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Financial Life Cycle of Kosovo SMEs: Results of an Enterprise Survey

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Abstract: *This article empirically examined how Kosovan SMEs finance their working capital and their investments through their growth life cycle. Using the financial growth cycle paradigm to test the financial growth cycle based on a sample of 100 Kosovan SMEs' reporting data since their inception of business. Findings show that Kosovan SMEs use various sources to finance their working capital and investments throughout their life cycle. To finance their working capital needs, during the first two years of operation, Kosovan SMEs rely more on insider capital sources such as personal savings, financing offered from 3F connection - friends, family, fools, retained earnings, and also trade credit takes a significant place. Over time, as businesses evolve through age, the proportion of retained earnings and business debt financing in total capital injection volume increases significantly. As firms grow older, financing from trade credit marks a decline, so the SMEs replace it with using more overdraft. During the first years of operation, to finance their investments, Kosovan SMEs rely primarily on owner's personal savings, financing from 3F connection - friends, family, and fools, retained earnings, but as the company grows older and becomes more extensive, they rely mainly on two sources: retained earnings and bank loans. In general, concerning debt, Kosovan SMEs use more trade credit and overdraft to finance their working capital and bank loans to finance their investments. Funding from 3F is mainly used during the initial phase of operation. However, the most used resource by Kosovan SMEs in all stages of operation remains retained earnings, while external equity raised from angels and venture capitalists and other alternative financing are almost inexistent.*

1. INTRODUCTION

Small and medium enterprises (SMEs) are crucial for stable and thriving market economy, because they are an essential component of the economic and social development of the economy, contributing to employment and income generation (Bondareva & Zatrochová, 2014; Hashi & Krasniqi, 2011; Krasniqi & Desai, 2016). SMEs contribution to employment generation and economic growth has led to the growing interest in small firm finance, considering the critical role of firm's access to external finance for the survival and growth of small firms.

Considering the vital role of SMEs, it is an interest of both practitioners and policymakers about factors that enable or inhibit the growth. Funding sources are an essential factor that affects the growth of SMEs. The financing sources of SMEs, overall, depend on numerous financial decisions. They depend on many factors, such as type of enterprise, type of activity, the choice made by its executives for investments, financing structure, nature of management, - among others. These financial decisions are highly dependent and conditional on each other (Bundo, 2012). Initially, financing of small firms was not treated separately from large firms because it has been considered that there

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was no significant difference between small and large firms. However, it is a general finding in the empirical corporate finance literature that external funding sources available to SMEs are different from those generally used by larger firms or corporations. While the latter can issue corporate debt or equity onto capital markets (López-Gracia & Sogorb-Mira, 2008), external financing sources for small firms are almost exclusively reduced to seeking debt from lending institutions.

Most authors widely accept that the most prominent feature distinguishing small firms from large ones is information asymmetry. Unlike large firms, small firms do not enter into publicly accessible contracts, audits, and published financial statements. Doing small businesses is characterised by an asymmetry of information, making it impossible for the borrower to have the same information that the company management possesses. Small firms remain credit-rationed as a result of information asymmetry (Stiglitz & Weiss, 1981). Another issue that makes SMEs different from large firms has to do with decisions on capital structure. Relying only on private markets limits the financing of SMEs. Barriers such as information asymmetry, high transaction costs, and low levels of business owners' financial ability explain why SMEs have more difficulty accessing finance than large firms. Credit markets in both developed and developing countries are considered imperfect and deliberately limited, making the market mechanism unable to address small business financing needs (Bakhtiari et al., 2020; Beck, 2007; Bridge et al., 1998; Getter, 2020; Krasniqi, 2010; Star, 1983).

Small firms use different sources for financing. Entrepreneurs usually have insufficient resources to fund their new ventures from internal sources and seek external sources. Information asymmetry, lack of trading history, and high risk of failure influence small firms in its initial stage to rely more on internal sources of financing (Cassar, 2004; Huyghebaert & Van De Gucht, 2007; N. Berger & F. Udell, 1998; Stiglitz & Weiss, 1981). This has led to a lack of adequate funding sources for small firms leading to their failure (Coleman, 2000; Gaskill et al., 1993; Huyghebaert & Van De Gucht, 2007; Jones, 1979; Welsh & White, 1991). In addition to the owners' savings and family and friends, they also obtain financing from suppliers and advances from customers (Ang, 1992). Furthermore, how entrepreneurial firms receive external funding is one of the most fundamental questions for research on entrepreneurship in emerging economies (Cassar, 2004). As a result of their organisational features and business strategies that are rarely publicly disclosed, SMEs are usually not as transparent as large enterprises. This informational opacity limits their access to standardised public markets for equity and debt. Capital investment of firms is critical for productivity and growth of the private sector and an economy's overall growth. The firm's investment may be limited because of the firm's inability to obtain external finance despite the investment growth opportunities. If firms face limited access to external finance, they may be unable to invest, despite their willingness to do so unless internal finance sources are available. In these circumstances, larger firms that can obtain resources may not find a profitable use for them; on the other hand, small firms that can find the opportunities may not find the financial resources. This leads to the situation where the economy is losing some of the potential benefits of potentially good projects that will not be implemented because of the lack of funds. In addition to the general financial problems of SMEs in any economy, small firm financing in transition economies is impeded by the low-level development of the banking systems and capital markets and shortage of available capital, creating adverse supply-side effects leading to unfavourable conditions for the growth of the SMEs (Krasniqi, 2010).

The lack of studies investigating the extent and type of financing employed at various growth stages is a vital omission (Hussain & Matlay, 2007), especially in transition context (Krasniqi, 2012).

There is a scarcity of studies that have talked about the relationship between life cycle and financial policy (Mabrouk & Boubaker, 2019). A firm's funding requirements vary significantly throughout its life cycle and access to various financing sources. Thus, facilitating the identification of potential funding gaps at various points in a firm's development, and providing suggestions how firm can take advantage of using various sources at different stages of development contributes to the small firm financing literature in general, and in transition literature in particular.

To address these issues, this paper empirically examines the financial life cycle model of the 100 Kosovan firms, since the beginning of the operations. We categorise, capital structures of firms in the sample by sources of equity and sources of debt, and we analyse it across four age groups. Furthermore, we compare sources of finance employed at start-up with those employed at present, illustrating how firms' capital structures evolved. This paper tries to answer the following questions: What type of funding do SMEs use to finance their working capital and their investments during their growth life cycle, and how do they vary over time.

The paper is structured as follows. Firstly, the life cycle theory of small firms and an overview of small firm finance in Kosovo are outlined. The data research method is then described. In the following sections, empirical results are presented and discussed. The conclusion is followed by suggestions for further research and policy implications.

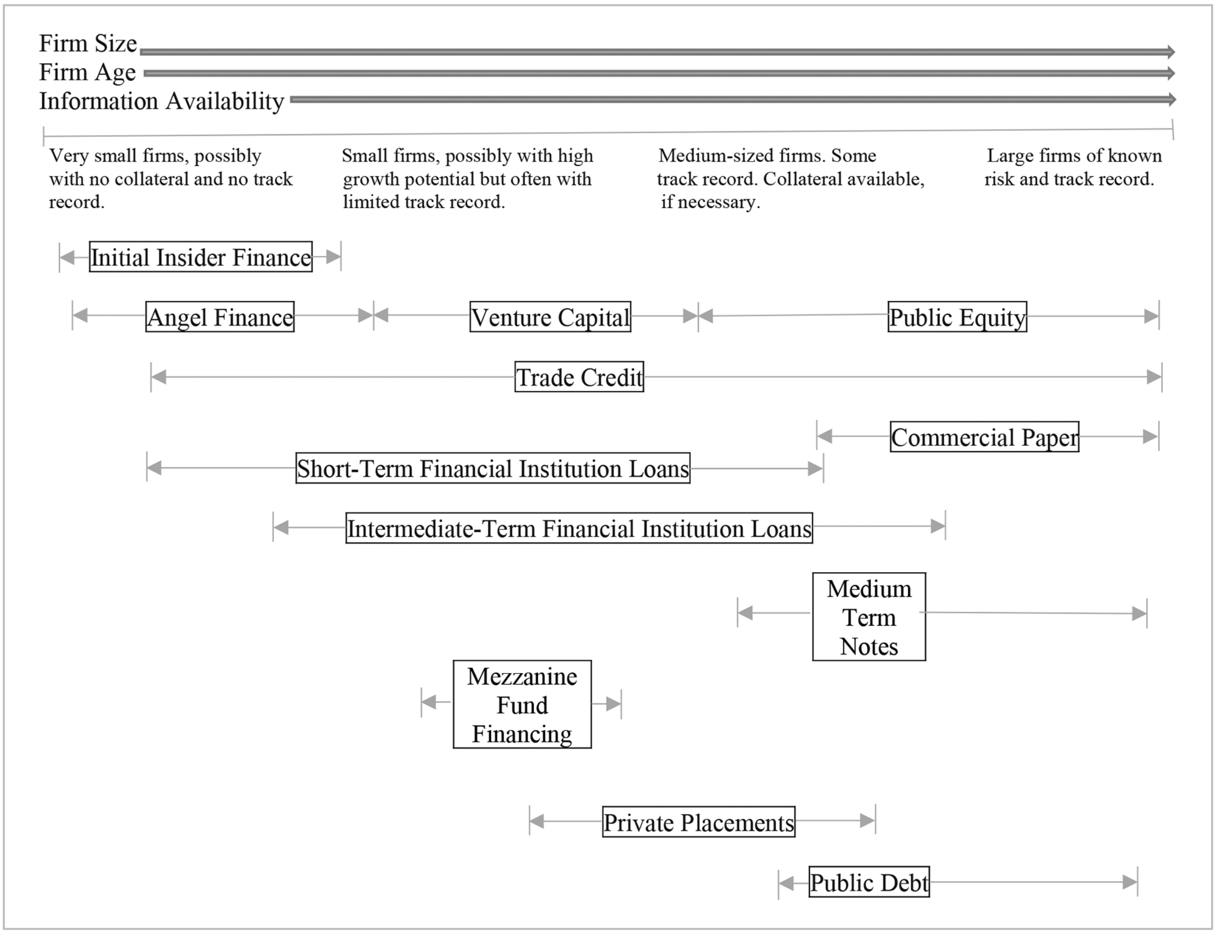
2. LITERATURE REVIEW

2.1. The financial growth cycle of SMEs

A small firm undergoes different stages of development from the initial stage through maturity, and a specific theory is necessary for each stage (Ang, 1992). Several enterprise growth models have been developed, while a unique growth model characterizes SMEs. The life cycle of firm has an important role in the dynamic of capital structure of a firm. It will have different funding decision in every life cycle because the characteristics of a firm affecting the capital structure will adjust to the development of life cycle occurring (Cempakasari et al., 2019). Berger and Udell (1998) are at the origin of the financial growth cycle model. According to this model, financial needs and the financing options available for SMEs change throughout the various phases of a firm's life-cycle. Reproduced in figure 1, the model incorporates changes in the availability of information and collateral in describing sources of finance available to firms over time (Figure 1).

According to Berger and Udell (1998), different financing strategies are required at different stages of the firm's growth cycle. In the context of a company's life cycle, asymmetric information problems are more severe among young growth firms compared to firms that have reached maturity (Mabrouk & Boubaker, 2019). In general, because of the unique features that characterise SMEs during the start-up phase, such as informational opacity (Berger & Udell, 1998) and the lack of trading history (Cassar, 2004), SMEs in this stage depend heavily on insider funding sources. As SMEs advance through their business life-cycle, they begin to gradually adjust their capital structure (la Rocca et al., 2011). During subsequent growth stages, as SMEs mature, they start to establish a track record in addition to the ability to provide collateral. This serves to improve the firm's creditworthiness and thereby attracts the attention of investors who willingly inject money into the business.

Figure 1. Sources of financing during firm continuum



Source: Berger and Udell, 1998, p. 623

As a consequence, firms begin substituting internal with external financing sources. In the more advanced stages of their growth cycle, SMEs become more informationally transparent, they may develop access to securitised debt and publicly listed equity markets (Berger& Udell, 1998). However, Berger and Udell (1998) concede that the life-cycle paradigm does not apply to all SMEs operating in different industries, implying that firm size, age, and information availability intended to constitute the backbone of this particular paradigm, are not perfectly correlated. Several empirical studies, including those (Kimhi, 1997) and (Barton & Gordon, 1987), use the life-cycle model as their chosen approach to understand SMEs' financial behaviour. In line with these studies, (la Rocca et al., 2011) found that the financial behaviour of SMEs can be, to a large extent, attributed to the life-cycle pattern, which was found consistent over time and quite similar across different industries and institutional contexts.

La Rocca et al. (2011) studied financing choices of SMEs through the lens of the business life cycle; the finding show that in the bank-oriented country, firms tend to adopt specific financing strategies and a different hierarchy of financial decision-making as they progress through the phases of their business life cycle. Debt is shown to be fundamental business activity in the early stages, representing the first choice. In the maturity stage they gradually substitute debt for internal capital. A study of small business financing using a sample of 60 SMEs across three cities in China (Wu et al., 2008) found evidence supporting the business life cycle model. Access to external finance improves with size and age, supporting the idea of a financial growth life-cycle (Chittenden et al., 1996). A study tested firms' financing behaviour of French companies in the period of 2005-2014, over life cycle stages in the context of the pecking order theory, and found that the pecking order explains the debt in French companies that are in growth phase, maturity or decline (Mabrouk & Boubaker, 2019). The source of finance most appropriate to fund SME growth and development varies according to the firm's stage of development, as depicted in table 1.

Table 1. Financing sources of SMEs by stage of development

Phase in SME lifecycle	Type of financing required
Seed stage	Informal equity and loans from founder and associates. Bank loan if available and needed
Start-up stage	Informal equity and loans from founder, associates and contacts. Bank loan if available. Leasing for equipment
Expansion stage	Equity from original sources, plus trade investments or venture capital. Loans from bank. Other sources of finance including leasing and factoring. Retained profits

Source: European Commission, 2009 (Cyclicality of SME Finance)

2.2. Context of study: an overview of small business finance in Kosovo

SMEs form the backbone of the most national economies worldwide (OECD, 2020). The SME sector's contribution to the economy has attracted the attention of academics and policymakers in both developed and transition economies. Particularly in transition countries, their fundamental ability to resolve some of the economic problems arising from the transformation process from a centrally-planned to a market economy, has become an important role for them. In the European Union, in 2018, SMEs accounted for 99.8% of all enterprises in the EU-28 non-financial business sector (NFBS), generating 56.4% of value-added or slightly less than three-fifths of value-added, and two-thirds of total EU-28 NFBS employment, or 66.6%. There were somewhat more than 25 million SMEs in the EU-28, of which 93% were micro-SMEs, whereas only 0.2% or 47,299 were registered as large enterprises (Table 2).

Table 2. Number of SMEs in the EU-28 NFBS in 2018 and their value-added and employment

Enterprises	Micro SMEs	Small SMEs	Medium SMEs	All SMEs
Number of Enterprises	23,323,938	1,472,402	235,668	25,032,008
% of Enterprises	93.0%	5.9%	0.9%	99.8%
Value added in €(million)	1,610,134	1,358,496	1,388,416	4,357,046
% of Value added	20.8%	17.6%	18.0%	56.4%
Number of Employment	43,527,668	29,541,260	24,670,024	97,738,952
% of Employment	29.7%	20.1%	16.8%	66.6%

Source: European Commission, 2019

It is argued that small and medium-sized enterprises have the great potential to generate new jobs and income and respond to the systemic shock rapidly, which are some of the reasons why their role has become increasingly vital for transition economies (TEs). Despite the growing importance of SMEs in all transition economies, they still face many institutional barriers, which have prevented them from making a greater contribution (Hashi & Krasniqi, 2011). Since the beginning of economic liberalisation, the SME sector has gone through a very dynamic development. Small private businesses have gained considerable weight in the national economies of all transition countries. Undoubtedly, transitional countries have gone through profound institutional reforms to facilitate the development of the private sector. However, further institutional reforms are necessary for most of them to improve the policy environment for small businesses.

Despite their essential role, relatively little attention has been paid to the SME business environment, which is necessary to stimulate SMEs' development (Krasniqi, 2007). To create the basic structure of the market economy's functioning, Kosovo has gone through many challenges (Mustafa et al., 2018).

Classifications of Enterprises in Kosovo are based on the European Commission recommendation on the definition of micro, small and medium-sized enterprises. According to the Law. No. 06/L-032 on Accounting, Financial Reporting and Auditing which entered into force in 2018, for the purposes of preparing the financial statements, micro-enterprises, small and medium-sized enterprises are considered SMEs if they meet two of the three following criteria. Micro enterprises are enterprises that do not exceed the limits of at least two of three criteria: average number of employees during the financial year 10, the total assets less than EUR 350 thousand and annual revenue less than EUR 700 thousand. The enterprise is classified as a small enterprise if the average number of employees is 50, the total assets less than EUR 4 mil. or annual revenue less than EUR 8 mil. Medium-sized enterprises are enterprises that met at least two of the following criteria: average number of employees during the financial year 250, the total assets less than EUR 20 mil. and annual revenue less than EUR 40 mil. Kosovo's classification of SMEs is defined for the investment purposes also by the Law on foreign investment, which entered into force in 2014. The only criterion is employment size.[4]

SMEs in Kosovo play, in particular, an important role in the development of the local economy. Their contribution is primarily evident in job creation and income growth. The increase in their number also contributes to creating a more competitive business environment (Krasniqi, 2007). During 2016 around 38 000 registered enterprises were operating in Kosovo, 93.1% of which are micro-enterprises. During 2016, they accounted for 99.9% of all enterprises, generating 81.0% of value-added and accounted for 76.2% of total employment (European union, 2020). Services are the largest sector in the economy, with a share of value-added of 54% of GDP over 2009-17.

Table 3. Percentage of SMEs in Kosovo, employment, their value-added, and exports during 2016

Enterprises	Number	Employment	Value added	Exports
Micro	93.1%	34.9%	13.2%	54.9%
Small	5.9%	22.8%	20.3%	33.5%
Medium sized	0.9%	18.5%	47.5%	8.9%

Source: OECD/ETF/EU/EBRD, 2019-SME policy index: Western Balkans and Turkey 2019

The financing of these firms is an issue of great significance and a subject to care for. Kosovo is characterised by a typical traditional financial system, dominated by commercial banks and with the Central Bank of Kosovo acting as a regulator. Most of the financing for small and medium enterprises in Kosovo is provided through banks.

Table 4. Number of financial institutions over years 2010-2019 in Kosovo

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Commercial banks	8	8	9	9	10	10	10	10	10	10
Insurance companies	12	13	13	13	14	15	15	15	14	13
Pension funds	2	2	2	2	2	2	2	2	2	2
Micro-financial and non-bank financial institutions	17	20	17	17	18	18	16	18	22	20
Financial intermediaries	28	34	38	39	42	44	48	52	51	51

Source: bqk-kos.org, Financial Stability Report, Number 16

4 For the purpose of this study, the only criteria used for the classification of SMEs is employment size.

The total number of financial institutions in Kosovo during 2019 includes 10 commercial banks, 13 insurance companies, 2 pension funds, 20 micro-financial, and non-bank financial institutions, and 51 financial intermediaries (CBK, 2020). Hutchinson & Xavier (2006) examined that SMEs in transition countries operate under internal financing because the financial system in these countries is underdeveloped and faces problems accessing external finance. Although Kosovo's financial system's architecture is almost entirely bank-based, the non-availability of external finance becomes one of the main constraints to small business investment and hampers their growth potential.

Early-stage entrepreneurs in their first two years face especial barriers as they do not have the trading records for banks to lend against and face the challenge of posting significant collateral against a loan. As a result, many small businesses with high growth potential cannot provide the funding they need to expand and increase employment. Finance start-up support has been limited mainly to the provision of grants, equipment, and machinery, co-financing grants. In contrast, alternative finance in Kosovo, such as angel investors, equity financing, and venture capitalist funds, are almost non-existent (Krasniqi, 2010). Starting a business or getting a loan for potential female entrepreneurs is difficult because they face particular challenges, as only 8% of assets are officially run by women (Culkin & Simmons, 2018).

Kosovan banks continue to have very conservative lending policies, including broad collateral requirements for real estate and movable assets to support most of the loans. An empirical investigation of Kosovan SMEs has shown that commercial banks in Kosovo base their decision on credit firms based on collateral. Well-performing firms are more likely to ask for credit because of better business prospects in the future. Still, profitability as a measure of firm performance does not seem as a sufficient signal for banks to allocate credits. According to Hauser et al., 47.1% of Kosovo firms identify access to finance as a major constraint, even though the availability of loans is sufficient (Hauser et al., 2016). The main obstacle for SME borrowing is the banks' conservatism around collateral requirements; sometimes, the requested collateral goes to the tune of 300% of the loan value. High collateral requirements present a major barrier to access to finance. Banks seem to prefer more to secure themselves from likely opportunistic behaviour of potentially "bad borrowers" with the use of collateral.

Findings are in line with theoretical and empirical arguments that systematic use of collateral can mitigate the adverse selection by banks in choosing whom to allocate the credit, especially in a country with a turbulent political environment and weak property right system (Krasniqi, 2010). Despite continued progress in effectively implementing legislative and regulatory requirements reforms, it has contributed to reducing barriers to accessing credit. However, numerous obstacles remain, which hinder business performance and access to finance. High levels of informality, poor contract enforcement, lack of cadastral data, along with a lack of financial transparency and low-quality financial reporting, continue to be barriers to access to finance for firms (CBK, 2020). A study undertaken by Moder and Bonifai (2017), aimed to analyse the limitations in access to finance for the Western Balkans countries, suggests that financing conditions improved considerably for Kosovo, which was the most constrained in 2008 for Western Balkans at the level of more than 70%. The constraint percent was declined at 45 %; the most pessimistic perception in the latest survey was recorded in Kosovo at 60%.

Financial institutions view SMEs as risky and expensive to lend to and often impose rather heavy collateral criteria on borrowing SMEs partly due to the risk and difficulties in executing credit contracts and sufficient return of funds. Non-performing loans to SMEs are higher than those to corporations and individual consumer borrowers. Although most SMEs have little or no real estate collateral, the value required by financial institutions to provide credit was almost double the amount of the loan provided (Table 5).

Table 5. Lending Environment in Kosovo

Lending Environment	Firms perceive financing constraints	Firms facing finance constraint	Not favourable - Interest rate	Collateral greater than	Loan Rejected
Kosovo	60%	45%	95.7%	200%	4.3%

Source: Moder & Bonifai, 2017

Progress in the scope of private bailiffs and Amendments to the Law on Enforcement Procedure relating to the seizure of a bank account and the accelerated procedure for the sale of collateral, have had a positive impact on the credit offer and have made to ease collateral requirements and reduce interest rates. Borrowing of small and medium enterprises from 2016 is also supported by the Kosovo Credit Guarantee Fund (KGF), the use of which has marked a continuous growth trend. The KCGF is established in January 2016 under the Law on the Kosovo Credit Guarantee Fund's Establishment. The KCGF aims to support the private sector in Kosovo by increased access to finance for SMEs, thereby creating jobs, increasing local production, improving the trade balance, and enhancing opportunities for underserved economic sectors. Until very recently, the number of bank loans guaranteed by KCGF was more than 6224, while the approved number of guarantees amounted to more than 234 million euros (fondikgk.org).

Contract Enforcement Procedures in The Kosovo Credit Guarantee Fund facilitates SMEs' access to finance, including collateral seizure, which has also been inefficient, time-consuming, and expensive. However, there have been improvements in implementing the system of Private Bailiffs from mid-2014 (Kosovo Banking Association, 2016). In 2019, research was done by Lajqi et al. 2019 in Kosovo to assess the current support packages available to start-ups in Kosovo at various stages of business development, also to identify potential needs such as infrastructure, services, and access to finance. Several conclusions are made: In finance, there is a need for alternative financial instruments to support start-up creation and growth. There is an emergent need to design support programs for start-ups operating in a promising sector based on Kosovo's competitive advantage. Currently, the majority of local start-ups and SMEs are unaware of crowdfunding. There is a need to promote the business angel culture by supporting the creation of business angel networks ("Mapping Business Start-up Ecosystem in Kosovo," 2019).

3. METHODOLOGY, SAMPLE AND DATA COLLECTION

Unlike the developed countries, the feature of small business finance in Kosovo is under- researched. The lack of detailed data on Kosovan SMEs' makes it difficult and one of the most challenging fields to conduct empirical research. Until recently, Kosovan small businesses, in particular, micro-enterprises, weren't required to release financial information. However, this situation is improving, as data sets have very recently become available. Under Law no. 06/L-032, which entered into force on 01 January of 2019 and Kosovo Financial Reporting Council, all micro-companies whose annual turnover exceeds 50,000.00 € are obliged to disclose the balance sheet and income statement. This makes it much easier to describe the state of small business finance and test the extant theories of financial intermediation and informational opacity.

This study is based on primary data, collected using surveys from 100 SMEs' financial data from their establishment until the end of 2020, chosen randomly operating in different sectors. The study is designed using the framework developed by Berger and Udell in article "The economics of small business finance: The roles of private equity and debt markets", where firms are viewed through a financial growth cycle. The survey is designed in that way that firms were asked to answer the questions of their financing options by dividing the company's age into four periods of time. Infant firms from 0-2 years, adolescent firms from 3-4 years of operations, middle-aged firms with 5-24 years of operation, and old were considered all firms with more than 25 years of operation. However, in the research, no firm has reached the old age of operation. The interviews were conducted through the face-to-face method with the key people in each enterprise. They also provided more information about years in the business, the size of the company in terms of employment, sector activity, and others characteristics. Surveys were pre-tested and improved before conducting the survey. Questionnaires were analysed through the SPSS statistical program.

4. RESULTS AND DISCUSSION

The paper's main objective was to test the financing of Kosovan SMEs empirically during their growth cycle. Among others, two main questions are compiled in a survey. Participants were asked to answer the following questions on "Which were the main sources to finance the working capital of your firm during the firm's growth cycle?", and "Which were the main sources to finance investments of your firm during the firm's growth cycle?" Findings show that Kosovan SMEs employ different sources of finances for working capital and different for investment. Table 6 shows that Kosovan SMEs, finance their working capital depending on private equity and debt types. They rely on equity (57.8%) and debt (42.2%). Sources of equity consist of the owner's personal savings and retained earnings. Debts are divided into seven categories, including friends, family and fools, deferred payment of taxes and contributions, grants and subsidies, trade credit, microfinance institutions, overdrafts and bank loans (Table 6).

In the study conducted by Krasniqi 2010, according to which finance start-up support has been limited mainly to provision of grants, equipment and machinery, co-financing grants, whereas angel investors, equity financing and venture capitalist funds are almost non-existent (Krasniqi, 2010). However, in this study, findings show that firms during the initial phase tend to rely more on owner's personal savings, borrowing from 3F connections, retained earnings and use more trade credit; except for a small percentage of overdrafts, other sources of funding are almost non-existent. After growing older, retained earnings are the first fund that they prefer to use, followed by a high percentage of overdrafts, marking a drastic decline of other funding sources. The findings are in line with pecking order paradigm according to which financing of the firms follow an order from safer to riskier, by giving advantages to internal financing compared to external financing (Myer, 1984). The asymmetry of information between managers and investors is what leads to a pecking order.

Findings reported in Table 7 show how Kosovan SMEs finance their investments. Sources of equity are divided into two categories, including owner's personal savings and retained earnings. Debts are divided into four categories: friends, family and fools, grants and subsidies, microfinance institutions, bank loans and overdrafts. To finance their investments during their life cycle, Kosovan SMEs depend on equity (64.4 %) and debt (35.6%).

Table 6. Kosovan SME financing during their life cycle for working capital

Sources of Financing	Sources of Equity			Sources of Debt								
				Individuals, Non-financial Institutions and Government			Financial Institutions					Total Debt + Equity
	Owner's Personal Savings	Retained Earnings	Total Equity	3 F: Friends, Family, Fools	Deferred payment of taxes and contributions	Grants and Subsidies	Trade Credit	Micro finance Institutions	Overdrafts	Bank Loans	Total Debt	
"Infant" (0-2 years)	32.2%	19.7%	51.9%	26.2%	0.4%	0.4%	13.8%	1.6%	5.8%	0.0%	48.1%	100.0%
"Adolescent" (3-4 years)	10.3%	50.1%	60.4%	7.9%	0.7%	0.4%	9.8%	0.2%	20.3%	0.3%	39.6%	100.0%
"Middle-aged" (5-24 years)	3.7%	57.4%	61.1%	3.6%	0.1%	1.4%	5.0%	0.3%	28.4%	0.0%	38.9%	100.0%
Financing over years	15.4%	42.4%	57.8%	12.6%	0.4%	0.7%	9.5%	0.7%	18.1%	0.1%	42.2%	100.0%

- *There were no firms in the sample that belonged to the fourth stage of years classified as Old Aged, with more than 25 years of operation. Among others, one of the reasons could be that, based on survey from MTI, only 7.33% of all active enterprises were registered before the year 1989. After 1999 Kosovo marked an impressive increase in the number of registered enterprises. Therefore, most enterprises are considered young, and very few of them have overcome the fourth stage of operation: The Old Aged.*

Source: Author's calculation

Table 7. Kosovan SME financing during life cycle for investments

Sources of Financing	Sources of Equity			Sources of Debt					
				Individuals, Non-financial Institutions and Government		Financial Institutions			Total Debt + Equity
	Owner's Personal Savings	Retained Earnings	Total Equity	3 F: Friends, Family, Fools	Grants and Subsidies	Micro finance Institutions	Bank Loans and Overdrafts	Total Debt	
"Infant" (0-2 years)	38.7%	24.9%	63.6%	30.2%	0.0%	1.6%	4.6%	36.4%	100.0%
"Adolescent" (3-4 years)	9.6%	56.7%	66.3%	6.3%	0.4%	1.2%	25.8%	33.7%	100.0%
"Middle-aged" (5-24 years)	0.1%	63.2%	63.3%	3.9%	0.5%	0.4%	32.1%	36.7%	100.0%
Financing over years	16.1%	48.3%	64.4%	13.5%	0.3%	1.1%	20.8%	35.6%	100.0%

- *None of enterprises did not use Leasing Finance, Angel Finance, Venture Capital, Factoring, Non-refundable funds from external donors (NGOs), Foreign direct investment, Initial public offer- among other types of financing to finance their operating activities during their financial cycle.*

Source: Author's calculation

Owners' personal Savings, 3F connections and Retained Earnings are the main funding to finance investments for Kosovan SMEs during their infant phase. In their middle age their capital structure tends to change, where retained earnings are the main source to fund their investments followed by bank loans and overdrafts, while other sources are almost inexistent. These findings suggest that in Kosovo, there is an emerging need to develop alternative forms of financing, especially for start-ups and innovative companies aiming to growth. For example, the angel investors' network is growing in Kosovo, but it is still in its infant stage. There are only a few business angels' networks in Kosovo, mostly not in operation. In this vein, the government of Kosovo have an important role to play in designing new instruments for supporting SME development.

CONCLUSION

In line with literature review, during the start-up phase, the unique features that characterise SMEs, such as informational opacity, the lack of trading history, and inability to secure collateral, tend to lead Kosovan SMEs to depend heavily on insider funding sources, such as owner's personal savings, 3F connections, retained earnings, and trade credit. The relatively high percentage from informal sources such as 3F connections, may be the evidence for the informal economy. Relying of Kosovo SMEs, during their first years of operation, mostly on insider financing shows that young firms are more credit constrained. Difficult bank's requirements and inadequate terms and conditions for loans impede SME investments and consequently constrain their growth. As SMEs advance through their business life-cycle, they begin to gradually adjust their capital structure. The age of the firm is likely to be associated with probability of getting a loan. During subsequent growth stages, as SMEs mature, they start to establish a track record in addition to the ability to provide collateral. As a consequence, firms begin to use more external financing sources such as bank loans and overdrafts. Findings are in line with pecking order theory which suggests the preference of internal funds to external funds, debt over equity.

Unlike the financial cycle theory, according to which with the growth and aging of the company, financial resources increase, research has shown that with the aging of Kosovan SMEs, financial sources become limited mainly into two main types of financing: retained earnings and bank loans and overdrafts. That's because Kosovo's financial system is almost entirely bank-based, and alternative financing is in its initial phase of development. An important issue that was noticed during the research is that alternative sources of funding are almost non-existent. There is a necessity to find creative solutions to fill this funding gap for start-ups and SMEs, for which the access to traditional banking system has been almost impossible.

Although, in developed countries, alternative finance instruments such as factoring, renting and alternative online finance have shown steady growth in recent years, in Kosovo this type of financing still remains in the initial stage of development.

None of enterprises did not use Leasing Finance, Angel Finance, Venture Capital, Factoring, Non-refundable funds from external donors (NGOs), foreign direct investment, and Initial public offer- among other types of financing to finance their operating activities during their financial cycle. Meanwhile, microfinance institutions, grants and subsidies support and deferred payment of taxes and contributions are used in an extremely small percentage.

SMEs in Kosovo play, in particular, an important role in the development of the local economy. Their success and survival, employment, growth strategies, productivity and innovation largely depend on access to financial resources. Small firms, especially young firms, generally face tight funding constraints. This is particularly true when financial markets are unfavourable.

The results of the study emphasize the need for alternative funding sources to support the creation and growth of Kosovo SMEs. There is a need to design new instruments for start-up and post start-up phase of development. An online office, where SMEs, in particular start-ups can get advice on public instruments and funds could be a good start. In addition to SME dependence only on bank debt, policymakers need to address the support of SMEs through new financing instruments that would be more appropriate to their needs at different stages of their cycle. Equity financing should become a key focus of SME financing support policies.

Even though the angel investors' network is growing in Kosovo, it is still in its infant stage. There are only a few business angels' networks in Kosovo. However, investments by business angels can fill the gap between venture capital and debt finance, especially for start-ups becoming a promising way of financing of start-ups in Kosovo (Lajqi et al., 2019). Government has important role to play in designing new instruments for supporting SME development, or alternatively could support the development of these instruments through the innovation and start-up centres. This emerges the need of the issue that policymakers should address to ease the SME access to more favourable financing conditions.

Limitation of the study is qualitative nature of the data, based on the company responses rather than the accounting data from financial statements. As in similar studies the key limitation of our empirical investigation arises from the qualitative nature of the survey data, because some of our variables of interest are self-reported (Lajqi & Krasniqi, 2017). The study points to further research on an empirical investigation of the using qualitative interviews in order to have a deeper understanding of the phenomenon and how entrepreneurs make financing choices decisions. Future studies should also make use of panel data considering the long-term perspective of life cycle model.

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