector took the brunt of economic development. Instead, there are about 55,000 registered businesses most of them are small and micro enterprises and almost all are engaged in domestic business and other services.

Production is very scarce, while production for export is smaller.

As a result of all this, the economy of Kosovo lies very few internationally and capital coming from abroad comes mainly in the form of remittances from abroad, while donor support is always decreasing in recent years. In general, the SMEs sector is seen as a growth promoter in special measures in creating new jobs and economic stability in this context.

Generally when considering the relative lack of large enterprises and privatization of public enterprises in excess generating huge profits as Post and Telecom of Kosovo, Pristina International Airport and several other enterprises and foreign businesses in particular, this means that prospects for employment growth is small and there remains no short-term improvement on those factors that are important for long-term job creation. In order to improve this situation, Kosovo needs to increase very quickly its levels of very low production in all industries. Considering the size and inefficient structure of agricultural sector, which accounts for about a third of gross domestic product, and the lack of any serious manufacturing sector and the predominance of small and medium enterprises, low production is imminent. In addition, it is likely that the production and processing, as well as research and development, to be limited in Kosovo. Lack of capital investment and numerous training have overcome the benefits from production to the extent that outside a few pockets in service sectors such as banking, they hardly exist. Addressing these gaps is crucial to long-term competitiveness and sustainable employment creation. The privatization process is now running and is very welcome, but its negative features so far were the lack of investment from abroad. Figures from the Privatization Agency of Kosovo (PAK), responsible for the privatization of SOEs and public (*mostly dead*), show that over 90% of the privatized property now is owned by the Kosovars. Foreign investors always bring much more than investment capital, including innovation, technology and development capabilities, which are essential for productivity and competitiveness. Lack of integrated training and training in Kosovo is another characteristic of the current economy.

This creates short and long term challenges. For a start it means that companies hoping to expand should provide training themselves relatively modest. This is time consuming, expensive and increasing drag. In the long run, if not addressed, it will destroy far more levels on lower production and foreign investment.

IV. Development challenges and impact of SMEs in the economy

The first challenge of dealing with the current situation is the high rate of unemployment which is estimated to be between 40% and 55% of the population of employable age, although these figures are not very accurate when we consider that a number of people are able to work in offices are not reported as an employee working jobseekers, however the existence of a large economy means that the real unemployment rate is probably at the lower end of this range.

The burden of unemployment is felt more by young people as they try to build careers and decide the course of predictable income. Besides the obvious loss of resources that creates unemployment on this scale is enormous for the whole country.

V. Barriers of country's economic development in the future

There are several important conditions that must be met for the development of small and medium-sized enterprises to develop further. It is fair to say that most of the development of small and medium-sized enterprises will be possible after addressing these issues in institutions. Among the barriers to economic development in the future are: the legal framework, the electricity supply of business and the population in general, access to public and private finance, taxes for various businesses, customs, etc..

Legal acts work to small and medium enterprises

Since Small and Medium enterprises to be developed and to operate successfully in business, there must necessarily be adequate legal acts and business rights. This requires not only the existence of commercial law, but the legal system that provides conflict resolution in a timely and effective manner. Critical issues within the legal acts include protection of the rights of businesses and resolutions relating to land ownership, minimal bureaucratic burden on small and medium enterprises.

Political uncertainties in the sphere of economic development

Economy uncertainty over the future of Kosovo creates high degree of risk for Small and Medium Enterprises, and potential investors of the internal and external. The risk premium related to this issue can be seen in the behavior of financial institutions and other investors, and if this situation is not resolved, could adversely affect the availability of finance for businesses of small and medium-sized enterprises and deter in foreign direct investigations.

Some other barriers to SME development in Kosovo

Small and Medium Enterprises in Kosovo play growing role in every national economy and contribute to employment, tax revenue, economic growth and cultivation of the market system. In Kosovo, Small and Medium enterprises consist of micro, small, medium and large enterprises.

Small and medium enterprises (SMEs) include about 98% of all enterprises in Kosovo and have significant potential growth. This is general agreement about the role that SMEs play in employment. Over the past few years the number of SMEs in Kosovo has increased significantly, moving from 28,000 in 2003 to about 70,000 in 2007. This increase is mainly the result of the high level of entrepreneurial spirit among the citizens of Kosovo and not, as might be thought in general, due to favorable conditions for business.

Even today these enterprises continue to face barriers imposed by the business environment including complex and inefficient regulations, difficulties in access to financial services, inadequate training, insufficient knowledge of the technical and information technology, or other difficulties in selling goods and services in national, regional and international levels. These factors act and damage the image of the business environment in Kosovo.

A large number of these difficulties are inherited from the past, and some are as the result of continued uncertainty prevailing in Kosovo since 1999. Numerous researches conducted by individuals and competent institutions since 2000 have observed annually the considerable difficulties at SMEs as the main barriers to business activities in general. The data show that since 2002 has "Unfair Competition" in taxes, informal economy and other public services which are considered to be the main barrier, whose intensity has remained constant for years.

Entrepreneurs in Kosovo generally consider that the main barriers are those which relate to the external environment, while other barriers associated with the internal environment such as entrepreneurial capacities, human resources, which are considered as secondary or tertiary.

VI. The role and impact of the development of Small and Medium Enterprises in Kosovo's economy revitalizing

Kosovo is currently one of the Balkan countries where the transition to a market economy is linked to the development of the private sector, especially the small and medium enterprises, which play a dominant role in the overall economic reforms being implemented in Kosovo.

The development of Small and Medium Enterprises in Kosovo has made progress without controversial. The economic environment does not always act fair and friendly and conducive to the sector. During all these years after the war, we can say that the SMEs sector has a tendency towards stabilization and smooth action. Many indicators immediately after the war contributed to the achievements of the sector, and are now stabilized to the extent appropriate. Therefore the tendency of entrepreneurs to gain easy and fast gradually are being replaced with substantial positions and realistic expectations based on market developments mainly dominated by the supply and demand. From the early 90s until today SMEs in Kosovo have had a great burst of economic development, even though the birth and development of small and medium-sized enterprises has been developed at inappropriate times, a large number of these companies have managed to survive and realize large profits in general.

Therefore, the strategic importance of small and medium enterprises for Kosovo's economic development can be summarized in the following points:

1. In Kosovo in 1991 had a small number of private enterprises while in 2005 there were about 48 thousand recorded of which 97% are small and micro enterprises. Procedures for registration of these businesses currently are among the easiest, the cheapest and fastest in the Balkan region. This is a significant indicator of dynamic entrepreneurial spirit of the Kosovo population in general.

2. In 98.52% of enterprises employ less than 10 people. For this reason it can be said that the structure of enterprises in Kosovo is mainly characterized by micro enterprises.
3. Currently the sector of Small and Medium enterprises constitutes the largest number of manpower, where SMEs account for 65% of employment in Kosovo.
4. The contribution of small and medium-sized enterprises in creating GDP is determinate where around 80% of GDP is composed of small and medium-sized enterprises.

Despite the importance of Small and Medium Enterprises unfortunately these capabilities are not satisfactory due to:

- ✓ Low capital base of entrepreneur's holders
- ✓ Difficult conditions in the use of loans from banks;
- ✓ Unfair competition in the market;
- ✓ Policy and support of nonstimulusfiscal, and customs from government;
- ✓ Lack of work space and other supporting infrastructure;
- ✓ Lack of implementing legislation and other mechanisms;
- ✓ Frequent lack of electricity;
- ✓ Lack of spatial planning of country and other mechanisms for implementation;
- ✓ The low level of qualifications and advisory, training, and education capacity of business service providers and support network of small and medium-sized enterprises, etc.

VII. Development of Small and Medium Enterprises in Kosovo, the need for a strategy

Kosovo's path towards progress and economic development in general leads to a possible integration into the European Union, is very complicated and challenging since the recovery from the devastation caused by the war of 1998/99.

Development aid provided by various international organizations and other donors in recent years has begun to fall, leaving local government challenge to stabilize and strengthen its economy, capacity building of staff and workforce population, associated with economic development of the country. However, like any country that is in transition, Kosovo's economic development should focus on the development of its private sector (*including privatization of SEs*), with major investments in Small and Medium Enterprises, the creation of investment continuous internal and external, in strong fiscal policy, in structural reforms in governance and other elements of progress in general.

The current political instability (*as a result of various negative phenomena with increasing proportions of corruption and economic crime*), has high impact on the economic development of Kosovo. The high percentage of unemployment in the country with about 40% (*according to labor statistics*), and the poverty of 42.8% (*based on World Bank estimates*), show that Kosovo is characterized by small annual increase that country's economic projections for 2012 -2014 show an average increase in GDP of 5.3%.³This growth is led by the anticipated increase in consumption, exports and total investments.

Growth for 2012 is projected to be 5.0%, fueled mainly by public investment, which in 2012 is expected to grow by 15.1%. The most important contribution to the growth of GDP, within the prescribed period, growth is expected to come from private investment and public investment.

³Budget Book for 2012

Private investments are forecast to grow at an average annual rate of about 8.7%, while stimulating economic growth during the next reporting period.

There is a need for the rapid development of the private sector stronger and more dynamic which is essential for long-term economic development and fast, as a necessary condition for poverty reduction, employment growth and improved welfare of the citizens of the country.

Reviews and Recommendations

Small and medium enterprises in Kosovo are undisputed source of sustainable growth and economic development, and utilization of SMEs provides economic growth and social welfare of the population, it brings sustainable development to achieve socio-economic and political stability of the country. Impact of SMEs in the economy represents real growth of the gross domestic product of a country and the change in production capacity.

Increased investment and the support of the local economy in the sector development of small enterprises and medium enterprises, is another basis of sustainable economic growth. Amendment and completion of basic legislation, create conditions to stimulate foreign investment and removal of administrative barriers, it allows the SMEs to operate easier and contribute to economic development.

Development of SMEs based on the national strategy makes creating favorable legal conditions for international donor investment and immigration, private sector involvement in investment by mitigating forms of public private partnership.

The development of SME sector in the future is expected to affect the creation of new jobs, strengthening small and medium businesses, integrated rural development etc..The postwar period marks the end of a growth process that relied heavily on extensive factors. Currently the economic resources should be based on the role of capital, including human resources, various innovations, information technology and more rapid modernization, market factors which require open and integrated world economy and effective development policies as well as a strong democratic state of law with easy and efficient administration.

Openness market policies, ensuring competition and property rights, the promotion of trade and investment constitute another package of measures that should be taken in the future by government. Offering the European perspective for possible integration into the EU, Kosovo is the strongest catalyst to stimulate the performance of multi-dimensional reforms at the state level but also to promote and consolidate the country's integration initiatives with the EU.

The biggest challenges in the country are the low quality of education, insufficient supply of electricity, lack of investment promotion activities, closing market for investment by foreign donors, unfavorable forms of privatization of property etc..Creating of a development strategy for small and medium enterprises, relying on instruments reviews and available resources, it is more necessary and more essential to use the business spirit of the people of Kosovo.

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