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THE IMPACT OF MICROFINANCE ON THE DEVELOPMENT OF SMEs: KOSOVO – AN INTEGRATED REVIEW

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Abstract

Surveys have been conducted all over the world among small business owners to identify some of the main obstacles that impede the sustainable operation of businesses. The majority of the owners have indicated a lack of finance as the main stumbling block to doing business in a way as to assure continued growth. This is especially notable when considering the central Eastern European region with its underdeveloped capital market. Funding SMEs with microfinance loans, especially in developing areas such as Kosovo, is one of the major strategies undertaken to enhance the expansion of the existing businesses and improve their performance. Purpose: The purpose of this paper is to review the presumable impact and crucial role of microfinance institutions on the development of SMEs in Kosovo. Methodology: The methodology is based upon a descriptive approach whereby a comparison is made between different reports, papers, journals and other literature on the subject.

Findings: According to the available statistical and financial data, the benefits of microfinance are multiple and the promotion of microfinance and the availability of microcredit or small loans to SMEs in Kosovo has been shown to succeed as a solution to meltdown problems with working capital.

Keywords: Financial Economics, Microfinance; Economic Growth, Small and Medium Enterprises;

JEL-Classification: G2, G23, L26; O1; O4

Introduction

Addressing the overall value of SMEs and the challenges associated with creating sustainable business is of great importance, especially within an emerging market, to assuring and accelerating sustainable development and economic growth.

SMEs represent the backbone of all economies worldwide, including also in developed and developing areas, in that they represent close to 99% of all businesses within any economy, accounting for 80% of new jobs. This is an enormous contribution, especially in developing countries (Idowu, 2010, Ravi&Roy, 2014, Sievers &Vanderberg, 2004).

There is a clear interest in small-medium enterprises among researchers, policymakers and academics, due to their crucial role in creating employment and eradicating poverty on a national scale (Makorere, 2001).

However, in developing countries, the majority of SMEs are unable to secure financial resources, while also encountering considerable difficulties in obtaining financing from banks, capital markets and other suppliers of credit. This is very problematic in emerging countries, since such sources are highly underdeveloped according to credit sharing information (Beck, 2007, Havie, Narjoko & Oum, 2013).

The absence of a credit history, or a proper bank-client relationship, and a general inability to provide collateral make it difficult for banks to assess the borrower's profitability and ability to repay. Incomplete financial records and unverifiable information about clients increase the costs of SME loans, discouraging banks from lending to SMEs or making this downright impossible. Due to interest ceilings set by the government, it is no doubt bad business for banks to charge the borrower with an interest rate that covers the costs associated with the money lent (World Bank Group, 2017, World Bank, 2008).

Microfinance has certainly been attracting attention as a form of financial agency, revealing that appropriate institutional arrangements can overcome problems related to transaction costs associated with information asymmetry (Hamada, 2010).

To illustrate the potential impact of microfinance on the development of SMEs, Kosovo has been selected as an example of an emerging market. Among the reasons for this is especially that SMEs constitute the vast majority of Kosovo's enterprises and represent the primary source of growth potential, by contributing 80.7% of employment. The number of SMEs has been steadily growing in the past several years (Oberholzner, 2014).

Although the country is characterized by a lack of properly inclusive financial systems, financial assistance in the form of micro-loans has been considered to aid in enhancing SME growth, while also assuring the sustainability of microfinance institutions and increasing the number of SMEs in recent years.

I find the overall analysis of Kosovo's microfinance sector and its potential impact on the growth of SMEs important, especially since the country is comparable to other emerging markets with similar political, social and economic difficulties that have already been studied elsewhere. The paper adopts a descriptive approach, relying on the statistical data provided by the Association of Microfinance Institutions and the Financial Report of the Central Bank in Kosovo. On that basis, the paper presents conclusions that might potentially serve as an approach for further research purposes.

1. Literature review

Microfinance institutions are informal financial institutions and development tools that provide financial services to enhance business development and economic empowerment within the community. These services include savings, credit, payment services, as well as social intermediation services such as training in financial literacy, management, developing self-confidence (Hermes&Lensink, 2007).

The roots of microfinance can be traced back to various sources, but the best known among them is a series of experiments conducted by Bangladesh's Grameen Bank founder, Muhammad Yunus. A distinguished economist and professor, Yunus launched in 1976 a

project, whereby he would lend money to poor households in the nearby village of Jobra. He was astonished when he observed that even the little pocket money he had lent was good enough for the villagers to run simple businesses. He found that borrowers were not only profiting from access to the loans, but were also reliable payers (Armendáriz & Morduch, 2005).

Microfinance is in most cases justified as promoting equity, or fairness. The idea of microfinance relies mostly on the assumption that people who have next to no money deserve financial services as much as those who are affluent. Everyone is entitled to have an equal chance to exploit their talent (Makorere, 2001). This system operates in various countries of the world, serving to alleviate poverty and enforce entrepreneurial development (Igwenagu&Maduagwu, Oleka, 2014).

Numerous studies have been conducted to analyze the impact of microfinance on entrepreneurial performance, growth and potential economic development, concluding that the availability of credit stimulates growth and helps the SME sector to take advantage of its potential to power the economy (Adeniran et al., 2015, Chirkos, 2014, Olu, 2009, Marangu et al., 2013, Waithaka, 2014, Wanambisi, 2013, Wang, 2013).

Studies confirm that the provision of microcredit plays a pivotal role in promoting growth by expanding operational activities (sales, acquisition of assets and technology) and improving management and inclusive working capital, in order to allow businesses to operate in a genuinely viable manner (Makorere, 2001, Habibulla & John, 2011).

According to a study in Kenya, 79% of SMEs attributed their growth to financial accessibility (Annuar et al., 2016, Ngugi&Kerongo, 2014), supporting the interaction effect of microfinance and promoting the growth and expansion of SME capabilities through this particular form of assistance (Babalola, 2013, Kisaka& Mwewa, 2014). Regardless whether the loan has been disbursed by the government, an MFI or non-governmental organization, the microcredit or loan enhances SME income, generating cash flow to expand the business (Annuar&Rose, Zariyawati, 2016).

The majority (88%) in the study preferred microfinance because of the ease of access to loans and affordable interest rates free from hidden supplementary costs present in bank loans. The access to these loans translated into the ability to increase sales and income, as well as to repay the interest back in a timely manner (Wanambisi, 2013).

While advocates put forward a positive assessment of the impact of microfinance, including in particular the microcredit, based on several performance indicators such as sale, asset acquisition, revenue, net profit, etc., counterarguments have been proposed, demonstrating the downside of microfinance. These are based on the assumption that this potential poverty-reducing tool might as well undermine the attempts to bring sustainable economic, social development and poverty reduction (Bateman&Chang, 2009), since microfinance institutions do not care to finance SMEs unless they can provide collateral to secure the loan (Ahiabor, 2013).

These statements have been supported by the findings of Tucker and Lean (2003) and the OECD (2006) that even when credit is disbursed to SMEs, a short-term loan is too much of a strain to allow SMEs to finance their long-term needs, such as acquiring new machinery or investing in other crucial operational activities. It is stated that microfinance causes more harm than good. The purpose of a loan is defeated when it is granted to cover expenses that will not produce profit, as this puts a drain on the resources of an SME, making it difficult to make regular payments(Ahiabor, 2013). Various SMEs did feel pressured for repayment and some of them defaulted on their loans due to cash flow problems, which jeopardized their operations even further (Adoley&Owusu, 2014).

According to Dichter (2007), microcredit is too small to yield profit from income-generating activities, therefore its use is mostly dedicated to facilitating consumption

spending, which is certainly a departure from the original idea of Grameen Bank (Dichter, 1996).

Despite the above indications, it is important to note that microfinance is not a magical solution, which will lift all clients out of poverty, but the majority of studies undertaken have demonstrated a beneficial effect on enterprises run by low-income earners (Ngugi&Kerongo, 2014).

2. Kosovo Economy

A new country inhabited by a mere 1,800,000 people, Kosovo has seen intense economic growth and is now hopeful of becoming another EU member, an issue over which talks are currently in progress.

In 2008, Kosovo declared its independence and has ever since been making efforts to become part of the international community, culminating in its joining the IMF and the World Bank in 2009, the European Bank for Reconstruction and Development in 2012, as well as the European Investment Bank in 2013 (Country risk, 2017). Seeking to join the European Union, Kosovo has made a normalization agreement with its long-term enemy Serbia, named the Stabilization and Association Agreement, signed in October 2015 (European Commission, 2016).

Kosovo's economy has transitioned from central planning to a free-market model as a result of thorough transformations which came in the wake of the country's independence from Serbia in 1999 (Perrit, 2004).

Although Kosovo has shown potential progress, the country is highly dependent on the international community and the diaspora serving as their financial and technical assistance. Money transfers from the diaspora are one of the main pillars representing 17% of the GDP, whereas international donor assistance accounts for approximately 10% of the GDP. Despite the fact that Kosovo's citizens are among the poorest in Europe, with 4086.21 USD per-capita GDP in 2017, equivalent to 32% of the world's average, it nevertheless notes a real GDP growth rate of approximately 4.1% (Country Risk, 2017).

Statistical evidence proves Kosovo's impressive economic performance, yet the challenges are quite crippling when it comes to imports on which Kosovo is heavily depended, not to mention high crime, corruption, lack of transparency and high unemployment rate, all of which hold back economic growth (Trading Economics, 2017).

The employment rate in the first quarter of 2018 was estimated by the Labor Force Survey 28.8%, male employment emphasizing 45.5% while female employment is 11.8% (Agency of Statistics, 2018).

The table below illustrates the distribution of employees by economic sector, with particular regard to statistics covering the years from 2008-2016 (no data available for 2017 and 2018).

Table 1: Number of employees by sector of economic activity from 2008-2016

Economic Sector	2008	2009	2010	2011	2012	2013	2014	2015	2016	Variation in %
Mining & quarrying	2'943	3'796	3'694	4'297	3'027	2'636	2'920	3'042	2'780	-5.5
Production	16'183	16'748	17'827	19'204	25'213	22'932	22'257	23'651	24'457	51
Electricity	7'444	8'031	8'251	8'946	9'104	9'025	8'470	8'045	7'770	4.4
Water supply	4'185	5'062	5'381	5'345	5'645	4'047	4'530	4'380	4'560	9
Construction	7'248	10'300	13'676	14'993	17'779	16'297	13'192	15'354	16'687	130

Wholesale & retail trade	27'207	31'461	35'538	39'459	47'302	57'379	54'295	55'768	54'609	101
Transportation & storage	5'672	6'765	7'186	7'677	9'203	7'043	6'316	6'810	6'634	17
Accommodation & food services	6'478	6'992	7'432	6'356	7'389	11'147	10'488	12'965	11'895	83.3
Information & communication	4'286	5'199	5'527	5'722	6'806	7'056	7'314	8'019	8'714	103
Other Services	7'223	10'369	10'595	11'220	13'965	12'297	15'954	17'100	18'398	154

Source: Kosovo Agency of Statistics, 2016, authors own contribution, 2018. Retrieved from http://askdata.rksgov.net/PXWeb/pxweb/en/askdata/askdata__15%20Structural%20business%20statistics/asn03.px/?rxid=f65a2871-f6dd-4442-ac84-bfd527444209

According to data from the Kosovo Agency of Statistics, females (51.5%) are mainly employed in the health, trade and education sectors, whereas men in the trade, construction and manufacturing sectors (42,4%). The economic sectors that are mainly contributing to employment are trade, construction and manufacturing sectors (KAS, 2018).

Based on the statistical data provided by Kosovo's Agency of Statistics, I added the percentage variation of the number of employees by sector, in order to identify the main sources of employment based on the economic sector. Wholesale (+101%), production (+51%), construction (+130%), information and communication (+103%) and other service activities (+155%) indicate a potential employment source, illustrated by the variation from 2008-2016 in percentage.

Currently, Kosovo is facing an increased unemployment rate of 29.40% in the second quarter of 2018 compared to 26.50% in the first quarter of 2018. The employment rate averaged 36.57% from 2001-2018 (Trading Economics, 2017).

According to the Labor Force Survey in the first quarter of 2018, the unemployment rate is more pronounced among females, reaching 28.7% compared to men 25.9%. Not to mention that the unemployment rate is especially felt in the age group of 15-24, standing at 54%. This shows that the young in Kosovo are significantly more likely to be unemployed than adults. Therefore, it is important to mention that the percentages among the unskilled workers demonstrate a need for more active labor policies (European Commission, 2016).

2.1 Characteristics of the Business structure and SMEs in Kosovo

The basic profile of Kosovo's SMEs is not different from elsewhere, consisting of an individual or a small number of partners, usually family. SMEs are well known for their flexible organizational structure and low costs of adaptation to environmental changes. However, SME size in Kosovo falls into three groups, i.e. micro-enterprises (0-9 workers), small (10-49 workers) and medium enterprises (50-250 workers). This classification was made in conformity with EU data (Republic of Kosovo, 2016).

The SME sector is very important to Kosovo, representing the majority of the private sector and primary source of its growth potential, since SMEs form approximately 99% of Kosovo's enterprises (European Investment Bank, 2016), mainly labour-intensive operations, which produces a more equal distribution of income considering the number of new job seekers entering the labor market every year (Morina, Krasniqi & Kurhasku, 2016).

The table below provides an overview of Kosovo's business structure and the variation in percentages from 2008-2016 per economic sector (no data for 2017, and 2018 are currently available).

Table 2: Number of active enterprises by economic sector and description of economic activity from 2008-2016

Economic Sector	2008	2009	2010	2011	2012	2013	2014	2015	2016	Variation in %
Mining and quarrying	206	199	204	201	229	149	149	165	162	-21.4
Production	4'065	4'103	4'112	4'246	4'598	3'736	4'052	4'528	4'674	15
Electricity	46	52	63	59	68	28	28	59	44	-4.3
Water supply	1'414	1'449	1'874	1'546	1'685	144	139	150	162	-88.5
Construction	2'362	2'456	2'564	2'702	3'038	2'094	2'150	2'629	2'628	11.3
Wholesale and retail trade	20'815	21'125	19'775	19'791	20'509	16'091	16'142	16'920	16'557	-20.5
Transportation and storage	1'213	1'228	1'135	1'168	1'160	1'166	1'185	1'219	1'291	6.4
Accommodation and food services	3'498	3'559	3'364	3'459	3'715	3'126	3'360	3'713	3'621	3.5
Information and communication	3'615	3'706	3'731	3'696	3'563	626	693	881	849	-76.5
Other Services	3'891	4'209	4'241	4'558	3'192	1'897	4'023	3'201	4'708	21

Source: Kosovo Agency of Statistics , 2016, authors own contribution 2018. Retrieved from http://askdata.rksgov.net/PXWeb/pxweb/en/askdata/askdata__15%20Structural%20business%20statistics/asn01.px/?rxid=f65a2871-f6dd-4442-ac84-bfd527444209.

An insight into Kosovo's private sector consisting of approximately 336, 596 enterprises by 2016 provides detailed data on business activities present in that sector. The private sector is dominated by retail and wholesale, accounting for 43% of all enterprises (largest source of employment). Manufacturing comes second, at 10% of the overall figure, whereas other services have almost equal shares of the market. This is followed by construction, accommodation and catering and transport industry (European Investment Bank, 2016).

The statistical data on variation in the volume of business operations, (in %) suggests that, in the years 2008-2016, there was a boost in the number of businesses operating in production (+15.0%), construction (+11.3%), transportation and storage (+6.4%) and other services (+21.0%). This shows interesting growth tendencies between 2006 and 2018, in that the number of enterprises jumped from 1'463 in 2006 to 2'636 in 2018. Despite the potential for growth, Kosovo's private sector is considered by the European Commission Report to be characterized by structural weaknesses – a primary hindrance to improvement of efficiency (European Commission, 2017). In 2018, 407 enterprises were terminated (KAS, 2018).

The barriers to Kosovo's success in the SME sector are represented by legal complications, high interest rates, deficient infrastructure, unfair competition, low demand, shortage of skilled labour or appropriate equipment. However, the main challenges are of a financial nature and the principal one among them is restricted access to sources of financing (Gazija, 2012).

2.2 The Contribution of microfinance to SME growth

SMEs generally exhibit a healthy demand for financial assistance in form of loans. According to World Bank Enterprise surveys conducted in Kosovo, the majority of firms have reported having contracted loans or lines of credit, in order to launch their operations or sustain them on a desired level (European Investment Bank, 2016).

It is still argued that within the SME sector there is a mounting demand for bank loans even though these are frequently withheld. Banks court the attentions of better-established businesses, leaving SMEs to their own devices. The SME inability to obtain financial resources may have contributed substantially to a loss of potential for economic development due to creative ideas falling by the wayside for lack of funding (Morina, Krasniqi & Kurhasku, 2016).

In January 2016, a new law was introduced by the Credit Guarantee Fund in order to improve access to finance for SMEs. Under the law, provision was made for a credit guarantee scheme with a governmental contribution of 3,000,000 (European Commission, 2017). Despite the governmental efforts to adopt a relevant national strategy for SME development, experts agree that the resulting success is by far not overwhelming. This is due to the unfavorable environment in which SMEs operate. Not to undervalue is Kosovo's unofficial status as a critical aspect (Oberholzner, 2014).

Yet, one of the accessible mechanisms to give SMEs access to financial resources are the microfinance institutions in the informal sector (World Bank, 2008).

Immediately after the war, microfinance institutions (MFI's) started its operation to provide financial aid and develop micro-lending programs for the support of SMEs. Their contribution has been important to boost the post-war economic growth, especially since at that particular time the financial sector was non-existent. The majority of MFIs in Kosovo are known and defined as NGOs licensed as microfinance institutions and supervised by the Central Bank of Kosovo (CBK) to which annual audited financial statements are submitted. The MFIs have a powerful effect on the community and today continue to meet the needs of the Kosovar market by financially supporting small businesses and individual entrepreneurs. Statistical data demonstrates the MFI's powerful effect, since without the MFI's, most SMEs would remain unserved (AMIK, 2018).

With regard to the structure of lending, in terms of a division by type of economic activity, the agriculture represents the highest share (26.8%), whereas other categories that have good access to MFIs are composed of enterprises providing other services and for the construction (highest annual increase in loans granted) (CBK, 2017).

To gain an overview over MFI sustainability, acceleration and potential for impact on SME development, the study emphasizes the data provided from the Association of Microfinance Institutions in Kosovo. Relying upon the statistical data provided by AMIK for each month of 2017, I summarized all the data of the 10 (Afk, Finca, Kosinvest, KEP Trust, KGMAMF, KRK, QELIM, START, Meshtekna, Perspektiva 4) most important and active MFIs provided for each month in a table, as illustrated below (comparable overview of 2016 data not available).

Table 3: Monthly sector comparison overview of the metrics for the 10 selected MFI's in Kosovo in the first half of 2017

MFI's	January	February	March	April	May	June	Var (%)
Tot. Amount of outstanding Loans	100'126'890	103'194'467	108'042'338	110'946'913	114'618'896	117'922'497	17.8
Tot. No. of loans (outstanding)	59'187	60'623	62'354	62'964	64'548	65'606	10.8
Tot. No. of borrowers	57'714	59'093	60'681	61'239	62'839	63'853	10.6
Aver. Loan	1'735	1'746	1'780	1'812	1'824	1'847	6.5

Size (Outstanding)							
Value of Loans Disbursed	8'001'158	9'864'176	12'829'853	11'085'442	11'342'019	11'442'332	43.0
Number of Loans disbursed	3'875	4'895	5'902	4'991	5'496	5'165	33.3
Ave. Loan disbursed	2'065	2'015	2'174	2'221	2'046	2'215	7.3
Tot. No. Of Branches	102	102	104	101	102	104	n.n

Source: AMIK, 2018, p. 2. Retrieved from <http://amik.org/en/Microfinance-Sector-in-Kosovo/Monthly-Reports/pager/2175/page/2>

Given the statistical data in Table 3 for the first half (from January to June) of the year 2017, the calculation of the variation for each category covered in the table above (total amount of outstanding loans, total number of loans, average loan size outstanding, etc.) gives an overview of the differences that have occurred within the six months. Only in the second quarter of 2017 the total amount of loans outstanding increased by 17.8 %, followed by 10.8% of the total number of outstanding loans and by 10.6% in the total number of borrowers. The number of loans has increased by 33.3% (AMIK, 2018). Whereas Table 4 below illustrates a slightly different change, compared to the first half of 2017.

Table 4: Second half of 2017 monthly sector comparison for the 10 selected MFI's

MFI's	July	August	September	October	November	December	Var (%)
Tot. Amount of Loans (Outstanding)	120'566'071	123'560'854	125'422'448	128'013'220	130'990'830	134'174'524	11.3
Tot. No. of loans (outstanding)	66'715	68'179	69'005	70'078	71'178	72'106	8.1
Total No. of borrowers	64'921	66'282	67'099	67'965	68'992	69'550	7.1
Aver. Loan Size (Outstanding)	1'857	1'864	1'869	1'884	1'899	1'929	3.9
Value of Loans Disbursed	10'755'584	10'920'706	10'488'527	11'756'217	11'998'398	13'453'931	25.1
Number of Loans disbursed	4'877	4'706	4'727	5'357	5'413	6'187	26.9
Ave. Loan disbursed	2'205	2'321	2'219	2'195	2'217	2'175	-1.4
Tot. No. of Branches	104	107	105	109	109	109	n.n

Source: AMIK, 2018, p. 1. Retrieved from <http://amik.org/en/Microfinance-Sector-in-Kosovo/Monthly-Reports/pager/2174/page/1>

From July to December, the total amount of loans (outstanding) increased by 11.3%, followed by a slightly lower increase in percentage (8.1%) in the total number of loans (outstanding) compared to the first half of 2017. In comparison to the second quarter of 2017, the number of borrowers increased by 7.1%, followed by an increase of +26.9% in the number of loans disbursed. However, the average amount of loans disbursed illustrates a slight decrease of -1.4% (AMIK, 2018) compared to Table 3 above.

Table 5: Statistical descriptions for the 10 selected MFI's in Kosovo in 2017

MFI's	Average
Tot. Amount of Loans (Outstanding)	118'131'662
Tot. No. of loans (outstanding)	66'045
Tot. No. of borrowers	64'186
Aver. Loan Size (Outstanding)	1'837
Ave. Loan Disbursed	2'174
	Variation in %
Value of Loans Disbursed	61.1
Number of Loans disbursed	59.7

Source: AMIK, authors own contribution, 2018

According to the financial statistics presented in Table 5, the average total amount of outstanding loans (approx. EUR 119,000), total number of loans outstanding (66'000), the average loan amount outstanding (approx. EUR 1'900) for a total number of approx. 65'000 borrowers was calculated. The average amount of loans disbursed equalled approx. 2'200 EUR. The calculated variation (in%) of the value of loans disbursed (January-December) shows an increase of 61.1%, while an increase of 59.7% is noted for the number of loans disbursed. This indicates an increasing demand for loans. Given the statistical data, the number of branches of the 10 MFIs increased from 102 in January to 109 branches by the end of the year (2017), indicating an acceleration in MFIs operations.

Table 6: Statistical descriptions for the 10 selected MFIs in Kosovo in 2017

Total up to June	Total up to December	Var (%)
654'852'001	762'727'947	14.1
375'282	417'261	10.1
365'419	404'809	9.7
10'744	11'302	4.9
64'564'980	69'373'363	6.9
30'324	31'267	3.0
12'736	13'332	4.7

Source: AMIK, 2018, authors own contribution. Retrieved from <http://amik.org/en/Microfinance-Sector-in-Kosovo/Monthly-Reports/pager/2174/page/1>

As a summary of the data on MFI activities for the first and second halves of 2017, Table 6 provides a detailed overview of the amounts reached for each category up to June and up to December in the first and second column. Combining the variation noted from June to December shows that there is a statistically demonstrable upward trend. For instance, the total amount of loans (outstanding) increased from June to December by +14.1% (total EUR 1'417'579'948 in 2017), followed by an increase of +9.7% (total EUR 770'228 in 2017) in the total number of borrowers (AMIK, 2018).

Compared to 2016, the data for 2017 generally display an increase in active loans by 35.5% by December. The active amount of loans totalling EUR 134.2 million was distributed to 70'000 clients. According to the data (from January to June in 2018), AMIK currently estimates the amount of active loans to reach EUR 147.5 million, the money having been distributed to 75 thousand clients (AMIK, 2018).

The sector continues to grow and this has been supported by the financial overview provided by Financial Stability Report of the Central Bank. According to the data, MFI assets have increased by 24.5%. The asset structure is dominated by loans, comprising 76.1% of the total assets. Given the inclusion of 28 MFIs operating in the domestic market, the financial data state a total increased value of loans of microfinance sector in June 2017 that reached EUR 128.7 million, indicating an accelerated annual increase of 31.9%. The number of loans disbursed to enterprises increased by 40.2% (CBK, 2017).

Relying upon the indications mentioned above, the microfinance sector is characterized by an improving financial performance and sustainable profit (EUR 3.9 million earned in 2017 compared to 1.6 million in the second quarter of 2016) (CBK, 2017).

Conclusion

According to statistical and financial data, the promotion of microfinance and the offering of microcredit or small loans to SMEs in Kosovo have been shown to serve as a successful solution to working capital problems faced by SMEs. The benefits of MFIs are multiple, but its primary effect is the financial inclusion of SMEs and poor members of society (Ngugi&Kerongo, 2014).

By lending to small businesses as well as individual entrepreneurs, MFIs seem to play an important role by meeting Kosovo's market needs. The greater the attention to MFI sustainable funding, the greater the impact it has on the overall growth and improvement of the overall private sector in terms of empowering entrepreneurship (Adeoti&Gbadeyan, Olawale, 2015).

The government has taken major initiatives, offering small loans through microfinance institutions, avoiding inadequate policies with regard to MFI funding that might otherwise backfire and calling for the provision of loans to SMEs (Nuwagaba, 2015). However, not all governmental interventions are equally effective and some policies even seem to be counterproductive (World Bank, 2008).

Although microcredit has been found to be insufficient, statistical data illustrate the increasing demand for microcredit loans. It is, however, quite clear that burdening the informal sector with non-productive activities has been a mistake, since the informal sector is not able to simply expand and absorb an unlimited number of cash-strapped enterprises. One important issue yet to be addressed is to analyze and challenge the view that MFIs often ignore the crucial role of economies of scale in causing an overabundance of inefficient microenterprises, which undermine the development of more efficient SMEs (Bateman&Chang, 2009).

Based on the indications above, MFIs play an important role within the Kosovarian economy by serving clients and their small businesses, as well as other individuals who consequently benefit from the additional employment opportunities. Further research and analysis is suggested. Despite the contribution of MFIs to the development, the poverty rate has not yet been reduced, since there are additional factors that affect and impede the prospect of economic development mainly due to a hostile economic environment (Republic of Kosovo, 2011).

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