Lund University Master of Science in

International Development and Management

January, 2021

A Leap of Faith and Luck

An empirical investigation how the financial inclusion and coping strategies of Kosovo's SMEs are scaling up the local development

Author: Gresa Berisha

Supervisor: Johan Sandberg

Abstract

SMEs represent the majority of business activity among almost all economies. However, the financial market rarely meets them with appropriate financial products. This study investigates and provides empirical evidence on SMEs' financial inclusion in Kosovo and its impact on the community they operate. The research employs sequential explanatory mixed methods by utilising the World Bank Enterprise Survey metadata and four business case studies, which will be analysed through an analytical framework consisting of Access, Usage, Quality, and Impact as elements.

The findings provide empirical evidence that although accessing financial services and products does not pose a considerable barrier, the quality and affordability of the financial products is generally inconvenient for the SMEs. Moreover, the non-existence of alternative finance instruments directs the SMEs on choosing coping strategies which have them dependent on cash flow or be vulnerable to risk. However, these strategies often turned successful by luck, and consequently had an impact on the environmental and sustainability awareness, livelihoods, social inclusion, and the job quality in their local communities.

Acknowledgments

För mamin, babin dhe Fisnikun.

Përjetësisht falenderuese dy prindërve të mi, mbi sakrificat e të cilëve më është jetësuar ëndrra ime më e madhe.

Wholeheartedly grateful to my parents, whose sacrifices made my dream of pursuing an education abroad come to life.

I want to also express my deepest gratitude to Lund University Global Scholarship board for selecting me as a beneficiary and giving me the opportunity to study in this program. I am thankful for having met the whole LUMID family in this journey. I will cherish forever the moments we shared.

To Endrit, Mary, and Stela, the people I would turn to whenever I would face any academic difficulty - Thank you!

To Delvina, Dardan and their adorable little creatures, Mal and Alp, for providing me a safe haven when I was out of my comfort zone, cooking traditional meals when I was homesick, all the fun weekends of full "godis" and walks in the nature, and for being my closest taste of family when everything familiar was miles away - Thank you!

And finally, I am grateful to all my friends and family members for their moral support and encouragement throughout this journey.

Table of Contents

Abbreviations

BCG	Boston Consulting Group
CSR	Corporate Social Responsibility
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ES	Enterprise Survey
EU	European Union
IFC	International Financial Corporation
KCC	Kosovo Chamber of Commerce
KCGF	Kosovo Credit Guarantee Fund
KfW	KfW Bankengruppe
PPSE	Promoting Private Sector Empowerment
SDGs	Sustainable Development Goals
SMEs	Small and Medium Enterprises
UK	United Kingdom
UN	United Nations
WB	World Bank

List of figures

List of tables

List of appendices

1. Introduction

Financial inclusion has increasingly been embraced as a development strategy at both global and national policy-making, aiming to spur economic activity and alleviate poverty. In the post-2015 discussion of setting the new development agenda, the Addis Ababa Action Agenda has positioned financial inclusion as one of the central themes throughout the action areas for financing development. Hence, recognizing its importance in sustainable development strategies (United Nations, 2015). Prior to that, Maya Convention, a global initiative and the first of its kind with a measurable set of financial commitments, recognized the critical importance this factor can play in the betterment of life quality for all and in particular the poor (Alliance for Financial Inclusion, 2011). Financial inclusion is also given recognition as one of the nine main pillars of the G20 development agenda (G20 Summit, 2010).

However, despite the undertaken initiatives and the fact that financial inclusion is globally on the rise, currently, 1.7 billion of the world's adult remain excluded from the financial system. More than 80% of the new formal bank accounts consist of inactive accounts (The World Bank, 2018). Furthermore, these improvements are uneven across different countries. Although financial inclusion is an issue concerning high-income countries, especially when groups living under vulnerable conditions are considered, it is the low- and middle-income or transitional economies that are the most affected (Kopf, 2018). Both households and businesses in these economies face some constraint in accessing finance and financial services, with the poor, young, and small firms being the most affected. In Kosovo, the geographical focus of this study, the G20 key financial indicators show a figure of 52% of people aged 15+ (below the lower and middle-income countries' average) who own a formal account and only 39% of them made or received a payment over the past year (Global Partnerships for Financial Inclusion, 2017). On the other hand, although the availability of loans is sufficient, high collateral requirements present a major barrier for access to finance. 47.1% of firms in Kosovo identify access to finance as a major constraint (European Investment Bank, 2016).

"Getting poor people to borrow money has become one of the best hopes for alleviating poverty" is stated by Karlan and Appel (2011: 57). However, the case studies presented in their research also show that certain groups facing financing constraints are often reluctant to take loans. Among the factors influencing this behaviour, they noted that loans could often be seen as a challenge to be paid back (*ibid.*) This brings up the point that financial inclusion does not refer to opening a bank account or performing payment services. It is much more about well-designed and inclusive financial products that serve the specific context of different groups of the population. This way, it enables people to accumulate assets and have options of generating additional income or investment through conventional credit services (Biekpe, Cassimon, & Mullineux, 2017).

When people have access to the tools they need to take advantage of economic opportunities, especially in such growing economies as Kosovo, more sustainable models – both politically and socially – emerge. As one of the tools for overall development, financial sector development should be inclusive of all segments of society. Without inclusive financial systems, individuals and firms need to rely on their limited resources to meet their financial needs and pursue economic opportunities. This principle has its target on the global agenda of Sustainable Development Goals (SDGs). Further, financial inclusion is regarded as an enabler for 7 of the 17 Sustainable Development Goals (The World Bank, n.d., a.):

Target 8.3: Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.- (United Nations, n.d.)

Financial inclusion can be a crucial driver of economic growth and poverty alleviation, as access to finance can boost job creation, reduce vulnerability to shocks and increase investments in human capital. In fact, BCG estimates that a 1% increase in financial inclusion, increases real GDP per capita growth by 3.6% (APIS, 2017). In small developing countries such as Kosovo, historically characterized with high youth unemployment and exodus waves in search of peace and wellbeing, it is of utmost importance that the financial system enables people to fulfil their economic potential in their homeland. A sustainable financial system offers opportunities even for the most vulnerable to increase instead of limiting their assets when seeking such opportunities. In Central and Eastern Europe, the most common economic entities, Small and Medium Enterprises (SMEs), have been a source of primary or secondary income for the groups that would otherwise be experiencing harsh impoverishment in specific historical and political developments in this region during the last century (Bateman, 2000). In fact, even beyond this region, a growing research body continues linking SMEs with effects on job creation and poverty reduction. Moreover, this segment of business entities is a vital part of any economy, particularly the developing and transitioning ones, where such business entities make up the largest share of economic activities and GDP.

However, nowadays the SMEs’ importance has evolved from a simple contributor of the economy into a potential channel for investments and funding of sustainable development and SDGs (Biekpe, Cassimon, & Mullineux, 2017). The world is witnessing a new and growing entrepreneurial culture addressing sustainable and equitable growth and harnessing the private sector’s expertise and capital to respond to development challenges. Therefore, it would be interesting to explore such business potentials in the Kosovo context, as we enter the Decade of the Action and the private sector is gaining a more emphasized role in contributing to the SDGs. Just recently, the UN Kosovo Team has signed Memorandums of Understanding with Kosovo Chamber of Commerce and CSR Network Kosovo to align actions with the business partners towards shared prosperity and sustainable growth.

At the centre of such business models are economic, social, environmental sustainability, and other values that can lead to more sustainable business practices. These business models could potentially portray how one can do well and do good (financially) at the same time – not as an add on benefit, but rather an aspect embedded at the core of the business model (The Global Forum on Law, Justice and Development, 2019). Although their social and environmental impact looked at individually does not seem to be large, Lawrence *et al*. (2006) argue how a single economic entity can be engaged in the uptake of sustainability practices in an SME dominated economy.

Bearing in mind the above-mentioned, this research will attempt on answering the following questions:

RQ1 What are the Kosovo SMEs’ patterns of accessing and using financial services and products?

RQ2 How does the financial inclusion of Kosovo SMEs impact the community they operate in?

This chapter will continue providing a background on Kosovo, specifically its financial sector trends and business climate. The following chapter will discuss literature review and the rationale of this research, moving into the analytical framework and conceptual standpoints, methodology, analysis, and lastly the conclusions.

1.1 Background on Kosovo

Kosovo is a landlocked country of 1.8 million people. Its economy is classified as a upper-middle income one and with a GDP growth of roughly 4%. (The World Bank, n.d., b). Kosovo's population is among the youngest in Europe, with 53% being under 25 years old (Politico, 2018) and an average age of 26 (The World Bank, 2017, a). Thus, Kosovo does not face fiscal and economic pressures unlike many European countries facing an aging population problem. If presented with opportunities to be well-trained into modern economic sectors or given the tools to seek their economic potential, the young population could serve as an comparative advantage to boost productivity or accelerate economic growth (*ibid.*). However, so far, this potential has not been fully utilised as the unemployment rate is 25.7% while the inactivity rate is at alarming figures of 59.5% (Kosovo Agency of Statistics, 2020). Further, the changing demographics with recent migrations, which offers the young and well-educated opportunities for a better life, have harmed the quality of the labour force.

After the liberation, the building up of the economy was highly influenced and dependent on foreign aid and agenda. To the day, EU remains the largest donor and driver of reforms. This is further pronounced considering the political instability and the lack of long-term structural changes from the Kosovo government.

1.1.1 Financial sector trends

Kosovo is characterised with a typical traditional financial system, dominated by the commercial banks and with the Central Bank of Kosovo acting as a regulator. While large businesses have more opportunities at acquiring credit or accessing capital markets and on the other hand households have access to personal and smaller loans, SME typically are underserved by the financial institutions, creating a gap referred as “the missing middle” (The World Bank, 2017, b). To boost lending to businesses, especially the SMEs, a more comprehensive range of financing instruments is needed. However, the use of alternative finance in Kosovo is almost non-existent, as not much evidence can be found on impact investing, impact bonds (social, development, or green bonds), equity-based crowdfunding, forecast-based financial mechanism, debt-for-nature swaps, and others. On the global arena, these instruments are presenting opportunities that could be leveraged for SMEs and SDG financing in general. Nonetheless, beyond the loans that the banks offer, few limited financing options are provided through programs of the World Bank, IFC, EBRD, EU and other relevant international institutions and focusing on SMEs' competitiveness, co-financing and similar.

The financial sector, on the other hand, is healthy and profitable. Kosovo's commercial banks have the lowest rate of non-performing loans[1] in the region with 6% (Riinvest, 2017). In the war aftermath, the interest rates were remarkably high as they would reflect the risk and the uncertainty of the situation. Even when interest rates started to fall, the banks would not take extended risks on financing businesses or not provide customised financial products. Hence they ended up with unused resources. Indeed, the banks' credit portfolio could use more diversification as credit penetration remains low in specific sectors, such as SMEs and agriculture, even though increases have been noticed on growth credit over the years. This in fact was the motivation behind the establishment of the Kosovo Credit Guarantee Fund (KCGF) in 2016, an independent institution that issues loan guarantees to financial institutions to increase SME lending (KCGF, 2016).

Kosovo has a developed insurance sector as well. However, limited risk-mitigating options are mostly available for economic activities other than agriculture. In 2016, IFC initiated a new project on agricultural finance with the support of the Kosovo government. Nevertheless, such actions were delayed due to the political situation regarding the new Law's approval on Rural Development. Afterwards, German KfW started planning to work with KCGF on agriculture insurance, as they already had an established partnership on the provision of agricultural loans through a "Agro Window" project (KCGF, 2019). As it can be noted, the political instability impedes the Kosovo government to undergo reforms in reducing structural bottlenecks in lending or borrowing, mitigating risk, or conducting business. Instead, the development paths exhibit a dependency on international organisations' agenda.

1.1.2 Business Climate

SMEs comprise the majority of Kosovo economic activity. Private businesses, many of whom already face a range of short-term incentives, hesitate to commit funds to long-term investment projects. The private sector could play a significant role in the country's economic growth and other development issues, but the country needs a business environment that allows them to grow and expand their output, employment, and exports. Recent policy measures have not

[1] Loans that are not paid back.

effectively addressed corruption practices that hamper investments and the needs to support value chain development, innovation, and entrepreneurship.

The United Nation Kosovo team has signed Memorandums of Understanding with Kosovo Corporate Social Responsibility Network and Kosovo Chamber of Commerce, aiming to partner with the private sector on sustainability and development issues. Such actions give recognition to the private sector as a critical stakeholder in economic development, job creation, provision of goods and income, and other services to enhance people's lives and help them escape poverty. A critical private sector engagement is a means to realise development objectives, rather than a goal in itself. Over the years, IFC measurement systems show that their projects of reaching the private sector have resulted in positive returns to the economy, environmental and social performance, and private sector development (International Finance Corporation, 2020). Recently in Kosovo, the business environment has seen a few new co-funding mechanisms aiming to boost the private sector's sustainable growth through scaling up investment. Worth mentioning are the mechanisms where youth can test innovative ideas in the sectors that Promoting Private Sector Empowerment (PPSE) focuses on and Social Inclusion Fund mainly targeting the minority communities.

2. Literature review

Considering the importance of financial inclusion in the development agenda, early literature has attempted to understand why a large portion of the world's population could not access even the most basic financial service. The vast array of causes that have been studied and identified as problematic best portray the multidimensional nature of financial inclusion. The World Bank lists the dominance of both state and private financial institutions, which either operate with distorted incentives or cannot include the positive externalities[2] that financial services would provide the society over time (The World Bank, 2013; The World Bank, 2014). Others have argued that this excessive caution on offering financial products or receiving them is also a result of information asymmetry that the financial system is characterized by (Lusardi & Mitchell, 2014; Jappelli & Pagano, 2002).

Although the most common literature findings in this topic expand on the computation of a comprehensive financial index or the financial depth typically measured by private sector credit

[2] The consumption or production of a good that causes a benefit for the third party.

to GDP (reviewed in Beck, Demirguc-Kunt & Levine, 2007; Claessens & Perrotti, 2007), raises the debate of the dangers of simplifying the complexity of such topics. Hence, a strand of research has focused on exploring the multidimensional nature of financial inclusion (Dabla-Norris *et al*., 2015; Han & Melecky, 2013; Mehrotra & Yetman, 2015; Sahay *et al*., 2015) and showing its benefits on reduction in inequality reduction and poverty alleviation (Beck, Demirgüç-Kunt, & Levine, 2007).

Research in regards to Kosovo, however, is limited. The majority of existing financial inclusion data are provided through surveys and reports published such as G20 Financial Indicators, Global Findex, Enterprise Survey and World Bank Development Indicators. Another EIB Report (2016) expands on assessing the financing needs of SMEs Kosovo, while a couple of other studies on the financial barriers to SME growth (Krasniqi, 2004) and the determinant of SME investment to (Krasniqi, 2005).

2.1 Research rationale

Considering the research on financial inclusion is either too theoretical or report-based (of quantitative-only nature), there is a lack of cross-country empirical studies looking at financial inclusion as a multidimensional issue. Regarding Kosovo in particular, the existing data are mainly published by World Bank Group institutions or similar international organisations, and needless to say, those quantitative findings are not contextualised and do not attempt to understand the underlying causes or relations behind such results. The existing research papers are rare, outdated, or not published from credible academic institutions. However, to my knowledge, even the existing ones rarely treat the issue of financial inclusion from the perspective of SMEs.

Further, the void in mixed methods research in Eastern Europe presents an opportunity for this study. According to Krpec *et al*. (2017), this void is created due to a high level of path dependency of younger academics following the mainstream approaches in their disciplines, as well as the high levels of inbreeding (hiring new staff within the institution), meaning the same people staying at faculties for decades. Paradoxically, the mixed methods which excel in studying left-out groups, in such circumstances could divide the local academia from the "Western" counterpart if they would fail to catch up methodological advancements (*ibid.*).

3. Analytical Framework and Conceptual Standpoints

3.1 Analytical Framework

This research's analytical framework was highly influenced by a recent IMF working paper on Financial Landscape in the Asia-Pacific Region (Jahan *et al.*, 2019). The framework puts together the dimensions of financial development and financial inclusion as defined by the World Bank to provide a holistic picture of the financial inclusion heterogeneity, both in inter-country and intra-country levels. Further, the paper emphasizes the importance of a holistic approach calibrated to the specific country to achieve greater financial inclusion (*ibid.*). Hence the framework presents financial development and financial inclusion in one scheme (Figure 1). Financial development is linked with several concepts, but the most commonly used are depth, access, efficiency, and stability. On the other hand, although often used interchangeably and share similarities, financial inclusion consists of other measuring dimensions such as access to financial services, usage of those services, the quality of the financial products and services. Since a vast number of studies highlight the importance and the spill over effects of financial inclusion, the framework added another dimension of impact on firms/households. These concepts, as the figure below showcases, are often complementary and challenging to distinguish between each other.

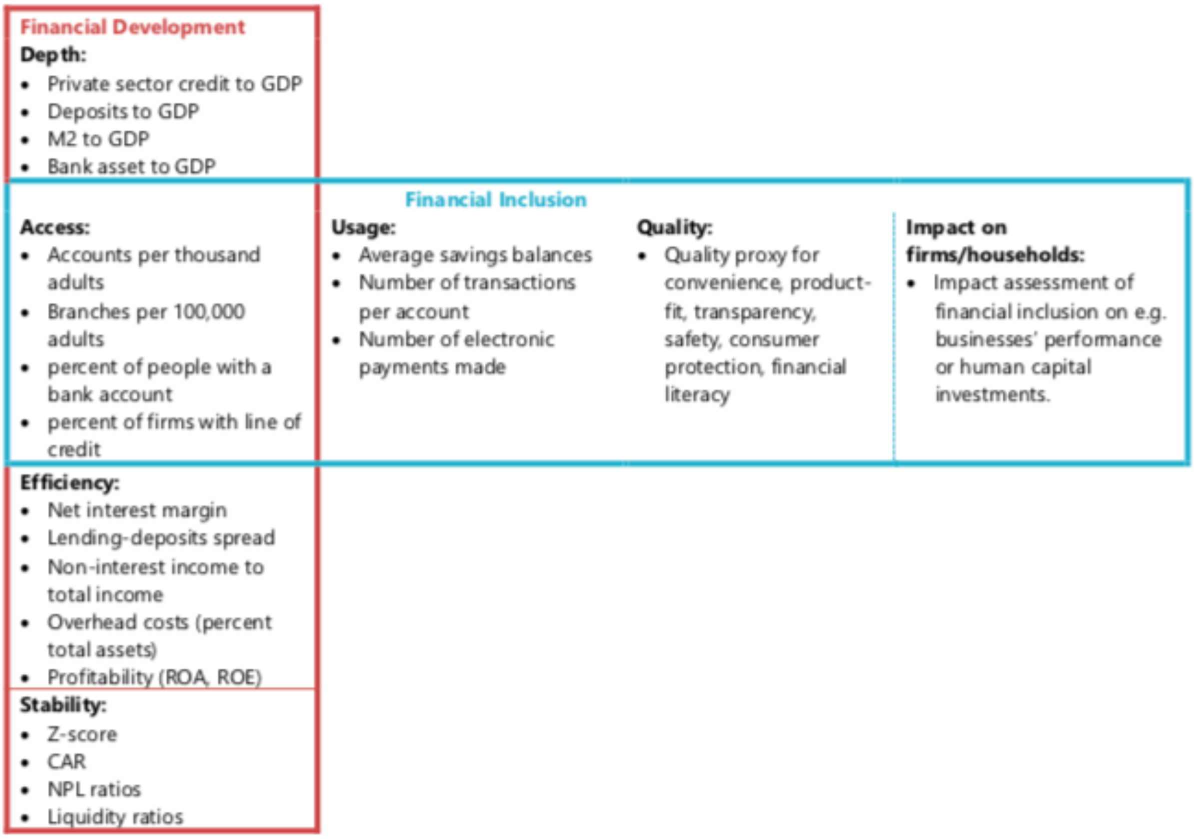

Figure 1. Financial Inclusion and Financial Development (Source: Jahan et al., 2019)

However, as it can be seen above, the included components measure outcomes collected mainly from the supply side[3] of the financial market. This study will focus only on financial inclusion and modify the framework to analyse the components from the standpoint of the demand side, specifically SMEs' perspective. Earlier studies would usually measure financial inclusion through the supply-side indicators such as ATMs, bank branches, the number of deposits, and loan accounts (Aslan *et al.*, 2017). However, the latest research is increasingly paying more attention to treating both financial inclusion and financial access as a broader concept (Beck and Demirguc-Kunt, 2007). Therefore, this study takes inspiration on these new developments and modifies the framework into elements applicable to the SMEs perspective. The modified framework (Figure 2) will investigate the Access through the account ownership or line of credit; the Usage through the rates of savings, loans, and transactions; the Quality through the convenience of the product or the product-fit and financial literacy; and lastly, the Impact on the community through the spill over effects in the environmental and sustainability awareness, livelihoods, social inclusion, and job quality.

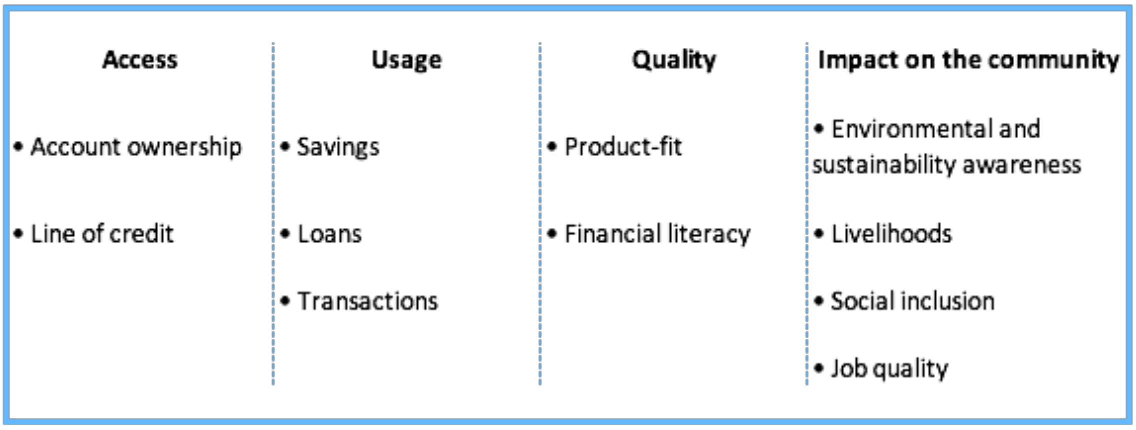

Figure 2. Modified Analytical Framework for the Financial Inclusion (Source: Author)

3.2 Conceptual Standpoints

3.2.1 SMEs and development

Different institutions define SMEs based on various criteria. In Kosovo, enterprises' classification is based on the employment size: Micro < 10 employees, Small < 50 employees, Medium < 250. This classification is also defined by the law on foreign investment (OECD,

[3] The financial institutions.

2019). For simplification, this study will not separate micro enterprises but rather account them within the term SME.

An increasing body of research focuses on the importance of SMEs' financial inclusion, and this issue has also risen onto the global agenda. Many countries have empirical research as benefits of such financial inclusion have been noted in the macroeconomic level, specifically on growth-enhancing and poverty reduction (Jahan *et al*., 2019). The benefits scale up when socially-minded businesses pioneer and inclusive and sustainable model, which later is replicated.

3.2.2 Financial access, inclusion, and resilience

The terms financial access and financial inclusion are often used interchangeably in various articles and publications, consequently creating confusion for the readers. The usage of financial access as a key concept throughout this paper is based on the World Bank's definition: the ability to have a transition account, allowing people to store, send and receive money. This is the first step towards financial inclusion (The World Bank, n.d., a).

On the other hand, financial inclusion typically refers to expanding access and usage of financial services, primarily through groups of the population that have faced some constraint on doing so (Jahan *et al*., 2019; IMF 2015). The World Bank definitions refer to access to useful and affordable financial products and financial services, such as transactions, payments, savings, credit, and insurance. The next steps on policy objectives regarding financial development, especially for the countries where a larger group of the population have accounts, is to move from accessing an account to account usage (The World Bank, n.d., a).

For businesses, of utmost importance are also the financial products such insurance or risk-pooling options, which reduce the need for excessive precautionary saving and help mitigate the potentially disastrous situations such as extreme climate events and health incidents (Jahan *et al*., 2019). When businesses turn to using their savings as a coping strategy of securing financing for their economic activity, their financial resilience toward shocks becomes fragile as their risk mitigation strategy will be almost non-existent (Lean & Tucker, 2001).

3.2.3 Information asymmetry and financial literacy

Many studies have examined and argued that one reason why SMEs find themselves in a disadvantaged position in the financial market is also due to information asymmetry (Lean &

Tucker, 2001). When the lender does not have all the necessary information on the borrower, the risk they take reflects on the quality of the financial product they offer. However, information asymmetry can be faced by the SME on their attempts of securing financing. The problem in such cases lies with the inability to prove the quality of the investment project. Further, Lean and Tucker (2001) argue that while SMEs are specialists in some other areas, they might lack financial sophistication, concluding that the information asymmetry problem is related to communication and credibility issues. This financial sophistication can often be found through literature as "financial literacy", which includes the ability and knowledge to manage financial resources effectively or understand the financial products.

4. Methodological note

This chapter covers the epistemological and ontological underpinning this research unfolds onto, the research design, followed by the methods employed for data collection, sampling strategy, and the analysis of data. Alongside these, it also reserves a section expanding on the ethical considerations, specifically on the reflexivity and positionality, and concluding with the limitations.

4.1 Epistemological and ontological considerations

Although mixed methods are the cornerstone of this research, it is essential to explain how the latter fits into the bigger picture of epistemological and ontological standpoints. Despite the fact that the raw data-set plays a major role in understanding the current situation through descriptive statistics, it has first and foremost served as a mechanism to build upon the semi-structured interviews. Therefore, this study has its linkage to the interpretive paradigm, relying on the subjective experiences of the individuals and how they construct the meaning based on their experiences and interpretations (Rebolj, 2013).

Knowledge and the creation of reality are considered in this research as socially constructed by falling under the paradigm of social constructivism. How individuals view and create meaning of their world based on life experiences, societal and cultural expectations, rules and norms stems from social constructivism (Berger & Luckman, 1966).

4.2 Research design

In its initial phase of proposal, this study was intended to investigate upcoming aspects of development and alternative finance in the Kosovo contexts, with impact investing or blended finance grasping the interest as more specific topics within this field. However, upon the preliminary review of the existing studies and the screening of potential data sources, it became apparent that the lack of research and the scarcity of data poses the necessity for this research to be rethought. Either way, these two aspects are relatively new in the global arena as well, and more time is needed to gather evidence and form a well-informed debate on the issues. Instead, it was later decided that this research would scrutinize the importance of SMEs financial inclusion in the upscaling of local development that sets the base for alternative finance debate to take place on. Hence, it can be said that the literature review was used to sharpen the topic and develop more insightful questions for the data collection process, which in turn also influenced the research design. As the subject was reshaped and narrowed down, the strategy of designing the research plan began as a puzzle-solving with evidence - looking what data was available or could be collected in a way that they would provide a comprehensive understanding of the issue, by either corroborating or contradicting one another in the findings, but lay out a nuanced analysis. It should be noted that once the design was set, it did not hold an adaptive posture when the fieldwork began.

When a substantial literature review in the early phases positively influences establishing the rationale and even the questions themselves, it informs the researcher about the potential research designs pertinent to their inquiry. These are elements of mixed-method research that are most likely forming to be sequential and begin with quantitative data (Creswell & Creswell, 2018). Further, finding a void in the review also led to assessing that a set of data alone would not cover the issue's complexity or provide enough knowledge. Considering the above-mentioned, a combination of the explanatory sequential mixed methods and case study research were adopted as methodological choices for this empirical research in order to answer the questions optimally to capture the complexity of the reality.

Mixed methods are receiving rising recognition in social science research, based on the frequency trends and the publications focusing on these methods (Yin, 2014), as different methods are equally attractive because their distinctive advantages are often complementary. Undoubtedly, in similar contexts as of this study when scarcity of data and research is noted, the methods combined to yield additional insight are far more valuable than quantitative or qualitative methods alone (Creswell 2018; Bryman 2016; Yin 2014). However, the critique of being a burden for researchers to conduct mixed methods (Creswell, 2018) is important to understand if mixed methods research adds any value to the study as compared with a purely quantitative or purely qualitative study.

Reports cover different variables relevant to financial inclusion, but not any that deals with nearly all elements for a more extensive in-depth analysis of the problem. In this endeavour, while the quantitative methods would help understand a more generalized situation, the qualitative case studies would be needed to examine the underlying processes that would explain the quantitative findings from the SMEs perspective. As Stake points out "qualitative case-study research is best applied to research topics where the units of interest to the researcher are best understood in relation to the wider range of processes going on around them" (Stake, 1995 as cited in David, 2013:3). Although the WB Enterprise Survey is the main metadata set used for quantitative analysis, other relevant secondary quantitative data from various reports mentioned in the literature review will be occasionally introduced within the research for further adding to the picture when information in the survey is lacking. In this regard, it should be worth noting this study drops the term triangulation as suggested by the Journal of Mixed Methods Research (Fetters & Molina-Azorin, 2017). Both terms have been interchangeably used for "diverse testing", causing concerns among mixed methods research about disinvesting in the terminology. This mixed-methods study excels at admixing and hybridizing insights derived from diverse methods. This opposed to triangulation that strengthens the validity of data or the same concept through the use of other sources, especially in qualitative research when the researcher is close to the subject they are studying. Hence, the additional quantitative findings from other reports will be part of a more prosperous and more robust array of evidence such as interviews, observations that this study utilizes to address the questions better.

Furthermore, gaps in the social research of post-transitional societies that have experienced unique and serious problems have been reported by the MMIRA reports. Krpec *et al*. (2017) argue that the Central and Eastern Europe region is largely ignored by the mainstream "Western" research and therefore looking at their challenges through mixed methods lens could increase the quality of analyses whether it is for decision making or cultivating a public debate. The region presents an ideal opportunity to contribute to the attempts of catching up with the methodological advances in academia.

4.3 Data collection

The process of data collection expanded over the period of December 2019 until the beginning of February 2020. Firstly, the existing quantitative data sets from credible sources and other relevant documents were identified and reviewed for statistical interpretation. Onwards, the qualitative data were gathered from the interviews with businesses and other informants, whose patterns would continue to build on the quantitative findings in more detail. The businesses selected would serve as case studies which as a strategy has a number of attractive features, fully in line with the aim and research questions of this study. The utilization of qualitative case studies is a well-established approach in investigating complex phenomena where the researcher is seeking for an in-depth and holistic investigation through a "real-world" perspective and context (Yin, 2018). Another advantage of case-study strategy is its ability to rely on and deal with multiple sources of evidence such as documents, artefacts, interviews, observations, etc. (Yin, 2018). As mentioned above in this chapter, in this multiple sources such as interviews, observations, meta-data have been utilized to investigate the topic in different angles. In this way, the study would be able to both generalize the findings as well as develop a detailed view of contextual conditions pertinent to Kosovo's SME, thus making the findings analytic rather than statistical.

A data collection protocol was compiled for guidance on more effective fieldwork. This came as a result of posing caution towards one of the critiques for case studies that there is often an absence of well-documented procedures. This instrument helped address any procedural uncertainties or keep track of the data that would be missing (Yin, 2014). The protocol contained an overview of the study, data collection operational procedures, questions, with an empty table shell by Miles and Huberman (as reviewed in Yin, 2014), the guide for case study report, which enticed thinking about the outline of the study and how the information would be structured at later stages of analysis or even written up.

4.3.1 Quantitative data: the site, sampling and analysis

The raw metadata from the WB Enterprise Survey is the basis of the quantitative analysis. This firm-level survey covers small, medium and large companies across all seven regions of Kosovo[4] and serves as a representative sample of the private sector (The World Bank,

[4] Gjakova, Peja, Prizrenit, Gjilan, Mitrovica, Prishtina and Ferizaj. ES indicators are also calculated with regions combined for precision as Western Kosovo (comprising Gjakova, Peja and Prizren) and Eastern Kosovo (comprising Mitrovica, Prishtina, Gjilan and Ferizaj).

2019). The latest survey was conducted between December 2018 and October 2019 within a joint project of WB with EBRD and EIB. In attempts of creating strategic goals for sustainable growth and better investment climate, the World Bank Group has promoted the improvement in the business environment as a key development strategy; therefore this survey aims to gain an understanding of private sector experiences. The enterprises were selected using stratified samples and the size stratification in Kosovo context is defined as follows: small (5-9 employees), medium (20-99 employees) and large (100 or more employees).

From the total 271 enterprises included in the survey, a new cluster was created containing only the SMEs and resulting in 250 enterprises, as these are the focus of the study. Thereafter, the data were analysed through SPSS software with the intent of creating descriptive statistics and establishing patterns on the use of financial products and services. Descriptive statistics are essential in better presenting raw data that could be hard to visualize and enables the researcher to present the data in a more meaningful way, which then allows a simpler interpretation of the data (Sirkin, 2006).

The secondary quantitative data reviewed at the literature review section and explained in the research design part were used as additional information to contribute to a holistic picture. Those data are provided through reports from the World Bank Development Indicator, G20 Financial Inclusion Indicators, the Agency of Statistics in Kosovo, and other reports.

4.2.2 Qualitative data: the site, sampling, and analysis

Kosovo is a small country of just under 11 thousand km², meaning one can go from one extreme geographical point to the other within somewhat three hours of drive. Although the challenges the businesses face would differ from one smaller city to a bigger one, they still would not be exponentially different considering the business doing, and connections between the regions are highly intertwined. However, due to the internship stationing in the capital city, Prishtina, the businesses that were interviewed were situated mainly in the Eastern side of Kosovo.

When it comes to the selection of respondents, Hammett *et al*. (2014) argue about the importance of having a gatekeeper and their reputation as it would impact the links they provide as well as how I am perceived (*ibid.*). The person that initially was identified as a potential gatekeeper and had agreed on facilitating the research, unfortunately, was unable to fulfil their role due to unexpected circumstances with their job responsibilities. Luckily enough, since the research was being conducted in my own country, other connections could be utilized as informants by suggesting the first businesses that could be interviewed for more in-depth study. Therefore a nonprobability sampling such as "snowball-strategy" was employed in the process of selecting and getting access to the subjects of this study. Snowball sampling is primarily used among those studies in which the researcher is interested in investigating "various classes of deviance, sensitive topics, or difficult-to-reach populations" (Lee, 1933 as cited in Berg & Lune, 2012:52). Thus, the respondents from the initial businesses themselves suggested other business contact or further documents look upon. Cognizant of this dynamic, it was already a necessity for a case study database to be created, not just to maintain a chain of evidence as it is mentioned as a principle of data collection, but also keep track of gaps in the data collected and maintain critical thinking of where the research is heading. The sample resulted with a total of four businesses as case studies, specifically with seven people interviewed that either owned or managed these businesses. Additionally, six formal informants from business network, financial sector and international organisations, as well as a considerable number of informal informants I met during internship and fieldwork contributed with their inputs.

The in-depth interviews were conducted in a semi-structured format, allowing more conversational flow. Semi- structured interviews are contemplated as flexible and fluid tools by giving the researcher the opportunity to having include both predefined thematic and questions but also develop unexpected themes and follow-up questions along the interview (Mason, 2018). A semi-structured interview was a great advantage in gaining insights into a topic that is equally broad, new and generates unique experiences. The selected businesses were from different stages of growth and size 2-60 employees, with the aim to understand different challenges they went through and strategies they have used to overcome them. The line of questioning included few close-ended questions that could be matched with the few key points of the WB Enterprise Survey, but nonetheless, the majority of questions were in open-ended style (See Appendix A: Interview Guideline). The information was told by the entrepreneurs in a narrative chronology of how they started and challenges to get where they are. The interview was divided into two thematic sections: how it takes more than good intentions - discussing the challenges of bringing to life their business idea, and doing good by doing well - exploring the role they played in the community.

As the interviews would take a few hours, the location and timing were chosen by the respondents in accordance with their schedule. Mostly, the interviews took place in a setting where they perform their economic activity and feel comfortable or in close proximity. Consequently, this left room for making keen observations on their relationships within the community, with customers, how transactions are made, thus enriching the array of evidence beyond the aural modality. Saldana (2012), in fact, argues how such observation and pilot interviews, if possible, play an important role in providing a more relevant set of codes than any desk work or published research.

As the interviews were all conducted in Albanian, my native language, it affected the confidence that more original information is captured. The talks were then selectively transcribed , translated and adapted to be prepared for the analysis based on what Ochs (1979) highlights as "a selective process reflecting theoretical goals and definitions". Before the stage of proper analysis, quick manual coding was done to identify the main topic. The last step involved more detailed coding in NVivo. The process concluded with established patterns which were to be combined with the quantitative data for a thorough analysis[5].

4.3 Ethical considerations

This research was rigorously based on ethical principles such as anonymity, confidentiality and informed consent throughout the entire process of both gathering and analysing data (Mason, 2018). All respondents were given an overview of what the research aims to study, the questions divided into thematic sections that would guide the interviews, as well as the letter of consent (See Appendix B: Letter of Consent). The respondents were also informed in regards to the option of remaining anonymous or not being recorded. Only one of the informants that is a professional of the banking sector chose to remain anonymous, although their insights only contributed to the interpretation of a few aspects linked to financial products.

4.3.1 Positionality as a national

Researching one's own country requires extra attention to neutrality for the researcher. The idea of setting off for fieldwork with a tabula rasa mind (Funder, 2005) is challenging as I had experienced this context first-hand. Acknowledging this early on allowed me to plan for the study to be as less biased as possible (Hammett *et al.,* 2014). The questions were reviewed and edited time after time, in a form that they would not transmit any assumptions I could have

[5] Businesses of the quantitative dataset of WB Enterprise survey will be referred to as "surveyed businesses", whereas the businesses interviewed for qualitative case studies will be referred to as "interviewed businesses" or "interviewee" for the individual interviewed. "Respondents" generally includes both interviewed businesses and other informants during qualitative inquiry.

created before this investigation. Additionally, attention was paid to the way questions are addressed, attempting to not use “why” as it would create defensiveness on the informant's part. The first interview made me spot my weaknesses and pay more attention to the next one, by refining the questions and adjusting them to the new interesting topics coming up.

As the research culture is not as widely spread, I was often met with hesitation from the respondents when talking especially about their partners in doing business. In one particular case, one respondent expressed their concern about me being sent by specific competitors, and this would cause particular harm. Undoubtedly, this would be averted at some degree if I would approach them through the planned gatekeeper. As a strategy, I started explaining my academic journey and intention and how I ended up working on this independently. Once they were presented with contact information to my mentor and my department to confirm the study's purpose, it could be sensed that they were gradually putting trust in the inquiry.
Another issue that has been opening up about financial matters of their business journey to me as a local, someone that could still be around to know their "business", I would still be around.

Considering the interviews would be long, explaining their hardships, and held in our language, it was easy to feel a connection or even friendliness. I often had to pull back and remind myself to retain into a neutral position and resist the head-nodding confirming that I wanted a particular answer from them. One trick I found beneficial was putting a memo note on my notebook and have it visible any time during note-taking to be reminded.

4.3.2 Reflexivity

Conducting an interview that holds a conversational nature to capture the respondent’s sense of reality is often accompanied with the threat of reflexivity (Yin, 2014) when the researcher’s perspective unknowingly can influence the answer and in turn the proceeding line of inquiry. In combination with the conversation culture mentioned in the upper section, this would give an undesirable colouring of the interview. To minimize all the possible implications throughout the entire research process, as a researcher, I have actively integrated reflexivity as a mechanism to reflect on how my personal stances and background could influence the produced knowledge and data (Guillemin & Gillam, 2004). Mason (2018: 191) reinforces this by stating that "reflexive reading will locate the researcher and their interaction with participants as part of the data generated, and will seek to explore the researchers' role and perspective in the process of generation and interpretation of data".

4.4 Limitations

This research includes only a limited number of SMEs and other key informants or stakeholders situated on Kosovo's Eastern side due to time constraint. Even though Kosovo is a small country, it would be ideal for interviewing a larger sample of businesses of a wider geographical variety. Although this study's main idea is not generalization but rather closer insight on the challenges SMEs face, the implications could be affected by this at some degree. Selecting these particular four cases certainly affects the outcome of the study to a great extent. The selection of other cases could lead to distinct background and experiences of the subjects and ultimately to an entirely different outcome. Additionally, the study does not include any entrepreneur's perspective from the minority, which based on disadvantages they have on other socio-economic aspects, may face further business and financial constraints to the SMEs similar to the ones already included in the research.

Lastly, the most pronounced limitation could be that the survey includes different businesses from the ones interviewed for the qualitative part. Although, considering the businesses could not recall what surveys they had participated in, few of the questions addressed were purposeful to match the survey's key points and create a standardized analysis. Nonetheless, if a larger sample of qualitative and quantitative data collected purposefully for this study's aims would be more satisfactory and with a smaller margin of error on the implications.

5. Analysis

This chapter is divided into two sections to understand the SMEs' financial inclusion in Kosovo, their financial coping strategies and its importance for scaling-up the local development.

The first section will seek to provide an overview of SMEs' financial inclusion through the patterns of access, usage, and quality as set by the analytical framework presented earlier. As the data specifically for SMEs is scarce, this section will occasionally harness other available data that provide a general screening for the Kosovo population and further complement the main data sets' results. This allows identifying the gaps and opportunities within the discussed aspects.

Following that, the last section intends to continue the investigation beyond the numbers and provide narratives from the qualitative business case studies in attempts to answer the second research question. Respectively, it will expand on the remaining component of the analytical framework, their financial inclusion or resilience strategies, and the local development. Thus, the analysis concludes with the distinctive piece of this study that aims to fill the research void by providing empirical evidence on how SMEs can be leveraged for a bottom-up local development approach. The other conceptual standpoints will be employed throughout the analysis as the nature of this issue is multidimensional and interlinked.

5.2 Patterns of accessing and using financial services and products

This section attempts to answer the first research questions using the conceptual standpoints and the first three components of the analytical framework: access, usage, quality. It should be noted that the elements pertaining to each subsection are based on the SMEs' perspective, the demand side of the financial market, and excluding those of the supply side.

5.2.1 Access

Expanding access to financial services is a critical aspect of the financial inclusion agenda, both for the population in general and SMEs in particular. Prior to investigating the ways SMEs use financial services for their economic activities or the quality of the products offered, it is crucial to overview the state of financial access from the demand side of the financial market and how this affects them on doing business. Such patterns would better understand who remains unbanked and the opportunities that could close the gaps. Regarding account ownership, the Enterprise Survey findings show an overwhelming 94.8 percent of the SMEs' checking and/or savings account at a financial institution (Figure 3). The qualitative interviews with SMEs also support these findings since all the interviewed businesses had accounts in at least one formal financial institution.

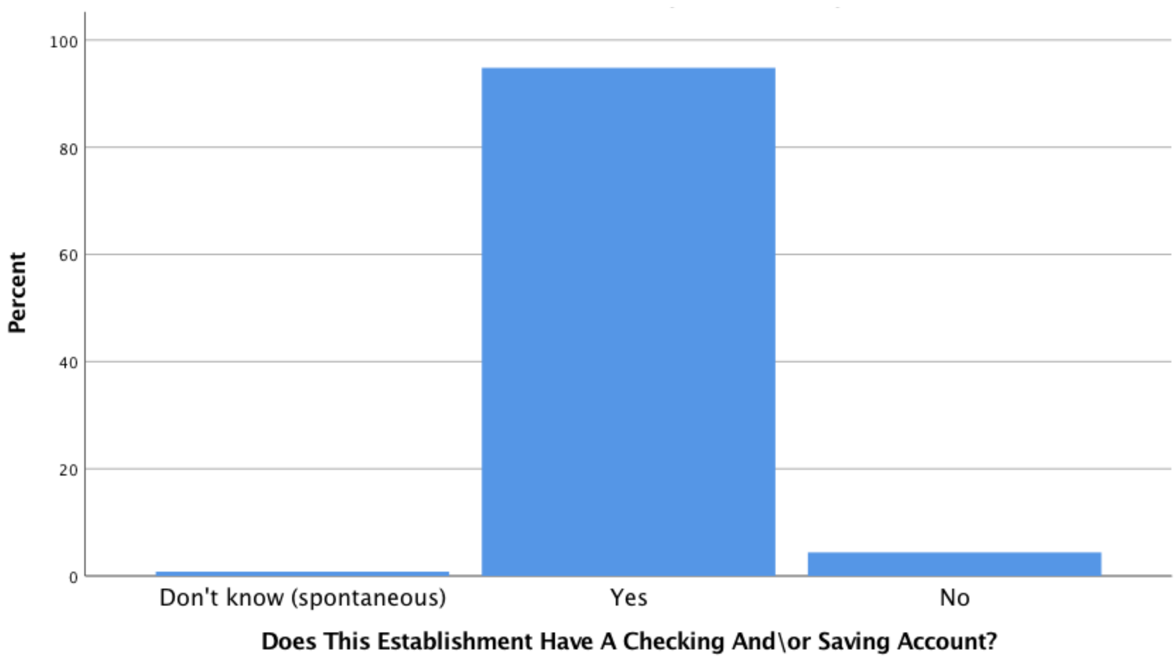

Figure 3. Checking and/or Saving Account

However, the Enterprise Survey ranks access to finance as the third most common obstacle Kosovo businesses face. Specifically, 74.4% of them regard access to finance as an obstacle to some extent, making it the highest in the region (Table 1). After scrutinising the survey questions and the answers provided, it is left to be understood that the surveyed businesses when referring to 'access to finance' imply acquiring financing rather than accessing the financial institutions or services. This study distinguishes the 'financial access' and 'financial inclusion' as explained previously.

As more detailed data on account ownership between groups of SMEs with differences on the owner's age, gender or income are not available, the G20 financial indicators for the general Kosovo population could be utilised to understand which groups are lagging. According to those, the most underbanked population groups are females, the poorest 40%, and young adults between 15 and 34 (Table 2). The same groups almost always comprise the underbanked portion in other developing countries (Global Partnerships for Financial Inclusion, 2017).

Table 1: How Much of An Obstacle: Access To Finance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Don't know (spontaneous)	42	16.8	16.8	16.8
	Does not apply	2	.8	.8	17.6
	No obstacle	20	8.0	8.0	25.6
	Minor obstacle	27	10.8	10.8	36.4
	Moderate obstacle	67	26.8	26.8	63.2
	Major obstacle	81	32.4	32.4	95.6
	Very severe obstacle	11	4.4	4.4	100.0
	Total	250	100.0	100.0	

Table 2: Account Ownership and Active Accounts

Group of population	Account	Active account
% of population age 15+	52.27%	43.77%
% of population age 60+	78.08%	67.90%
% of population ages 15-34	44.03%	36.77%
% of population ages 35-59	52.75%	43.42%
Female (% age 15+)	43.72%	33.42%
Male (% age 15+)	61.15%	54.51%
Income, Poorest 40% (% age 15+)	44.33%	34.80%
Income, Richest 60% (% age 15+)	57.56%	49.74%

Source: Global Partnerships for Financial Inclusion (2017)

During the qualitative inquiry, business working farmers as partners in rural areas of Western Kosovo explained that owning formal financial accounts was not a usual occurrence amongst their partners. Thus the transactions would be made entirely in cash (RE01) Other businesses also confirmed when their employees started out working with them, quite often they were opening bank accounts for the first time as required for the salaries handout (RE06). These

examples portray that while SMEs themselves have formal accounts, financial access impediments throughout the supply chain affect their business.
Further, the Labour Force Survey from Kosovo Agency of Statistic (2019) presents possible explanations of what could potentially influence these results and why certain groups remain unbanked. Around 21.1 percent are self-employed, and it is common for these groups of people to not have any motivation for owning an account, considering they will not be provided with a salary from an employer, or at least there will not be much needed for an active account since money would be handled personally.

Another important finding from the Enterprise Survey shows that most SMEs are either owned by the same family or managed by it (See Appendix C: Ownership and Management of Establishment). Because they are not often bound by contracts as usual and share the losses and profits, the money often circulates between them without a financial intermediary's need. Two of the interviewed businesses stated that they are co-owners with their partners; others had family included in the management. The implications of the Labour Force Survey (Kosovo Agency of Statistics, 2019) can also be utilized here. As that survey finds it, a considerable portion of 18.8 percent of people in Kosovo is employed in unstable jobs either as self-employed (in addition to stable self-employment mentioned above) or work without pay in family business providing a further explanation as to why account ownership rate could be low amongst these groups.
Additionally, these statistics show that the highest unemployment rates are among females with 34.4 percent (compared to their counterparts with 22.6 percent) and young adults aged 15-24 with 49.4 percent (*ibid.*). The results could further be aggravated if the high informality employment rates are taken into account, as this type of economic activity circumvents transactions through formal institutions. The World Bank Development Indicators (2017) show that another highly unbanked group are people with primary education or less, and they are also the most likely group to be informal workers. However, the Kosovo government is yet to set a proper tracking system that measures the informal employment rates.

But why is it important to contextualize financial access or account ownership among groups of the population when the study subjects are SMEs? For the simple fact that these figures exemplify how certain groups of populations do not have accounts because they do not have enough to save or to even circulate through a formal and traditional financial account. Thinking of borrowing to finance a business idea is even a stranger thought. Hence, these groups find themselves in a vicious circle of lacking credit history and later their chances to borrow are hindered even if they would take up the courage to.

In including these groups in the formal financial system, countries have developed programs and policies targeting the same by either requiring fewer documents to open an account or providing alternatives to the traditional bank account. For instance, in Sub-Saharan Africa, utilizing the technology for mobile money is a pronounced trend for the financial inclusion agenda (Demirguc-Kunt *et al*., 2017). In Kenya, mobile money has resulted in more people having mobile money accounts than formal bank accounts (*ibid.*). Contrary to this, Kosovo's financial system remains in its traditional form, although the technological potential is noticeably high. It is interesting enough to note that Kosovo has a high mobile rate (88.37 percent) and internet access (82.98 percent), even amongst the previously observed unbanked groups, as seen in Table 3 below. Moreover, these rates are continually increasing as a new survey of Kosovo ICT Association (STIKK, 2019) finds that 96 percent of households are connected to the internet, and a vast majority of 98 percent possess mobile phones. Undoubtedly, they are at a close and comparable level with the EU average (Eurostat, 2019).

Table 3: Access to Mobile Phones and Access to Internet

Group of population	Access to a mobile phone	Access to internet
% of population age 15+	88.37%	82.98%
% of population age 60+	77.67%	69.57%
% of population ages 15-34	91.12%	92.95%
% of population ages 35-59	88.87%	76.28%
Female (% age 15+)	85.12%	81.07%
Male (% age 15+)	91.74%	84.97%
Income, Poorest 40% (% age 15+)	81.97%	75.56%
Income, Richest 60% (% age 15+)	92.63%	87.92%

Source: Global Partnerships for Financial Inclusion (2017)

Nevertheless, this huge potential is yet to be leveraged on a nationally planned strategy to accelerate financial inclusion or other indicators[6]. The online banking services offered are

[6] In recent months, IBAS was announced as a fintech solution. However, it is not included in the study as it is a new initiative and was not public at the time the data collection started.

considered basic and limited, and the need to leverage this potential is also emphasized by one of the interviewees:

"The financial market should be upgraded to a new level. There is an extreme potential in Kosovo as we are hungry and eager for new stuff. I can notice in the community where I live that everyone has the latest apps. Since we are a more isolated country, we like to be involved in new trends. And I think the adaptation would be quick. The problem is at the central bank, commercial banks, and other political problems"

- (RE06)

As a matter of fact, according to Sánchez and Carro's work (2017: 124), it is quite rare to have countries with both an above the average world rate, 31 percent (Demirguç-Kunt *et al*., 2017: 39), of unbanked and no mobile money. Kosovo ranks among those countries including Kazakhstan, Ukraine, Bosnia and Herzegovina, Algeria, Belize, Ecuador, Uzbekistan, Georgia, Albania, Bhutan, Angola, and Azerbaijan. Perhaps it is an influenced regional trend as Albania and Bosnia, and Herzegovina belongs to the same region as Kosovo. Global Findex report (2019) emphasizes the importance of mobile money on women having access to financial service, slowly saving up and even starting their business ideas.

5.2.2 Usage

For both academic research and informing policy-making, it is essential to know what financial institutions SMEs are more prone to seek financial services from or what kind of financial products. As Table 1 above illustrates, having an account and using it can result in entirely different figures. But before this section utilises the Enterprise Survey to study closely the patterns of using financial services and products for business activity, the G20 Financial Inclusion Indicators (See Table 4) provide a comprehensive picture about the usage of accounts from the Kosovo population throughout. Beyond the low levels of saving (8.70 percent) and borrowing (14.68 percent), they also show a tremendously low rate of payments (5.26 percent) or checking balance accounts through mobile phones (10.29 percent), especially taking in consideration the high access to mobile phones and internet discussed in the previous section.

Table 4: Borrowing, Saving, Digital and Mobile Phone Payments

Group of population	Borrowed from a financial institution or used a credit card	Made or received digital payments in the past year	Made payment using a mobile phone or the internet	Saved at a financial institution	Used a mobile phone or the internet to check account balance in the past year
% of population age 15+	14.68%	38.65%	5.26%	8.70%	10.29%
% of population age 60+	10.28%	66.12%	3.41%	11.86%	7.94%
% of population ages 15-34	11.52%	29.25%	7.50%	8.16%	11.79%
% of population ages 35-59	19.79%	39.85%	3.35%	8.22%	9.40%
Female (% age 15+)	10.48%	29.35%	3.72%	5.319%	6.94%
Male (% age 15+)	19.03%	48.29%	6.86%	12.20$	13.76%
Income, Poorest 40% (% age 15+)	7.97%	30.19%	2.75%	3.17%	6.21%
Income, Richest 60% (% age 15+)	19.14%	44.26%	6.93%	12.37%	13.00%

Source: Global Partnerships for Financial Inclusion (2017)

In regards to account usage for transactions, there is no specific data concerning SMEs only. At such juncture, this analysis utilizes the data on the general population and complements it with the findings from qualitative interviews. As shown above on Table 3, digital payments comparably are at a somewhat better rate of 38.65 percent, but yet far from what the potential could be. Although all interviewed businesses said they have bank accounts and use e-banking for certain transactions, cash payments were mentioned as quite a common way of giving and receiving money, in particular when dealing with small amounts or smaller partners such as farmers in rural areas. As one of the interviewees stated, “the payments up to 500 euros are paid in cash”. Moreover, during the visits at businesses for the purposes of collecting the

qualitative data, the observations proved the fact that Kosovo is more of a cash-based economy as almost all purchases were made through cash (Personal Observation).
Additionally, the surveyed businesses also have a low number of employees, specifically, on average they have 12 employees. Such establishments could easily handle payments manually and through cash. Considering that the profits of such firms could relatively be small, the salaries would consequently be low in value and not motivating employers to use financial services. Adding to this the large share of informal employment and double financial record keeping businesses in Kosovo tend to have, the explanation on the low usage is further complemented. Therefore, online payments were customary only amongst only the interviewed businesses that usually work with larger transactions (RE06).

Moving into the usage of financial products, the Enterprise Survey showed that a vast majority of SMEs had been granted a credit line or loan with private commercial banks (Figure 4), which further highlights the traditional finance system in Kosovo dominated by private commercial banks. The same is confirmed from qualitative interviews since most businesses obtained a loan from a formal financial institution supplementing their savings, informal lending, or a grant they had acquired previously to start or expand their business. On both Enterprise Survey and qualitative data, very little knowledge on or interest for the non-bank institutions' financial services was expressed.

The second biggest financial institution accounting for 15 percent of the surveyed is state-owned banks or government agencies. As Kosovo does not have a state-owned bank at the current time, besides the Central Bank of Kosovo whose role is to monitor and supervise the commercial banks, it is left to be understood that this portion of businesses had received some financial support from any ministry or government agencies providing subsidies or funding through co-financing programs. One of the interviewed businesses had been a beneficiary of such grants through Kosovo local government institutions' joint programs with international organizations. The assumption is that this is a generalized question to convey the same survey along with different economies.

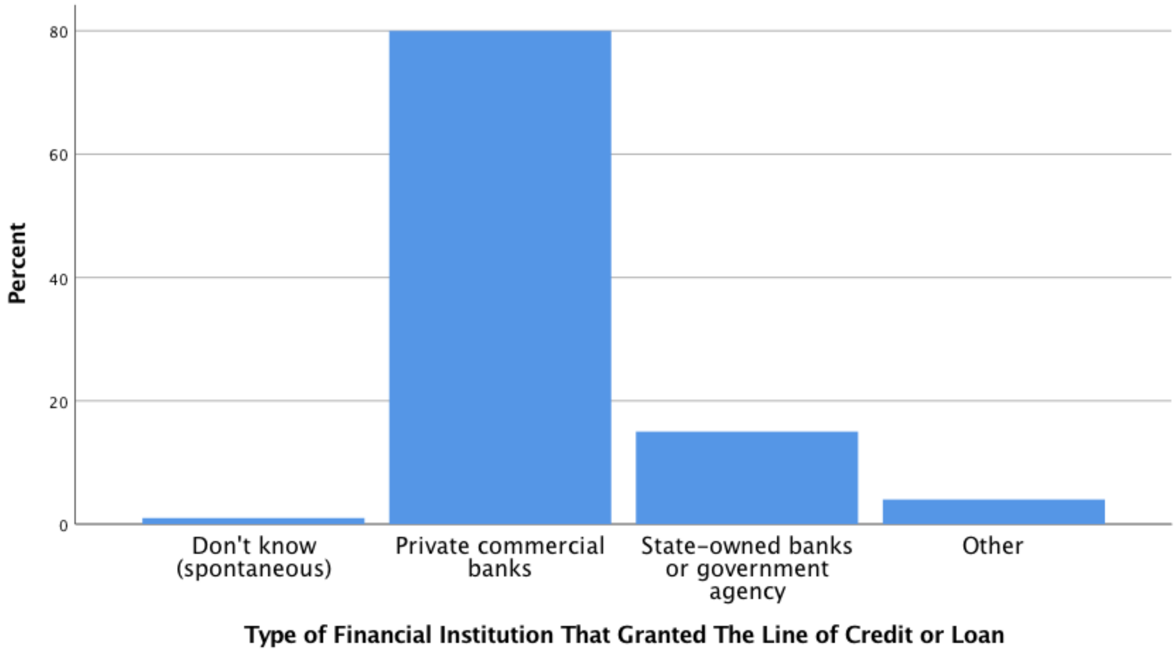

Figure 4. Type of Financial Institution Granting Credit

The non-bank institutions should fall within the 'Other' selection. Nonetheless, it is crucial to consider that this group most probably includes informal lending from family, friends or others. A study using a business survey dating from 2002 (Krasniqi, 2004) showed that at the beginning of the decade, in the war aftermath when financial institutions were at the initial stages of their establishment, borrowing from friends and family was predominant. 80% of Kosovo SME had stated their funds financed them during that period (*ibid.*).

Although external financing has continually increased with time, personal savings, retained profits, or informal lending from family, friends or other informal sources remain a common way of financing. As qualitative data proves, it is almost always the case. At one point or another, all the interviewed businesses depended on such sources, especially when facing financial constraints due to lack of appropriate or affordable financial products. Financing business activities or expansions with personal savings or informal lending, besides being fluctuated, can also potentially be a barrier when approaching investors as one of the interviewees stated he 'felt the risk of not being perceived as a serious partner when the entire business was based on his savings and his own initiative' (RE05). The Enterprise Survey showed that around 64.8 percent of SMEs finance had financed at least half or more of the working capital from the internal funds or retained earnings (See Appendix D: Percentage of Working Capital Financed from Internal Fund/Retained Earnings). Another 28 percent answered said they do not know, leaving only a low figure of 7.2 percent that finance less than

50 percent of the working capital through these funds. During the interviews, one of the interviewees even pointed at the shelf they made with their last 30 euros for that time (RE01). “I feared my daughter would get sick, and we will not have enough money for the medicine”, added he while explaining the financial vulnerability as they did not get a loan, but rather depend on savings and cash flow. According to him, “the interest rate of business loans can go up to 15% if you just started” (*ibid.*).

Meanwhile, only less than 4% of businesses stated that more than half of their working capital was financed through loans (See Appendix E: Percentage of Working Capital Borrowed from Banks) Although this is not necessarily a bad indicator for business performance, it is not as promising regarding business expansion. Such businesses show dependency on the cash flow, and the situation is more exacerbated at micro firms (up to nine employees) as one of the interviewees described:

“We did not have the confidence to go to the banks, as we were new in the market and did not validate as a new business. The first couple of years were horror, continually running on expenses, the revenue was low, and yet you have to manage it, put a smile on your face and go out in the field to work.” (RE05)

As a World Bank jobs diagnostic found, although micro firms are substantial contributors to employment in Kosovo and dominate the private sector, only 4% of those have expanded beyond nine employees within five years (World Bank, 2017). Moreover, G20 Financial Inclusion Indicators show that even when SMEs borrow, it is often to finance the working capital rather than more significant investments. Due to limited available financial products characterised with higher interest rates or short maturity, SMEs are reluctant to make risky investments (Table 5). Indeed, only 30 percent of firms seek finance from banks for investments.

Table 5: Using Banks to Finance Investments vs Working Capital

Firms using banks to finance investment (% of firms)	30.8%
Firms using banks to finance working capital (% of firms)	56.1%

Source: Global Partnerships for Financial Inclusion (2017)

When surveyed businesses were asked if they currently have a line of credit or loan, only 40 percent of those responded positively as shown on Figure 5 when asked about the reasons for not seeking any loan, 44.4 percent mentioned they do not need one and the second most common reason was that the interest rates were not favourable.

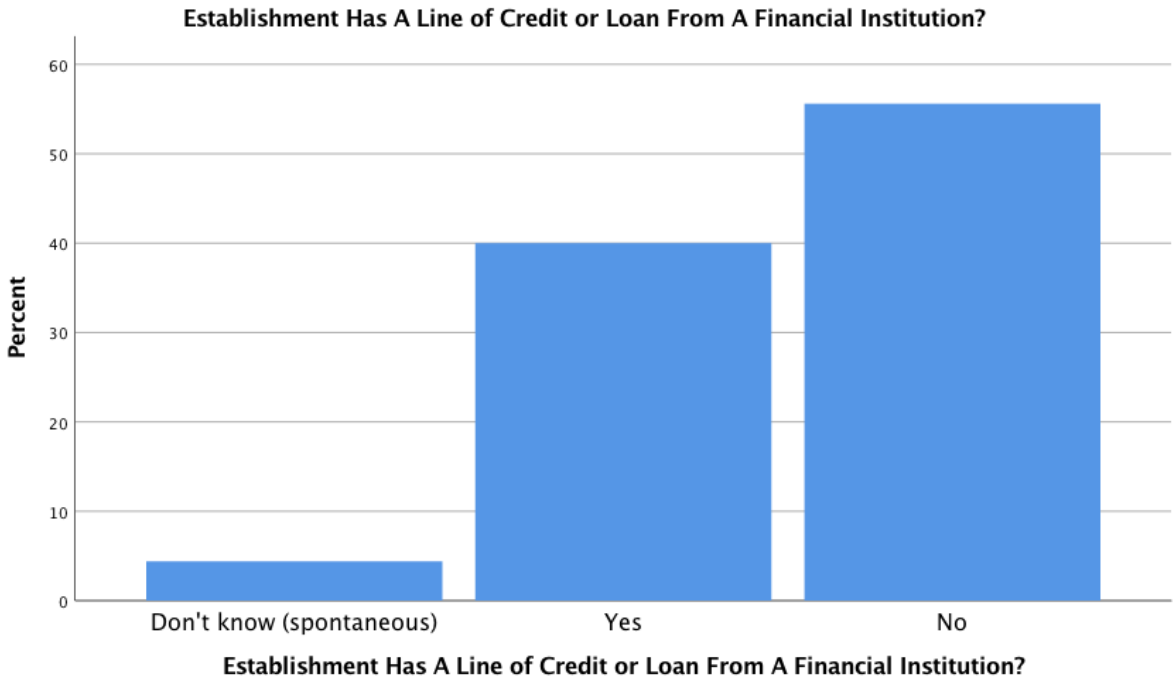

Figure 5. Current line of credit or loan

Beyond the explanations provided above, firms mostly use the retained earnings or other internal funds to finance their business needs, one interviewed business provided further explanation saying they “did not borrow, and it's better on their forces” as they have not borrowed thus far (RE01). "People have started to only rely on their indie or family support rather any organized help from the state or institutions”, added another interviewee (RE05) explaining the low level of trust in such processes. "If they can do it by themselves, they would prefer to do it so" (*ibid.*.). However, the ability to save in such economies as Kosovo (as seen in Table 4) is not very common. In addition to the high unemployment rates as an explanation why they cannot save, observing daily conversations, you often hear people stating they are satisfied if they make ends meet each month and get the next salary without over drafting at banks (Personal Observation). Other coping strategies business owners choose according to qualitative interviews are taking a personal loan as it offers better terms and conditions rather than taking a business loan with a higher interest rate, especially in the initial phases of operation. The next subsection will cover this issue more in-depth. It could be possible this is another reason why the surveyed businesses stated they do not need a line of credit or loan (a business one).

5.2.3 Quality

Growing research argues that capital markets are inefficient in regards to SME finance. SMEs finance is hampered either by a low level of development of the financial system and/or lack of appropriate financial products. The latter is evident in Kosovo's case, as the products offered to pertain to a typical traditional financial system.

The elements to examine the quality of financial inclusion from the perspective of SMEs are the convenience of products or product-fit and financial literacy. The qualitative data shows that it is, in fact, the unflattering terms and conditions of the financial products that have turned the businesses away from using formal financial institutions as a financing source and instead relying on their sources or informal lending. In general, the loan maturity is short and the interest higher (compared to a personal loan), and as it was put by one of the interviewees, "it is highly likely not to generate profit before it pays it off" (RE05). In the post-war period, businesses tended to borrow from informal sources as was mentioned above, mainly because the interest rates were so high they could be comparable with microfinance institutions now. As one of the interviewees said, when they started in 2009, "it didn't even come to the question of getting a loan from the banks, because the conditions were extraordinarily inconvenient" (RE05). Instead, as an alternative, they invested in the business plan to attract their partners abroad and acquire promotional solar products they were trying to launch in Kosovo as a novelty. CBK (2019) reports that since then interest rates have been continuously dropping, however the untailored financial products still present barriers for the business owners.

As the Enterprise Survey shows, an overwhelming majority of businesses were asked for some sort of collateral, whether it was land, building, equipment, or even personal assets (Figures 6, 7, 8). However, the most concerning part is the value of the collateral asked would be multiple times the value of the loan (RE05). Further, as it was elaborated on the Usage section, a coping strategy is taking personal loans as they have a lower interest rate. However, this adds more individual risk to the owner rather than the business in general. "I put the car and everything as collateral", said one of the interviews and according to them "it is a blockage of the capital", disabling them to expand and contribute to the economy (RE05). "We took the kind of loan we could get, a personal one without collateral because we did not have a business background", said another interviewee (RE03). "Credit Guarantee Fund did not exist at that time, and this was the only affordable option", he added. Even in this case, they used this loan to supplement their savings and the money they borrowed from their parents. "Luckily, the work contracts did not end before we paid the loan", he stated and provided another example of uncertainty regarding the risk mitigation.

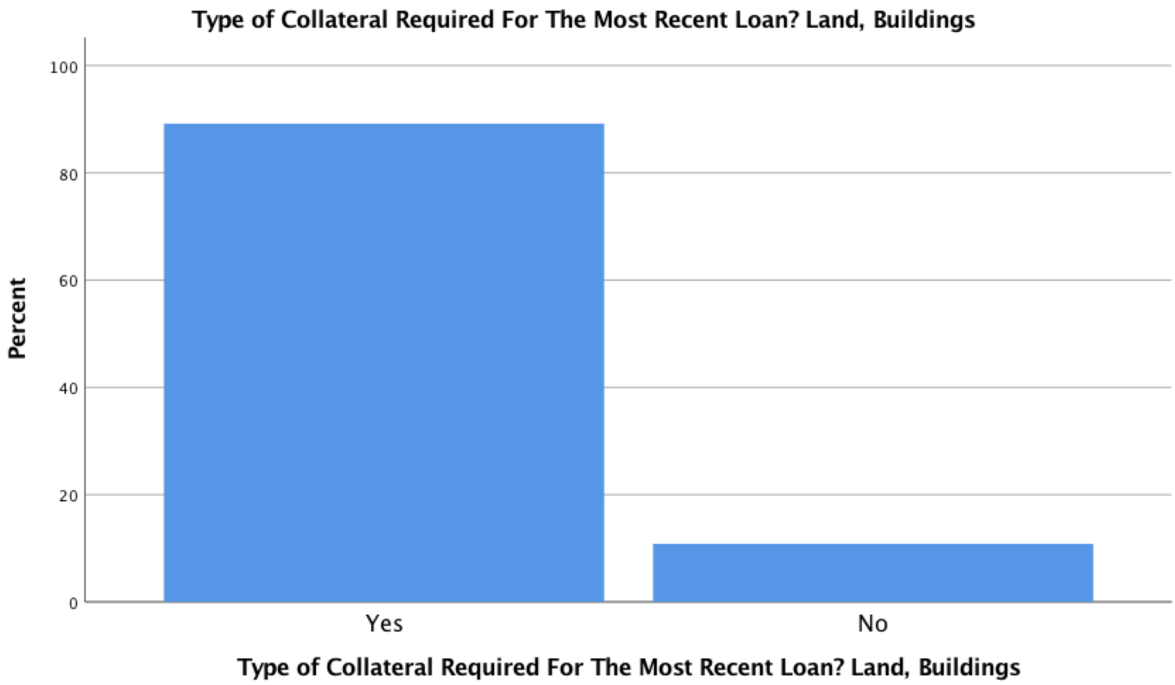

Figure 6. Land and building collateral

How important collateral is on businesses deciding on taking a loan was best proven after the Kosovo Credit Guarantee Fund was established. CBK reports note an obvious increase in loans from businesses. Undoubtedly, this provided ease for the businesses for managing the risk, considering that any financial crises or shock reflects on them (RB08). The banks have added more products such as Eco or Green loans, and the competitiveness of banks consequently resulted in their profiling, specialized teams for specific industries, and in some cases, additional financing option for bigger projects where the feasibility study and the license is the collateral (mostly in construction) (RE05). However, "there are hidden details, that after analysing, you realize these loans are not cheap either", said one of the interviewees (*ibid.*). In addition, another interviewee stated that "they are limited from whom they can get money" (RE06). "Here only the commercial banks exist, which are 100% collateral based and all the risk is interlinked to it" (*ibid.*). In short, all these coping strategies to secure financing pose concern about the non-limited liabilities when one takes a personal one to finance business needs.

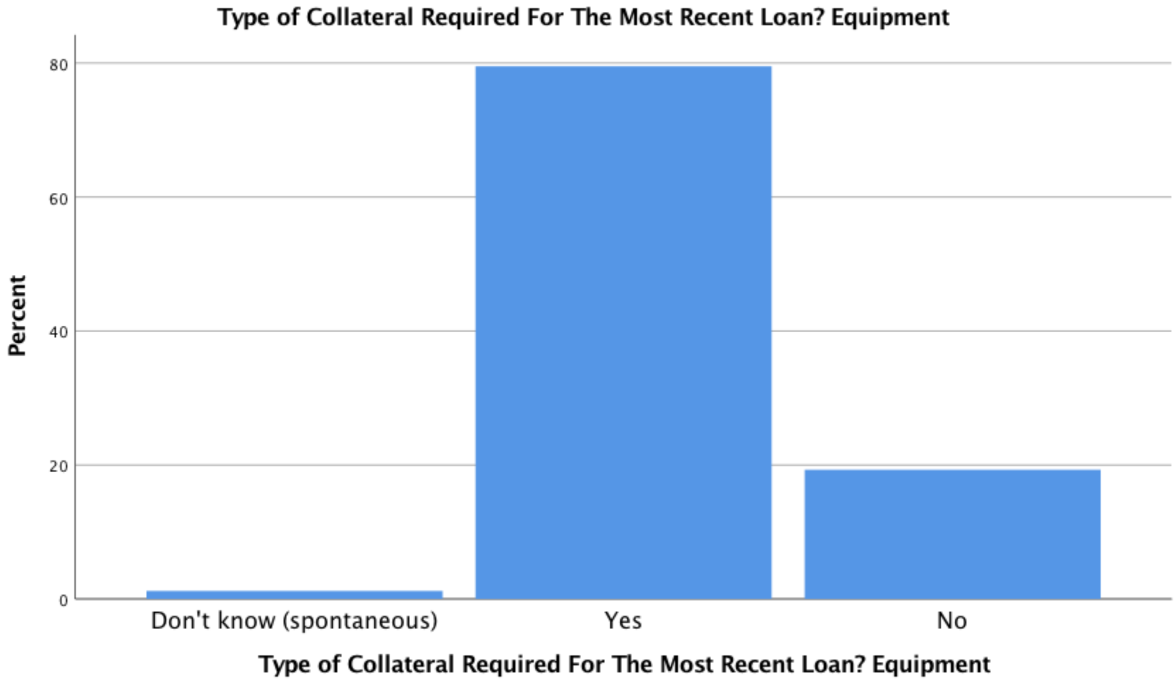

Figure 7. Equipment collateral

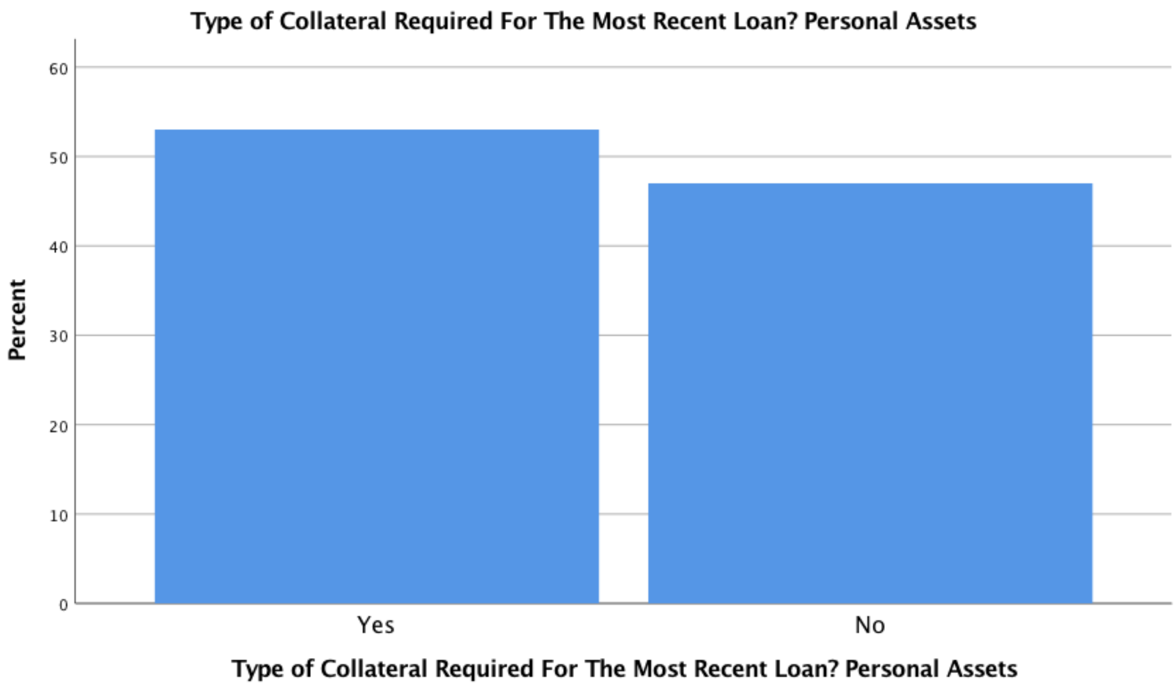

Figure 8. Personal assets collateral

The ability to understand such “hidden” details in loans brings up another important element that affects the quality of the financial product a business receives - financial literacy. After all, “business loans are negotiated” (RE05). Knowing the liabilities linked with financial products a business seeks not only proves they are credit-worthy as they will likely manage the money more effectively, but also will impact the rates and subsequently the future finances of the business. A couple of the interviewed businesses mentioned that they either had a certain level of education on finance or had a relative with such a background helping them out (RE01, RE05).

Apart from financial literacy, another skill identified as significant in affecting the terms and condition of the loans is also business planning. All the interviewed businesses that had received a loan mentioned they had to present a detailed business plan. While some were confident in compiling such plans themselves (RE05), they also regarded that their education played a huge role in it. Therefore, entrepreneurs that would come from groups with less education, they would likely need to hire a consultant, which subsequently adds additional costs on their process of acquiring the needed financing. Even in cases when they seek different financing sources such as grants, the business plan would still be a criterion. Considering it is regarded that the education system does not match the market needs, the potential entrepreneurs lack such basic business skills.

The Enterprise Survey results show that an overwhelming majority did not have a written business plan (See Appendix F: Does Firm have a Formalized Written Business Strategy?) Moreover, the European Investment Bank report on Kosovo assessing the financing needs of businesses concludes that lack of SMEs sophistication on business planning, financial record keeping and growth management have in turn posed a barrier for lower collateral or equity finance from formal institutions (EIB, 2016).

Between the lenders and SMEs as borrowers, their gap is both financial and non-financial information. The banks do not have thorough information on their economic activity, as they often tend to keep double books (EIB, 2016) or not document transactions, but instead, do it in cash. Consequently, this affects the rates businesses get as they calculate the risk the bank takes. As per non-financial asymmetric information, the qualitative data notes them specifically on the SMEs side. Few businesses did not have information on the Credit Guarantee Fund (RE01). The importance of such information within their industry enables them to utilize such opportunities, but also keeps them informed on the new trends, grant opportunities, and choosing a better economic activity which addresses some sustainable issue. However, the Enterprise Survey shows that the majority of businesses are not members of business networks (See Appendix G: Business Membership Organisation). However, the qualitative data showed that a couple of interviewed businesses created their own specific small network, which translates into benefits for their industry.

All the elements elaborated thus far are best put in the following paragraph from an entrepreneur that managed to expand its small business against all odds:

"Look, access to finance for people who just started out is not a problem just here; it is everywhere around the world. Here the problem is that even for those who are not starting from scratch, it's still difficult to get financing due to the limited financial products offered in the market. You're very limited. You don't have investment funds, no infrastructure of angel investors, nothing. There are few options for equity finance through EBRD, but we don't even have an investment bank. When you go there, you talk about the idea and the investment. You don't talk about the value and the investment. That comes way later on." - (RE06)

5.3 The impact on local development

This section will attempt to go beyond the numbers and present further empirical evidence on how the interviewed businesses played a role in the community they operate in a narrative way, more specifically, how their financial inclusion or the coping strategy to financial resilience affected the local development in return. As Rosling *et al*. (2018) state: "The world cannot be understood without numbers. But the world cannot be understood with numbers alone". The style of story-telling we find in Banerjee and Duflo book (2011) profoundly influences the interpretation of SME's narratives on their accounts of experiences. A common element amongst all is the fact that they regard their success, almost always, as struck by luck:

"I want to tell you how amazing and how lucky this part of the story is. His enthusiasm and his vision of the project gained the trust [of his foreign business partner, Robert], and so, Robert's dad got involved [and provided him with leasing]. This happens once in two thousand cases, or half a million or maybe never.

…nothing linked them with Kosovo. It was as they say – a leap of faith. And that's what happened [on both sides]." - A top management employee telling the story how the CEO

> acquired funding from a foreign investor to finance the investment when the commercial banks were not approving such large financing (RE07).

The stories will highlight the impact especially on the environmental and sustainability awareness, livelihoods, social inclusion, and job quality.

Pelini's

Majlinda and Enis, a couple who had returned from their master studies in Norway, find themselves working with international organisations in Kosovo. Due to the nature of the project-based employment, they sought a solution to "ensuring they could feed their kids". Having acquired knowledge of environmental and development studies, they wanted a business idea that would provide them with economic security for their household, but at the same time, address an environmental issue. Upon research, they found out Kosovo was actually the biggest producer of hazelnut among all entities in the former Yugoslavian Federation. However, in the post-war period, they had not encountered or found any registry on this product being cultivated any longer in Kosovo. Hazelnut, as they explained, it is distinguished from other annual crops for its environmental properties since it sequesters more carbon from the atmosphere. Hence, the idea to buy land and plant hazelnut generated naturally.

With no business history beforehand, the only affordable solution to supplement their modest savings and buy the land was getting an individual loan up to the limit that does not require collateral. However, they found out raw hazelnut is not sold in Kosovo as the local markets were importing already processed products. Luckily, a couple of years later, during research for cheaper machinery options, they found out about a co-financing project from the Austrian Embassy and Municipality of Prishtina. This project required the businesses to cover 40% of the machinery value, and thus, the need for a second loan rose up. Besides the machinery, they turned a store owned by the family into a zero-waste shop where they could sell various processed nut products. Reflecting back on the loan acquisition, they believe their contracts with international organisations resulted in a better credit score and increased their chances for more affordable financial products.

Since then, they have turned not only into planters of the hazelnut crops but also continual promoters as they guarantee people they will buy any products they can harvest and process them for the market. “To our knowledge, at least 30-40ha of hazelnut crops have been planted because we motivated them”. Their promotion resulted with the inclusion of hazelnut in the list of subsidies and thus, the harvesting further increased. “It was an enormous luck that I was working here where I am because bringing up the conversation with the contacts in the decision-making institution provided detailed information and success stories”. As they note, in a small society such as ours, one good business idea can easily scale up and influence decision-making. They are also in the process of creating a network to share the knowledge and address the problems of fellow hazelnut planters experience.

Additionally, their influence is witnessed on the education of customers on environmental issues. Often they would get asked why they are not giving them the usual plastic bag and end up in a conversation about the zero-waste concept. After some time, they started finding glass jars at the entrance of the shop without knowing who did that. “You see the awareness. They return more because of the concept and to join it rather than their price reduction (when they return the glass jars) and profit”, he said, “it is truly a pleasure to see the reaction of people coming together about the green aspect and helping them out.”
On being asked if they plan expansion in other cities, he replied: “ Definitely yes, without a doubt... as soon as I finish paying the current loan and get into another one.”

GET Group

While working as an analyst of book printing export for a big Kosovo company with the diversified corporate operation, Visar got into contact with few UK investors wanting to move their book printing from China to Balkans. The increase of ocean temperatures due to global warming had started to affect the glue binding on the imported book printings. Therefore the Balkan region would be a shorter destination for transporting the products and still offer competitive prices for them. As he recalls, this new information, combined with up to 8h electricity shortages Kosovo was experiencing at that time while having extensive coal reserves, pushed him to think about approaching these issues. During some training he had come through based on individual efforts, he started to notice these patterns about future challenges and the trends addressing them. Hence, he quit his job and started writing up a business plan for a solar panel company, a completely novel product for the Kosovo market. "It was such an unknown topic that often people mistook us for an NGO", said him recounting the moments they approached potential clients and investors by explaining their environmental motivation for energy-saving solutions. "In such situations, it was not even thinkable getting a bank loan".

As data on carbon emission and other environmental factors were scarce, they started building up cases through the first few clients and promoted them. The cases were used to pursue alternative finance options by contacting solar panel producers and presenting them with an opportunity to collaborate. Fortunately, as they said, it worked out for them, and they sent promotional products free-of-charge and the partnership expanded with time. Now they are into their 10th year of operation in Kosovo. However, it took personal savings and personal loans with all they could put into collateral to afford the expansion. Only recently, after getting involved in bigger projects, they were confident in taking business loans. In regards to the new green financial products such as Green or Eco loans, he expressed his dissatisfaction saying "they come more as a result of following the global trend, rather than having intentions of pushing the industry forward". Moreover, he would hesitate to suggest them to clients due to hidden costs.

In an attempt to expand the environmental impact, they co-founded the Association for Renewable Energy in Kosovo as a one-stop-shop for dealing with problems the people in this industry face. In fact, when they had noticed that Kosovo potentially was the only country in the region paying custom taxes for solar products import, they approached and convinced the government on its removal, arguing such action would only increase the common good, both in the environment and employment aspects. The work, they and their fellow partners, do, has contributed to the awareness that environmental protection goes beyond the sense of anti-littering. Now they work closely with NGOs as guest speakers on environmental debates and with UNDP on lecturing kids on environmental issues through a project called "How to Save a Polar Bear from Kosovo". "It is an integral part of the business plan to have an exposure as a role model for the youngsters. A businessman with a cause behind his journey, rather than the profit", he added. Further, they are partnering with MCC to increase the number of women in the energy sector and offering them interning opportunities at their business.

Farm Market

This farm-to-table shop, owned by Yllka and managed by both her and her husband Sokol, was a product of three-year-long individual research of mapping 420 potential partner farmers in the mountains and highlands of Western Kosovo, 11 of which met their requirements. "We have broken down three cars on this attempt, and often these places were impenetrable, and we had to walk to reach the farmers", Sokol recounted their story of starting out. Their idea was simple: they would identify the farmers and together work to offer the market few dairy and other products made traditionally by our grandmothers. However, because of the inconvenience of taking a business loan, they used all their savings to cover the initial expenses and pay the store rent that would become their zero-waste selling point.

When they approached the farmers, few of them had no electricity due to unpaid bills or did not own a phone. After all, their activities consisted of subsistence agriculture and after covering their family needs, little surplus, if any, would be left for trade in order to afford other goods that are considered common. Now, they have created their own support network and meet every Sunday. The farmers are not forced to meet a quantity as long as the quality is as agreed upon, hence giving them less pressure on bad seasons. They are prepaid so that they can plan ahead their family expenses, get a monthly phone package to keep in touch, and their meetings are often spent helping one another to fill subsidies and grants applications. “We started out this partnership to produce for our own needs, but now, we have become a family.” Discussing the ways their lives have changed through this partnership, they noted the families they work with have increased the livestock, brought their kids to Prishtina to attend university, and whenever they have any problems they approach them first. “It’s not just about making a huge profit. This is what people misunderstand. We value the partnership more than the financial aspect. We built this business on such concept”.

After spending the day at their business, one could see their actions coming through with such values. They would hug and be friendly with the clients who came and often insist on not selling more quantities of dairy products as it would lose quality. Unsurprisingly, people were coming from other cities to get these products as they would also be educated on the nutrition, how to best combine it and store it. When asked about the expansion as apparently, their clientele was beyond Prishtina. They said although they hire seasonal employees in other cities, they currently cannot afford it financially to get beyond that, as all investments are made through their savings or retained profits.

KIVO Kosovo

When Visar, one of the owners of a printing company called VM3, was looking to expand their activities into flexible printing, found out about a Dutch matching-fund project that would enable companies in such countries as Kosovo to set up partnerships with Dutch companies (ex. the KIVO in the Netherlands). However, this was a co-financing scheme that required quite a substantial amount from their side, which posed a barrier for them. “Facing this situation it was not easy, and we were forced to look outside the borders because none of the banks wanted to finance either the big machinery or any other part of the (greenfield) project”, stated the interviewee. He further added that another problem is that banks abroad have difficulties financing in Kosovo, as they cannot take the collateral. After a struggling period, his commitment and passion convinced his partner’s father to turn into an angel investor and lease him the machinery with an 8% rate of interest.

The new company started out with 45 employees and was situated in his hometown, Kacanik. This was a purposeful "positive localism" as they call it, considering this is one of the most underdeveloped cities and the unemployment rate is high. "The impact that is not quantifiable is hope", stated one of the interviewees on answering about their role in the community. The harsh economic conditions of Kacanic reflected in the migration of the skilled youth, as well as in the pronounced radicalism cases as a poverty consequence. "I say it often", said the interviewee, "the companies in Kosovo should be all turned into (some form of) social enterprises. It is a term that would best explain most of them". According to them, in small countries like Kosovo, there are opportunities for businesses to easily have an impact on the community and environment. "It is not a luxury to be able to concentrate on profit and some impact of yours when you live in such a small country. One impact in your community, eventually affects you...indirectly", added the other one. Amongst the spillover effects they have witnessed in their communities are the opening of bank accounts for the first time by a vast number of employees and building up their credit score. The same was able to get their loans approved without the bank waiting on their six months working trial period, as it was proven KIVO is a secure employer. The majority of their employees are paying loans, according to them, and have started building their own homes or improved their residual conditions. But the story they hold dear and explained in detail was the opportunity to transform the life of a person with a disability who was ostracized from the community. Through training they compiled specifically for him, he now has turned into their HR manager. Their plans on expanding the inclusion of marginalized groups are continuing with the preparations of starting an all-women shift that would be utilized as a draw factor to include more women in this industry. Further, they assist the Kacanik and Ferizaj Municipalities in the management and advancing recycling practices. They also work closely with academia by giving scholarships and offering apprentices so the students would bridge the skills gap that is evident in Kosovo.

As the company was printing on plastics, the responsibility about the environmental impact came hand in hand with their expansion efforts. They are pioneering and promoting the circular economy and moreover, in partnership with another company they are establishing REKSI, the biggest recycling plastic waste company in Eastern Europe. This will be made possible through EBRD private equity financing. "KIVO would not have happened without Robert's (their partner) father. But it's true, if it wasn't KIVO, it would be difficult to have this other project backed by EBRD". Influenced by their experience of overcoming the financial barriers as an SME when they wanted to expand, now they are planning and discussing to create investment funds to absorb these financing needs. One of the possibilities mentioned was acquiring tranches of 4-10 million euros from development banks and dispersed them to smaller companies with more favourable conditions. However, the lack of legislation regarding investment funds is another barrier they are currently facing. As they regard, this is a response to the up-to-bottom approach in financial aid mechanisms that are designed from foreign experts that have now experienced Kosovo reality first-hand. There is not sustainable structure and investments for the private sector which exacerbates the business-doing. As it was put by one of the interviewees, “if Visar was in Switzerland, he would have 15 factories by now (with the work he does and the passion he has)”.

6. Conclusion

SMEs account for the majority of the economic activity in almost every country. Their importance for the economic development is also proven by a large array of research. However, the financial market often does not meet their needs when it comes to the issue of securing finance. Hence, they fall in the "missing middle" of financing gap. This study utilized the Enterprise Survey data and four business study case to investigate the financial inclusion of Kosovo SMEs and the importance this has for the community they operate in. A sequential explanatory mixed methods were used to collect the data, meanwhile their analysis was conducted through a modified financial inclusion framework from the business perspective, consisting of four elements: Access, Usage, Quality, and Impact.

The study finds that while SMEs easily have access to financial services and products, their partners rarely do, affecting their work in turn. In regards to the usage, while the number of digital payments is at somewhat better rate, the overall mobile and internet usage for financial services are low. The data finds that the high penetration of internet and mobile access offers opportunities to scale the usage. And thirdly, the study sheds lights on how certain business and financial literacy skills affect the quality of the financial products they are offered.

On the last component of the framework expands on the impact they had in the community after securing funds. Through their own narratives, we see the effect SMEs has on environmental, livelihoods, social inclusion, and job quality.
This empirical evidence show that SMEs could be serious partner in scaling up local development as they are closest to these communities. Hence, their initiatives are more tangible results to the community in comparison to any project financed by foreign donors.

Bibliography

Alliance for Financial Inclusion. (2011). *Maya Declaration.* Retrieved from: <https://www.afi-global.org/sites/default/files/publications/afi_maya_quick_guide_withoutannex_i_and_ii.pdf>.

APIS. (2017). The Financial Services Cambrian Explosion: How growth markets are innovating for the next 2 billion customers.

Aslan, G., Delechat, C., Newiak, M. & Yang, F. (2017). Inequality in financial inclusion and income inequality. *IMF Working Paper.*

Banerjee, A. V., & Duflo, E. (2011). *Poor economics: a radical rethinking of the way to fight global poverty.*

Bateman, M. (2000). Neo-Liberalism, SME development and the role of business support centres in the transition economies of Central and Eastern Europe. *Small Business Economics, 14*, 275-298.

Beck, T., Demirguc-Kunt, A. & Levine, R. (2007). Finance, inequality and the poor. *Journal of Economic Growth, 12,* 27–49.

Berg, B. L. & Lune, H. (2012). *Qualitative research methods for the social sciences.* 8., [rev.] ed. Upper Saddle River, N.J.: Pearson Education.

Berger, P. L. & T. Luckmann (1966), *The social construction of reality: a treatise in the sociology of knowledge.,* Garden City, NY: Anchor Books.

Biekpe, N., Cassimon, D., & Mullineux, A. W. (2017). *Development finance: innovations for sustainable growth.* Birmingham, UK: Palgrave MacMillan.

Bryman, A. (2016). *Social research methods*. Fifth edition. Oxford, UK: Oxford University Press.

Claessens, S. & Perotti, E. (2007). Finance and inequality: channels and evidence. *Journal of Comparative Economics*, 35, 748-773.

Creswell, J. W., & Creswell, J.D. (2018). *Research design: qualitative, quantitative, and mixed methods approaches,* fifth edition. Los Angeles: SAGE Publication, Inc.

Dabla-Norris, E., Ji, Y., Townsend, R.M. & Filiz Unsal, D. (2015). Distinguishing constraints on financial inclusion and their impact on GDP, TFP, and Inequality. *NBER Working Paper No.* 20821.

David, H. (2013). *"To get rid of the 'gifted' label": Case study of a gifted underachiever girl.* Hebrew Psychology.

Demirgüç-Kunt, A., Klapper, L., Singer, D., Ansar, S. & Hess, J. (2017*). The Global Findex Database 2017: measuring financial inclusion and the fintech revolution*. Retrieved from: <https://globalfindex.worldbank.org/>.

European Investment Bank. (2016). *Kosovo: Assessment of financing needs of SMEs in the Western Balkans countries.*

Eurostat, 2019. *Digital Economy And Society Statistics - Households And Individuals*. Retrieved from: <https://ec.europa.eu/eurostat/statistics-explained/index.php/Digital_economy_and_society_statistics_-_households_and_individuals>.

Fetters, M. D. & Molina-Azorin, J. F. (2017). The journal of mixed methods research starts a new decade: principles for bringing in the new and divesting of the old language of the Field. *Journal of Mixed Methods Research,* 11(1), 3–10.

Funder, M. (2005). Bias, intimacy and power in qualitative fieldwork strategies. *The Journal of Transdiciplinary Environmental Studies, 4(1), 1-9.*

G20 Summit. (2010). *The Seoul Summit Document.* Retrieved from: <http://www.g20.utoronto.ca/2010/g20seoul-doc.pdf>.

Global Partnerships for Financial Inclusion. (2017). *G20 Financial Inclusion Indicators*. Retrieved from: <http://datatopics.worldbank.org/g20fidata/country/kosovo>.

Guillemin, Marilys & Gillam, Lynn. (2004). Ethics, reflexivity, and “ethically important moments” in research. *Qualitative Inquiry,* 10, 261-280.

Hammett, D., Twyman, C., & Graham, M. (2014). *Research and fieldwork in development.* Oxford: Routledge.

Han, R. & Melecky, M. (2013). Financial inclusion for financial stability: access to bank deposits and the growth of deposits in the global financial crisis. *Policy Research Working Paper WPS6577.* Washington D.C.: The World Bank Group.

International Finance Corporation. (2020). *Growing impact - new insights into the practice of impact investing.* Retrieved from:< www.ifc.org>.

International Monetary Fund. (2015). Financial inclusion: can it meet multiple macroeconomic goals?. *IMF Staff Discussion Note 15/17,* Washington, DC.

Jahan, S., De, J., Jamaludin, F., Sodsriwiboon, P. & Sullivan, C. (2019). The Financial inclusion landscape in the Asia-Pacific region: a dozen key findings. *IMF Working Papers, 19.*

Jappelli, T. & M. Pagano. (2002). Information Sharing, Lending and Defaults: Cross-country Evidence, *Journal of Banking & Finance, 26* (10), 2017-2045.

Karlan, D., & Appel, J. (2011). *More than good intentions: how a new economics is helping to solve global poverty.* Dutton Penguin.

KCGF. (2016). *Kosovo Credit Guarantee Fund Launched*. Retrieved from: <https://fondikgk.org/en/kosovo-credit-guarantee-fund-launched/>.

KCGF. (2019). *Annual Report.* Retrieved from: <https://fondikgk.org/en/publications/>.

Kopf, D. (2018). Almost half of the world’s population still doesn’t use a bank account. Retrieved from: https://qz.com/1299292/financial-inclusion-nearly-half-of-the-worlds-population-still-doesnt-use-a-bank-account/

Kosovo Agency of Statistics, 2020. *Labor force survey 2019*. Pristina, Kosovo. Retrieved from: <https://ask.rks-gov.net/en/kosovo-agency-of-statistics/add-news/labor-force-survey-in-kosovo-2019>.

Krasniqi, B. (2004). Financial barriers to SME growth: empirical evidence from Kosovo. *Paper prepared for the 3 International Conference "International Business in Transition".*

Krasniqi, Besnik. (2005). What determines SME investment in Kosova? Empirical Research. *Conference paper.* Retrieved from: <https://www.researchgate.net/publication/267727147_What_Determines_SME_Investment_in_Kosova_Empirical_Research>.

Krpec, O., Ocelík, P. & Smekal, H. (2017). Narrowing the divide: perspectives on the future of mixed methods, report from Central and Eastern Europe. *Journal of Mixed Methods Research 11*(1), 14–16.

Lawrence, S. R., Collins, E., & Arunachalam, K. P. (2006). Sustainability practices of SMEs: the case of NZ. *Business Strategy and the Environment*.

Lean, J. & Tucker, J. (2001). Information asymmetry, small firm finance and the role of government. *Journal of Finance and Management in Public Services, 1,* 43-60.

Lusardi, A. & Mitchell, O. (2014). The economic importance of financial literacy: theory and evidence. *Journal of Economic Literature, 52*, 5-44.

Mason, J. (2018). *Qualitative researching*. Third edition, Los Angeles: Sage Publication, Inc.

Mehrotra, A. N. & Yetman, J. (2015). Financial inclusion - issues for central banks. *BIS Quarterly Review*, Basel: Bank for International Settlements.

Ochs, E. (1979). *Transcription as theory.* In E. Ochs & B. B Schiefflin (Eds.), Developmental pragmatics (pp. 43–72). New York: Academic.

OECD. (2019). *SME policy index: Western Balkans and Turkey 2019: assessing the implementation of the small business act for Europe*. SME Policy Index. Paris: OECD Publishing. Retrieved from: < https://doi.org/10.1787/g2g9fa9a-en>.

Politico. (2018). Kosovo: a young country, being shaped by its youth. Retrieved from: <https://www.politico.eu/interactive/in-pictures-kosovo-10th-anniversary-future-being-shaped-by-its-youth/>.

Rebolj, A. Biba. (2013). The case study as a type of qualitative research. *Journal of Contemporary Educational Studies,* 28–43.

Riinvest. (2017). Banking sector in Kosovo. Retrieved from: <https://www.riinvestinstitute.org/>.

Rosling, H., Rosling, O., & Rönnlund, A. R. (2018). Factfulness: ten reasons we're wrong about the world - and why things are better than you think. First edition. New York: Flatiron Books.

Sahay, R., Cihak, M., N'Diaye, P., Barajas, A., Mitra, S., Kyobe, A., Mooi, Y.N. & Yousefi, R. (2015). Financial inclusion: can it meet multiple macroeconomic goals. *IMF Staff Discussion Note 15/17*, Washington, D.C.: International Monetary Fund.

Saldaña, J. (2012). *The coding manual for qualitative researchers.* Sage Publications, Inc.

Sánchez, A. and Carro, B., 2017. *Digital services in the 21st century: a strategic and business perspective.* Hoboken, New Jersey: John Wiley & Sons, Inc.

Sirkin, R. M. (2006). *Statistics for the social sciences.* Third Edition. Thousand Oaks, Calif, Sage Publications, Inc.

STIKK (2019). Internet penetration and usage in Kosovo: national quantitative survey. Retrieved from: <https://stikk.org/wp-content/uploads/2019/11/STIKK_IK_Report_Internet_Penetration_V3-final-1.pdf>.

The Global Forum on Law, Justice and Development. (2019). *The human-centred business model (HCBM): a holistic approach to a new model for doing business*

The World Bank (2013). *Global financial development report 2013: rethinking the role of the state in finance*. Washington D.C.: World Bank Group.

The World Bank (2014). *CGAP annual report: advancing financial inclusion to improve the lives of the poor* (English). Washington, D.C.: World Bank Group.

The World Bank (2019). Enterprise Survey, Kosovo. Retrieved from: <https://microdata.worldbank.org/index.php/catalog/3741>.

The World Bank (n.d., b). Kosovo Overview. Retrieved from: <https://www.worldbank.org/en/country/kosovo/overview>.

The World Bank. (2017, a). Republic of Kosovo, systematic country diagnostic. *Report No. 114618-XK.*

The World Bank. (2017, b). What's happening in the missing middle? Lessons from financing SMEs. Washington, D.C.: World Bank Group.

The World Bank. (2018). *The Global Findex Database 2017: measuring financial inclusion and the fintech revolution.* Washington, D.C.: World Bank Group.

The World Bank. (n.d., a). *Financial inclusion overview*. Retrieved from: <https://www.worldbank.org/en/topic/financialinclusion/overview>.

United Nations. (2015). *Addis Ababa Action Agenda of the Third International Conference on Financing for Development.* New York.

United Nations.(n.d.). *SDG Indicators, metadata repository.* Statistics Division. Retrieved from: https://unstats.un.org/sdgs/metadata/?Text=&Goal=8&Target=8.3>.

Walliman, N. (2016). *Social research methods: the essentials.* Second edition. London: SAGE Publications, Inc.

Yin, R. K. (2014). *Case study research: design and applications.* Fifth edition. Sage Publications, Inc.

Yin, R.K. (2018). *Case study research and applications: design and methods*. Sixth edition. Sage Publication, Inc.

Appendices

Appendix A: Interview Guideline

General info

Name and Last Name:

Age:

Gender:

Education:

Has lived abroad?

Name of the enterprise?

Your position?

Type of activity/industry?

It takes more than good intentions

The story how it started (and when)?

The initial start-up capital?

The difficulties you have faced in the early stages?

Is it the only economic activity you are engaged in?

Is it a family business?

How was your experience with banks and accessing other means of finance?

Do you consider yourself to have enough financial literacy and understand the financial products?

What's your opinion on the interest rates?

Have you been asked about collateral?

Did you get a loan? The amount?

Did you get any additional funding? Who helped out?

Do you use online banking services?

How do you pay your employees? Did they all have bank accounts previously?

Do you think leveraging technology could help you further in making transactions?

Are you a member of any association? Reason? Duration? Did you receive helpful information or benefits from it?

Doing well by doing good (profits and development impact)

The number of employees when it started out vs. now?

The number of other jobs or opportunities created since then? Are you aware of any stories how this job opportunity has helped them out? Are you participating in any improvement of the community you operate in? The average salaries; insurances; paid leave; training and capacity building? If yes, do you consider this adds value to your business? What's the rough yearly turnout? Other social, environmental, or economic impacts? Have you ever been a beneficiary of any program by international organisations? Do you know of any government program that has business development at its core? What about Credit Guarantee Fund?

Appendix B: Letter of Consent

Master thesis on the financial inclusion of Kosovo's SMEs and their impact on local sustainable development

Consent to take part in research

· I,……………………………………, voluntarily agree to participate in this research study.

· I understand that even if I agree to participate now, I can withdraw at any time or refuse to answer any question without consequences of any kind or having to explain myself.

· I understand that I have the right to withdraw from the study at any time within two weeks after the interview, in which case the material will be deleted.

· I have had the purpose and nature of the study explained to me and I have had the opportunity to ask questions about the study.

· I understand that participation involves a semi-structured interview.

· I understand that my participation in this study is voluntary and I will not benefit directly from participating in it.

· I understand that all information I provide for this study will be treated confidentially.

· I understand that in any report on the results of this research my identity will remain anonymous if requested. This will be done by changing my name and disguising any details of my interview which may reveal my identity or the identity of people I speak about.

· I understand that extracts (disguised extracts if needed or requested) from my interview may be quoted in the thesis of Gresa Berisha.

·I am aware that this interview might result in research which may be published.

· I understand that a transcript of my interview in which all identifying information has been removed will be retained for maximum of 2 years from the date of the exam board.

· I understand that I am free to contact any of the people involved in the research to seek further clarification and information.

I [do / do not] give the researcher permission to record the interview.

I [do / do not] give the researcher permission to use my name and position in the dissertation.

I [do / do not] give the researcher permission to use my organizational affiliation in the later study.

I [do / do not] give the researcher permission to use data collected in this interview in her thesis.

______________________________ _____________

Signature of participant Date

Signature of researcher

I believe the participant is giving informed consent to participate in this study

______________________________ _____________

Signature of researcher Date

Appendix C: Ownership and Management of Establishments

		% of The Firm Owned By Females	% of the Firm Owned By The Same Family	% of Family Members in Key Management Positions
N	Valid	22	250	216
	Missing	228	0	34
Mean		69.09	76.51	72.68
Mode		100	100	100

Appendix D: Percentage (%) of Working Capital Financed from Internal Fund/Retained Earnings

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Don't know (spontaneous)	70	28.0	28.0	28.0
	0	4	1.6	1.6	29.6
	10	2	.8	.8	30.4
	20	5	2.0	2.0	32.4
	25	1	.4	.4	32.8
	30	1	.4	.4	33.2
	40	5	2.0	2.0	35.2
	50	16	6.4	6.4	41.6
	55	1	.4	.4	42.0
	60	14	5.6	5.6	47.6
	70	25	10.0	10.0	57.6
	75	3	1.2	1.2	58.8
	80	20	8.0	8.0	66.8
	85	1	.4	.4	67.2
	90	7	2.8	2.8	70.0
	94	1	.4	.4	70.4
	95	2	.8	.8	71.2
	98	1	.4	.4	71.6
	100	71	28.4	28.4	100.0
	Total	250	100.0	100.0	

Appendix E: Percentage (%) of Working Capital Borrowed From Banks

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Don't know (spontaneous)	70	28.0	28.0	28.0
	0	90	36.0	36.0	64.0
	2	1	.4	.4	64.4
	5	2	.8	.8	65.2
	6	1	.4	.4	65.6
	10	6	2.4	2.4	68.0
	15	2	.8	.8	68.8
	20	22	8.8	8.8	77.6
	25	2	.8	.8	78.4
	30	25	10.0	10.0	88.4
	35	3	1.2	1.2	89.6
	40	8	3.2	3.2	92.8
	50	10	4.0	4.0	96.8
	60	3	1.2	1.2	98.0
	70	1	.4	.4	98.4
	78	1	.4	.4	98.8
	80	1	.4	.4	99.2
	100	2	.8	.8	100.0
	Total	250	100.0	100.0	

Appendix F: Does Firm have Formalized Written Business Strategy?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Don't know (spontaneous)	4	1.6	1.6	1.6
	Yes	97	38.8	38.8	40.4
	No	149	59.6	59.6	100.0
	Total	250	100.0	100.0	

Appendix G: Business Membership Organisations