



American Chamber of Commerce in Kosovo

# Study on Access to Capital

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# Study on Access to Capital

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# Introduction

The study Access to Capital is a study which comprises of two parts. The first part contains the results of the research conducted with businesses, to identify the sources of financing which are available to businesses for a business start-up or further business development. While the second part contains the answers provided by the banks during separate interviewing sessions conducted by American Chamber of Commerce in Kosovo, with regards to the experience of banks in loaning businesses. The research and the interviewing sessions were conducted during February-March 2010. At the end of each part of the study, concrete conclusions and recommendations have been provided for each of the issues raised in the study.

# Part 1 – Sources of Financing for Kosovo Businesses

**A**merican Chamber of Commerce in Kosovo (AmCham) has conducted a research with businesses, members of AmCham Kosovo, the purpose of which was to render findings on the sources of finance that businesses usually use during a business start-up or implementation of later business plans. Through this research, AmCham Kosovo also aimed at understanding if members prefer bank loans as sources of finance for the development of their business, what are the reasons that they have asked for a loan in the last two years and what was the amount requested. The survey was conducted with 15 businesses of different size and from different sectors of Kosovo's economy.

The research shows that businesses have access to limited sources of capital, such as personal loans, borrowings from family and friends and high-interest loans.

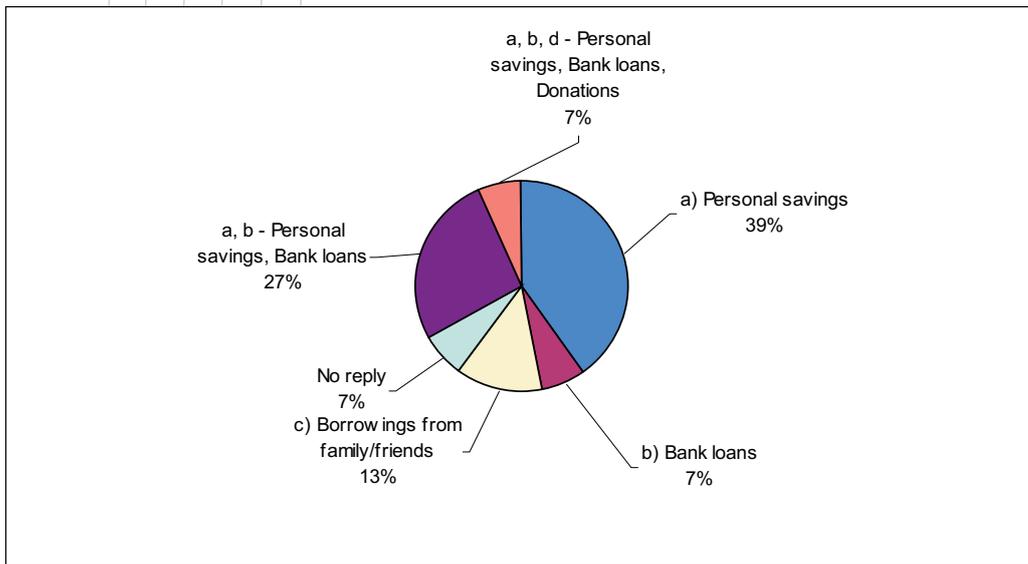
This highlights the necessity of creation of other sources of capital at more affordable conditions. The findings of the research have been presented in a graphical manner as to enable the reader understand better the findings of the research. The final part of contains conclusions and recommendations on the further steps to be undertaken.

# Responses from Businesses

## 1. Sources of finance used for business start-up:

- a) Personal savings
- b) Bank loans
- c) Borrowings from family/friends
- d) Donation

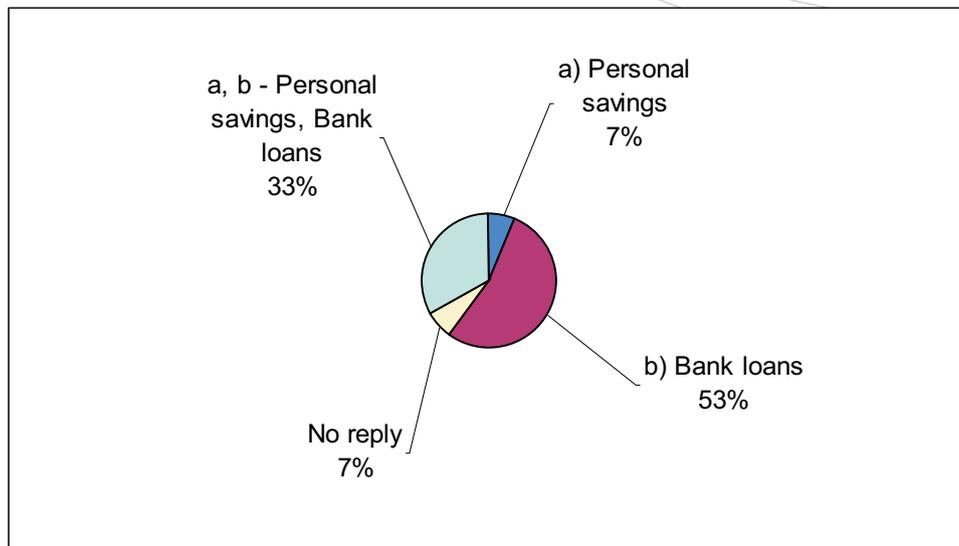
Responses on the first question have been presented in the chart below:



## 2. Sources of finance for implementation of later business plans:

- a) Personal savings
- b) Bank loans
- c) Borrowings from family/friends
- d) Donation

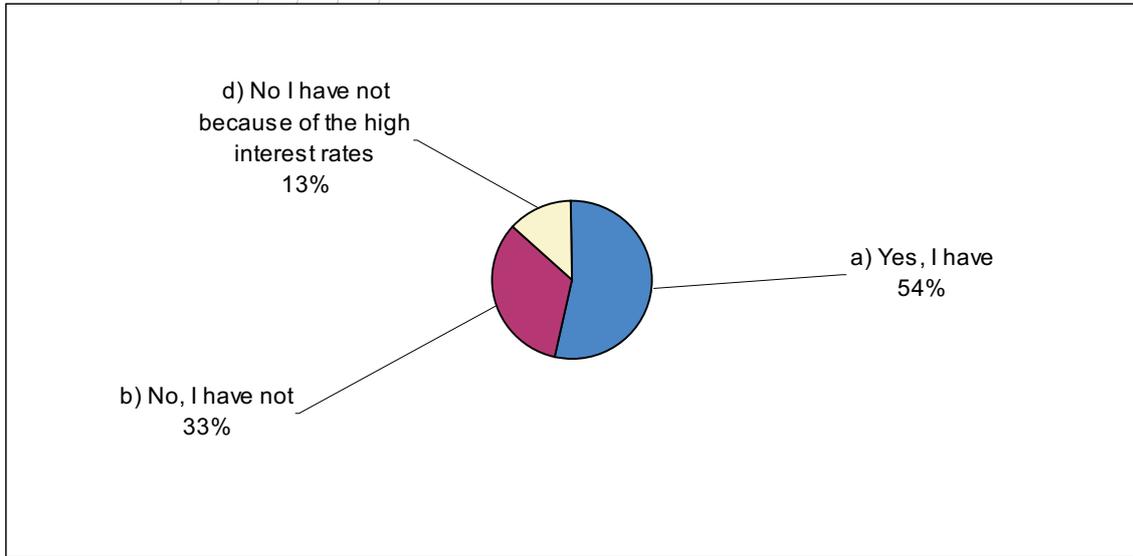
Responses on the second question have been presented in the chart below:



### 3. Have you sought bank loan within the last two years?

- a) Yes, I have
- b) No, I haven't
- c) I have not, because I did not need one
- d) I have not, because of high interest rates
- e) I have not sought bank loan because I felt I would be denied

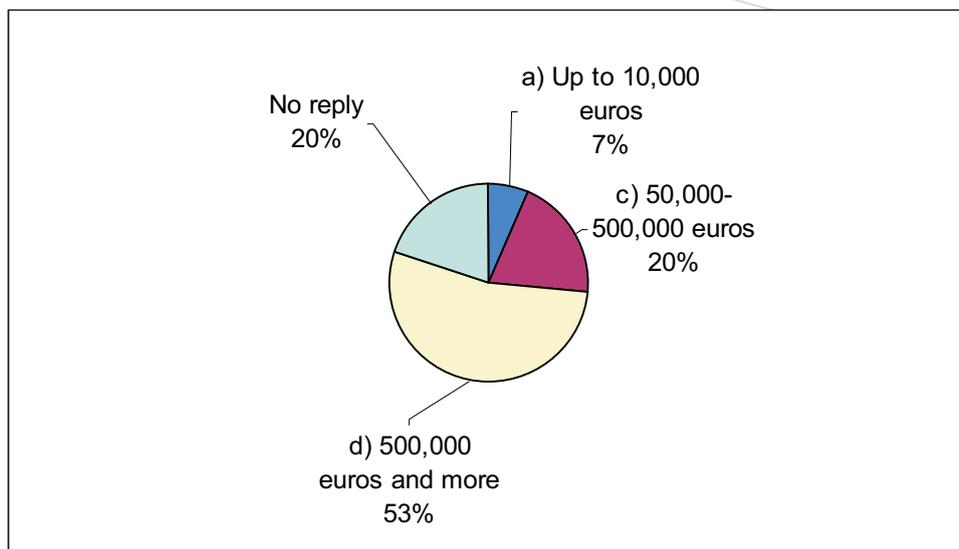
Responses on the third question have been presented in the chart below:



### 4. The loan amount requested:

- a) Up to 10.000 euros
- b) 10.000-to 50.000 euros
- c) 50.000- to 500.000 euros
- d) 500.000 euros and more

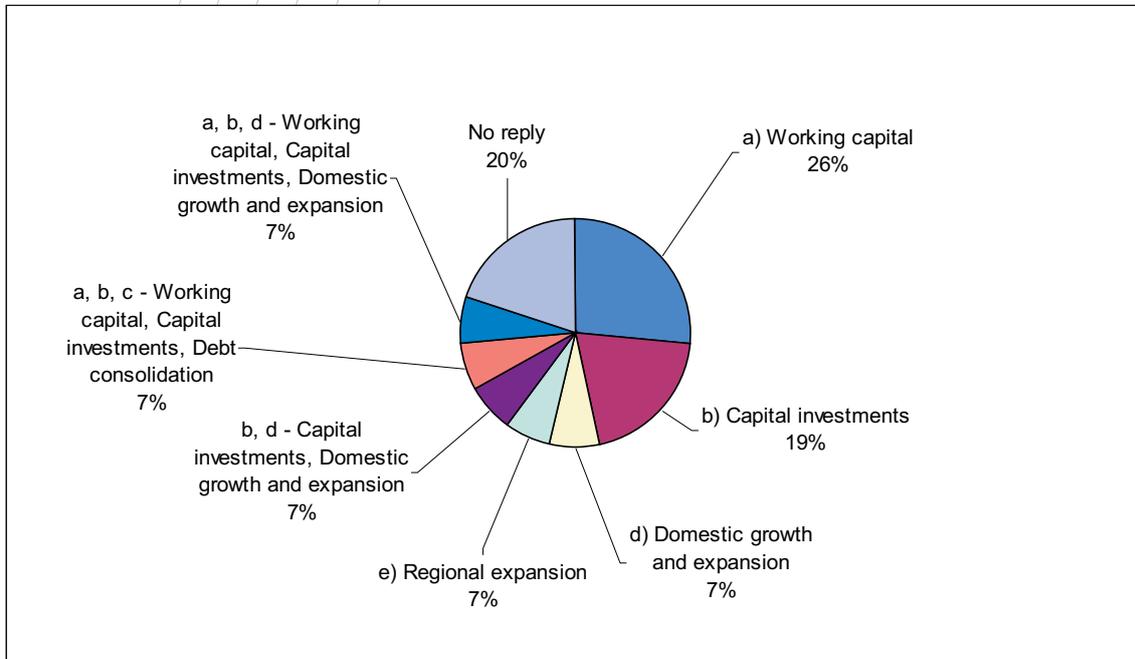
Responses on the fourth question have been presented in the chart below:



**5. Primary reasons for seeking a bank loan:**

- a) Working capital
- b) Capital investments
- c) Debt consolidation
- d) Domestic growth and expansion
- e) Regional expansion

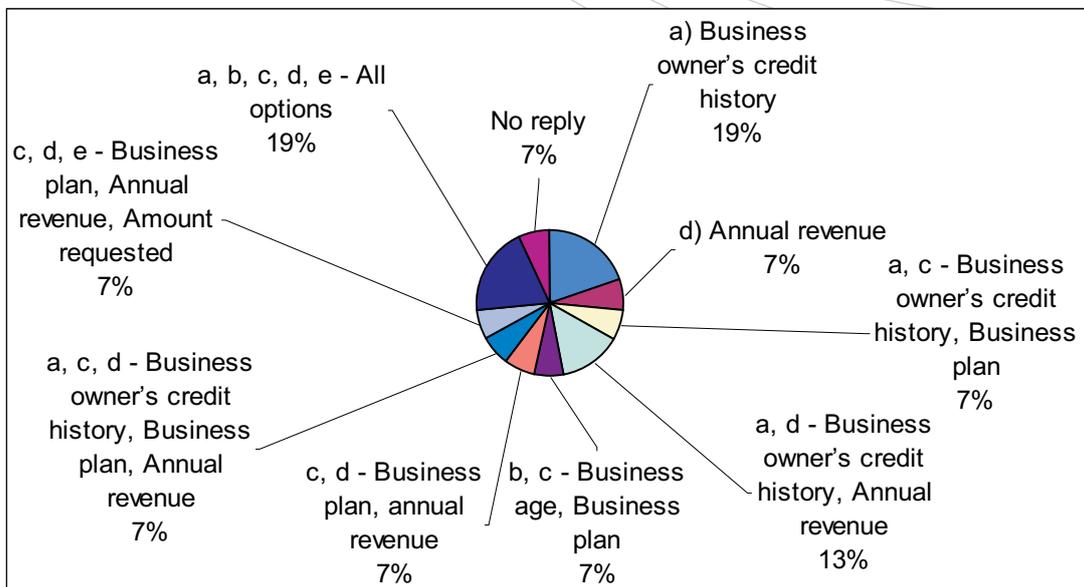
Responses on the fifth question have been presented in the chart below:



**6. Factors believed to affect businesses' credit approval:**

- a) Business owner's credit history
- b) Age of business
- c) Business plan
- d) Annual revenue
- e) Amount requested

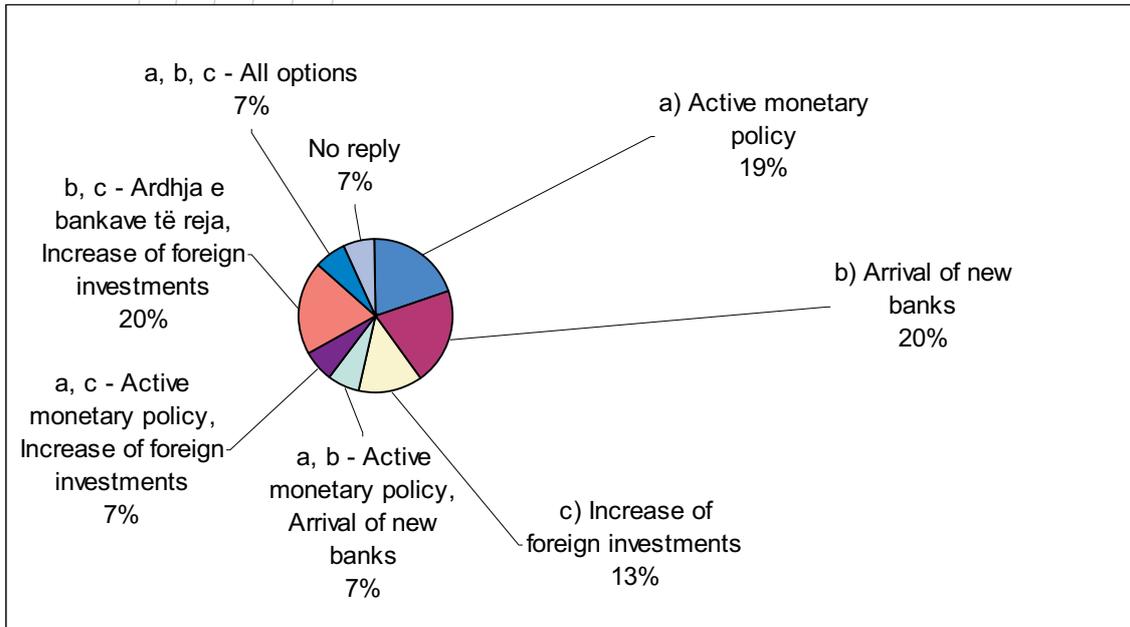
Responses on the sixth question have been presented in the chart below:



**7. Factors that would influence a decrease in the interest rates of bank loans:**

- a) Active monetary policies
- b) Arrival of new banks
- c) Increase of foreign investments

Responses on the sixth question have been presented in the chart below:



# Conclusions

**B**ased on the results of the survey conducted with the businesses, members of AmCham Kosovo, one can note that most of businesses have started up their businesses with personal savings, followed by a high number of those who have initiated their business activity with personal savings and (personal) bank loans, given that commercial banks in Kosovo do not provide business start-up loans. Whereas the third primary source of capital for business start-up are friends and family.

With regards to the sources of finance for implementation of later business plans, half of the interviewed businesses have used bank loans, followed by personal savings combined with bank loans.

With regards to the question whether they have sought for bank loan in the last two years, it is worth mentioning that half of the interviewed businesses have not sought bank loans in the last two years, whereas 13% of this proportion

have not sought bank loan because of high interest rates. The latest global financial crisis might have influenced the low proportion of those who have sought bank loans in the last two years.

Out of them who have sought bank loans in the last two years, two thirds of them have sought amounts from 50.000 euros to more than 500.000 euros.

With regards to the purpose of seeking a bank loan, one can note that the largest portion of businesses has sought loans for working capital, followed by a smaller portion of those who have applied loans for capital investments.

With regards to what would influence the decrease of interest rates for business loans, almost half of businesses believe that this would be influenced by the arrival of new banks and by an active monetary policy.

# Recommendations

**G**iven that personal savings, borrowings from friends and family represent unsustainable sources of finance and the small amounts of loans provided as personal loans in one hand, and lack of business start up loans on the other hand, AmCham recommends the presentation of start up loans or creation of new sources of access to capital, that would enable the funding of different business projects.

Since most of interviewed businesses have used bank loans for implementation of later business plans, than the high interest rates of the bank loans they receive, become an obstacle to their development. Particularly, given that most of

them have sought for huge amounts of bank loans, where the interest is estimated to be very high.

Alternative sources of capital would help in decreasing of interest rates. This recommendation becomes more powerful if it is estimated that a large number of businesses have not sought for bank loans because of high interest rates.

Based on the responses provided by the businesses, AmCham recommends exploration of alternative sources of finance.

## Part 2 -Experience of Banks in Loaning Businesses

This part of the study represents the answers of six commercial banks that were interviewed in seven key questions, which have to do with their experience in loaning businesses. The received answers are presented in a narrative form, and not a graphical one, since the banks were not given a template of questions for the survey, but the answers were simply pulled out of the interview. Also other comments outside the questions posed were made. Nonetheless, the source of all questions is confidential, but for the sake of analysis and comparisons they are referred to with the term Bank and the respective number.

The questions that were made to banks are written below:

1. How do you consider the procedures of business loaning?
2. What is the period of returning the loans?
3. For what purposes were there request for loaning?
4. Do banks finance loans for starting business activities (Start-up Business)?
5. What are usually the interest rates for business loans?
6. What would affect in reducing the interest rates?
7. What do banks think for the quality of the business plans when they apply for loans?

# Responses from Banks

## 1.

In the first question on how banks consider their procedures of business loaning, the answers are as the following:

Bank 1, Bank 2, Bank 3, and Bank 4 think that their procedures of business loaning are simple and flexible.

Bank 5, on the other side, considers its procedures of business loaning simple, although it adds that recently it also started asking from the businesses in an mandatory way for their tax statements.

Bank 6 thinks that its procedures of business loaning simple in general, but as this bank gives priority to small businesses, their answer for this sector is given also during a single day.

## 2.

In the second question on what is the period of returning business loans, the answers are a little different comparing to the answers given in the first question, and they vary from 5 to 10 years.

The individual answers regarding the period of returning business loans are given below:

Bank 1: maximum 5 years (60 months) / in special cases to 7 years

Bank 2: maximum 10 years (120 months)

Banks 3: Has not given an answer saying that this depends on the request

Bank 4: maximum 5 years (60 months)

Bank 5: maximum 6 years (72 months) / in special cases to 10 years (especially for capital investments)

Bank 6: maximum 5 years (60 months)

### 3.

In the question for what purposes (working capital or capital investments) banks have been mostly asked for loans, the answers are shown below:

Bank 1, Bank 2, and Bank 5 stated that in most cases they take and approve loans for working capital, whereas for capital investments they take and approve fewer loans.

Meanwhile, Bank 3, Bank 4, and Bank 6 stated that the requests for loans are separated almost proportionally between those for working capital and those for capital investments.

### 4.

In the question if there were cases that banks have given loans for starting business activities (Start-up Business), the answer of each of the banks was negative.

It is important to mention that three from the interviewed banks stated that they give loans for starting a new business activity, if the owner of the new business has or has already had another business.

Anyway, none of the Kosovo banks finances businesses on starting their business activity from the very beginning.

## 5.

In the question on what rates do banks offer businesses loans, five of six interviewed banks stated that they offer the lowest rates for business loans comparing to the competitive banks. But anyhow, the answers of banks are as shown below:

Bank 1: 12% minimal  
14% maximal

Bank 2: has not given any percentage with the excuse that it depends on the sum and period of the loan returning

Bank 3: 12%

Bank 4: 11% for capital investments  
14% for working capital

Bank 5: 12.8%

Bank 6: 12.3% minimal  
22.5% maximal

Based on the answers given from the commercial banks of Kosovo, it can be concluded that the average of the minimal rates that they offer for business loans is 12.02%.

## 6.

In the question on what would affect in reducing the interest rates for businesses, banks answered as shown below:

Bank 1: Arrival of new banks

Bank 2: Arrival of new banks

The active monetary policy (making mandatory the use of fiscal cash registers, since this way banks would have had a clearer picture of the turnover of the businesses that apply for loans).

Bank 3: Has not given a concrete answer

Bank 4: Arrival of new banks

Active monetary policy (in the means of depositing funds of privatization and personal savings in the commercial banks with appropriate rates).

Bank 5: Active monetary policy (by the presentation of the fiscal cash registers and by making it mandatory to make payments through banks).

Bank 6: Arrival of new banks

Active monetary policy

## 7.

In the question on what banks think on the quality of the business plans, the answers are given below:

Bank 1, Bank 2, and Bank 6 consider that up to 5% the business plans may be considered as good.

Bank 3 and Bank 4 state that they are not at all satisfied with the quality of the business plans that they receive from the businesses that apply for loans.

While Bank 5 said that 30% - 40% of the business plans that this bank receives may be evaluated as good.

# Conclusions

In the base of the interviews made to six commercial banks of Kosovo, it can be concluded that regarding the procedures of loan lending, all the banks think that their procedures are simple; which means that the answers are given very quickly, in cases when businesses fill the asked requirements, and when they bring the asked documentation from the banks.

It can also be concluded that the period for business loan returning varies from 5 to 10 years. The study also found that the loan requests that dominate are the ones for working capital, followed by the loans for capital investments. The banks accept that they do not lend loans for starting a business activity from the beginning (Start-up Business), except for cases when the owner of the business has already had another business. Furthermore, by the average minimal rate for businesses being 12.02%, this shows that the interest rates are quite high. As a consequence, this discourages businesses on applying for loans, by making it impossible or postponing their development.

As far as the reduce of these rates is considered, four of the six interviewed banks think that this would be affected by the arrival of new banks, even though they admit that this has not happened so far. An impact on reducing the interest rates, according to banks, would have also had the intervention of the government, not in the aspect of making a decision that would make banks reduce their interest rates (since the banking system in Kosovo is liberalized), but in the aspect of presenting the fiscal cash registers, or the empowerment of the obligation of making payments through banks, or also by depositing the state capital with appropriate interest rates. In the end, from the answers given from the banks, it can be concluded that the quality of the plans of businesses that apply for loans is very low.

# Recommendations

- ⊙ Expansion of the base of the financing and crediting options:
  - Pension funds
  - Privatization funds
  - Other deposits (tools from the insurances)
- ⊙ Strengthening of the Law of Financial Report
- ⊙ The improvement of the quality of the business financial reports
- ⊙ A better implementation of the Law of Payments Through Banks
- ⊙ Increase of the period of the loan lending, especially for the loans who's goal is using them for capital investments
- ⊙ Increase of financing with appropriate interest rates for working capital, especially for capital investments, especially if estimated that this would influence in increasing the capacity of the business
- ⊙ Begin with lending loans for starting a business activity from the beginning (Start-up Business) in cases when clients submit professional and interesting plans, which guarantee success in the market, and financial sustainability
- ⊙ The government monitoring in a strict way the application of the fiscal cash registers
- ⊙ Training of businesses, or recruiting counseling companies for the preparation of the business plans



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