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EVALUATING BUSINESS PERFORMANCE AND THE IMPACT OF FUNDING DIVERSITY DURING COVID-19: KOSOVO EVIDENCE

This paper aims to examine the barriers and challenges faced by businesses in Kosovo in terms of access to SMEs funding sources during the pandemic, as well as their impact on the business evaluation of SMEs. Given that more than 99 percent of businesses in Kosovo are SMEs, which are considered essential for economic development, they also contribute to job creation. This study employs a quantitative approach, with reported data provided directly by SMEs via questionnaires. The empirical approach used in the study is ordered logit regression to measure the effect of credit lending, business plan, own investment, donations, and borrowings from family or friends on business evaluation during the Covid-19 pandemic. Empirical results show that credit lending and business plans have a significant positive impact on business evaluation, whereas borrowings from family or friends and donations have a significant negative impact. Despite the study's limitations, we are convinced that it should spark a debate between researchers, academics, and policymakers. The study contains the original value and contribution in the empirical aspect, which is designed on the data provided

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for Kosovo to evaluate the association between SMEs and the use of funding sources during the Covid-19 pandemic.

Keywords: *SMEs, financing, government policy, and regulation.*

1. INTRODUCTION

Small and medium-sized enterprises (SMEs) were regarded as the fundamental pillar of a country's economic growth process in the twentieth century, with equal importance for both developing and developed countries. SMEs are seen to be one of the most crucial components of a knowledge-based economy. Existing theories about SMEs have been redesigned, however, certain aspects remain unanalyzed for assessing the performance and obstacles of SMEs. The core theories about the challenges to SMEs, notably financial limitations, competition, corruption, political instability, and high production costs, have been created, but these theories have received little attention in understanding the influence of the SME growth model in Kosovo. Academics and policy circles are generally agreed that the securing of financing sources has always caused SMEs obstacles and that "access to finance is still the other most urgent concern in the euro-zone for SMEs" (EU SME, 2012). As for the Southeastern Europe (SEE) economies and Kosovo, the problem is even more pronounced. The phenomenon of limited access to finance in financial institutions is a feature that characterizes SMEs in all developing countries. Access to financing, in particular from outside sources, aims not only to fund the liquidity needs of SMEs, but also investments that will serve as the basis of the country's future economic progress, but also as vital to the progress and generation of new employment. Financing obstacles for investment have been emphasized as a key obstacle in the previous decade, despite substantial advances in the banking system in transition economies.

Moreover, access to financing is certainly a vital component of entrepreneurial progress, innovation, and new enterprise. A healthy financial ecosystem that makes available the desirable levels of access to financing helps new firms to build up, increase employment, and contribute tax payments to the state budget. Access to finance is, consequently, a significant challenge not only for startups but also for those which had been observed on the market, while the recent reports offer an overview of the current situation of SMEs in which the banking sector is measured to be a quite stable while, in particular, there are sufficient liquidity reserves available to commercial banks. Correlating from the above-mentioned outlook on the obstacles of new businesses, it results that a large number of new businesses being financed by the own funds of the founders as a result of the inability to access

finance. While a positive feature that is considered is the decline in debt and lending costs over recent years. Other obstacles that distress the economic progress of Kosovo contain the reasonably high unemployed, unfitness for employment, lack of access to financing, insufficient involvement in labor (in specific youth and women), and relatively high employment rates. Nowadays, Kosovo has a solid basis and reasonably good experience in terms of developing appropriate legislation for doing business, tax legislation, and promoting SMEs. The banking industry, which many relevant studies argue seems to have high-interest rates in the region and beyond, remains a challenge for SMEs.

This research aims to evaluate some of the major barriers to accessing financial resources that SMEs in the Kosovo context deal with, as well as to identify the constraints that influence business evaluation (the evaluation of the business, which is stated as a dependent variable and as a measure of SMEs growth, is based on the degree of profitability, respectively net profit, by comparing 2021 to the previous year), consequently growth of SMEs. The study identified the dependent variable as business evaluation (B_e), the independent variable as credit lending (CL), and the control variables as business plans (BP), own investment (OI), funds provided by donations (DON), and borrowings from family or friends (BFF). The study was done in 539 businesses, and 336 businesses that answered all questions were extracted from this sample. In addition, the questionnaire was designed in such a way that the company evaluation was compared to earlier periods (i.e., 2020) and was administered between April and May 2021. Hence, in this context, the research focuses on two perspectives: the relevance of the applied variables and their influence on business performance, and the econometric perspective of evaluating these factors, with a specific emphasis on the method of financing that they used throughout the pandemic time. Because the great majority of SMEs require financial resources, especially during the pandemic, the factors used throughout the econometric approach are of importance for this research. Therefore, this research aims to experimentally evaluate these parameters using an ordered logistic model to determine what influence the selected variables have on company evaluation during the Covid-19 epidemic. As a result, this article contributes to the literature on utilizing various financial resources in some aspects. *First*, the theoretical aspect contributes to a deeper evidence-based understanding of the financial modalities used by SMEs. The research describes quantitative empirical data to clarify the ambiguity about the specified relationship, especially considering previous studies' contradictory findings. *Second*, the empirical contribution of this research, which is based on data in Kosovo, is to determine the correlation between SMEs that utilized financing sources and those that did not utilize them during the Covid-19 pandemic. Furthermore, and from a policy perspective, it helps the redesigning of financial sector policies and the support of SMEs by outlining particular measures to advance legislation on enhancing the possibility

of guarantee, as offered by the Kosovo Credit Guarantee Fund. This paper is organized as follows: Section 1 provides a brief overview of the characteristics of SMEs, while Section 2 offers a review of the research on various financing sources and hypotheses. Section 3 describes the methods employed in the study, Section 4 offers the econometric analysis and findings, and Section 6 discusses the study's conclusions and limitations.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Access to finance is regarded as critical because it influences both the formation of new businesses and the development of current ones. Internal financing can be provided by the owner, using their own resources and savings, as well as capital accumulation or residual profit. However, small business resources are mainly limited, especially for young entrepreneurs (Ziegler, 1990). As a result, SMEs should actively seek funding from banks, i.e., bank loans, to start or expand their businesses. Banks lend more to large companies since they are better able to provide a guarantee, whereas SMEs are less able to secure collateral and have concerns about accessing bank-funding sources. Thus, based on the premise that SMEs are constantly in need of additional funds to carry out their activities, the most recent study conducted by Kunoviku-Demiri *et al.* (2021) using multifactorial regression analysis has examined the challenges that businesses in Kosovo and North Macedonia face in obtaining funding from financial institutions. This research focused on the following variables: business size, written business plan, collateral type, and business experience before becoming an owner. Another topic that is portrayed as a challenge for businesses is the unreliability of financial statements, which results in information asymmetry between SMEs and financial institutions. As a result, most financial institutions prefer to lend to corporate entities rather than small businesses. Durguti and Arifi, (2021) reached the same conclusion on the asymmetry of SME information and, in particular, those of startups, which are highlighted by financial institutions and tax regulatory agencies as having shortcomings in reporting comprehensive and accurate information. Similarly, Quartey *et al.* (2017) argue that older firms may have easier access to bank financing because they have a larger network of financial institutions. According to Canton *et al.* (2013), the asymmetry information problem that discourages SMEs from applying for bank loans is more acute for small firms because they do not have good accounting records and are less transparent than larger firms. Another barrier to SME funding is the high cost of borrowing or interest rates (OECD, 2015). In addition to these difficulties, the first case of Covid-19 occurs in early 2020, and as a result of the pandemic, restrictive measures for free movement, as well as restrictions on vari-

ous business operations, are enforced. The covid-19 pandemic is a fresh challenge that has emphasized the significance of health concerns and their implications for the current global development model and the overarching goals (Barbier and Burgess, 2020; Bodenheimer and Leidenberger, 2020; Leal Filho *et al.* 2020; and Bavel *et al.* 2020).

In the study European SMEs funding: “An empirical taxonomy,” authors Masiak *et al.* (2020) investigated several funding models in European countries by analyzing a large number of funding tools and corresponding, substitute effects, using SAFE data for 2015. To reach the aim of this research, sections were made into groups and subgroups to analyze the financing options for SMEs. The types of funding available to them are as follows: a) mixed financing through loans and other forms, b) financing through retained earnings or asset sales, c) financing through state subsidies, d) financing through trade-financed debts, etc. Wang, (2016) proves that access to finance is the most important barrier to growth for high-growth firms in developing countries. Because of these findings, the research hypothesis is presented in the study as follows:

***H1:** Credit lending has a positive influence on business evaluation, i.e., the growth of SMEs, even during the COVID-19.*

Serrasqueiro *et al.* (2021) focused their study on three aspects in the context of Portugal on the determinants that affect the growth of SMEs, namely the stimulus factors considered cash flow and GDP, the major limitations considered credit financing (debt), firm size, firm age, and interest rates, and finally, the austerity measures implemented after the 2008 crisis. The treatment of financing can be done by the financial offer (financial potential for lending to financial institutions) or demand for available funds (the demand of businesses for available funds), depending on the access to finance, so the challenges and problems are distinguished (Shankar, 2013). Access to finance and the management of a company are key determinants of starting a business, growing, and developing small and medium enterprises (Khalid and Kalsom, 2014). Even though SMEs in developed countries have easier access to external sources of financing for business needs, one of the major issues that SMEs face is access to finance (Khan, 2018). Financial intermediaries provide loans, overdrafts, and various forms of protected credit to SMEs (Dwyer and Kotey, 2015). Sufficiently existing reviews provide compelling evidence that banks are the main providers of finance to SMEs in industrialized economies, especially in Europe (Harrison and Baldock, 2015); (Lawless, O’Connell, and O’Toole, 2015); (Lopes and Costa, 2017).

As a consequence, without external financial resources, SMEs have few options for expanding their operations, increasing production capacity, or supplying new technologies and equipment (McIntyre, 2001). All businesses, large and

small, have a desire or ambition to grow, and they try to find new ways to do so by experimenting with various methods. Besides this path, everyone faces some sort of challenge, no matter how big or small. Obstacles to business appear at various times and in various forms (Gordon *et al.* 2015). Even though most studies have highlighted the difficulties that SMEs face in obtaining funding sources, few studies have looked into providing funds via borrowings from friends or family. Using multivariate regression Mungiru and Njeru, (2015) investigate this constraint empirically and argue that obtaining funding from family or friends has a positive impact on business performance. Furthermore, a recent study by Kijkasiwat, (2021) included 29 countries from Eastern Europe and Central Asia through a partial least square structural analysis. This study's findings contend that funding from these categories has a statistically significant influence of 1%. Furthermore, Dvoulety *et al.* (2021) provide a comprehensive examination of studies on the influence of public grants on corporate performance in the 28 member countries of the European Union. In their article Public SME grants and firm performance in the European Union: A systematic review of empirical evidence. The reported results indicate that the grants had a substantially significant positive effect on firm survival, employment, tangible/fixed assets, and sales/turnover, with mixed outcomes for labor productivity and total factor productivity. Kosovo is a new economy that is confronted with political, economic, and social challenges. Despite their importance to the Kosovo economy, businesses face numerous challenges in terms of the country's unique economic, political, and social circumstances. Because of the unfavorable environment, Kosovo cannot generate creative initiatives, which are critical providers of employment growth in established economies. Trade businesses, particularly those associated with manufacturing and service, predominate in Kosovo. As a consequence, there are issues with the development of private businesses, which are primarily developed by owners using their own saved capital (Hoxha, 2009).

3. RESEARCH APPROACH

Based on the premise of modeling on a predictive connection between one or even several independent variables, and binary dependent variables the approach that offers the most consistent results is ordered logistic regression. However, the use of Multinomial Logistic Regression (MLR) is equally beneficial from empirical data in such instances if the dependent variables are not binary or if additional parameters are not regulated or unordered. This approach is generally employed if the dependent variables are stated in more than two parameters (i.e., ranked). While there are suggestions in such instances regarding the usage of MLR (Os-

borne, 2015), it is generally preferable to employ ordered logistic regressions. The justification of the OLR preference is that when the dependent variables are projected, it yields an extra accurate representation of the data than the MLR. However, if the assumption of proportionate chances is violated MLR provides a reasonable alternative to OLR (Osborne, 2015); (Osborne, 2017). And our study will use the OLR (or ordered logit regression) based on the arguments stated above.

The study used descriptive statistics as well as econometric analysis to identify factors that improve the functioning of SMEs. Patterns in credit lending and additional control factors were analyzed primarily using descriptive statistics, with chi-square to test the significance of the pattern. The study used ordered logistic models (Ologit) to determine the effect of covariates on the likelihood of access to finance. In cases where the result variable is binary, the logit model is justified by its extreme flexibility and widespread use (Wright,1995). Furthermore, because of its ability to estimate the individual effect of continuous and unconditional variables on the qualitative binary conclusion, the logit model is a powerful tool. However, if the result variable is an unconditional variable other than binary and exhibits levels, ordinal measures such as ordered logit are considered appropriate.

The result is assessed in two ways in this paper: one as a dichotomous variable and another as a level variable. The binary variable investigates whether or not SMEs can obtain credit from financial institutions based on firm-level characteristics such as age, size, economic activities, legal status, previous lending history, age, and experience of the firm's manager. The other variable captures whether the SME is highly constrained by credit, moderately constrained, or not constrained at all. These factors influenced the selection of the econometric model.

4. ECONOMETRIC ANALYSIS

4.1. Data and sample

To evaluate the impact of access to finance primarily, and other controlling factors in the business evaluation of SMEs, data for 336 businesses were extracted from the Kosovo Business Performance Survey along the pandemic waves steered by Economic and Education Consulting (EEC) conducted in 2021. The survey was steered from April to May 2021, including 539 businesses, but only 336 of them were addressed in this investigation. The others were left out of the sample since their replies were incomplete. The sample represents more than 1.5 percent of the total active business population, which is considered acceptable national

representation. The interviews were conducted using the face-to-face method with the key people in each enterprise, mainly owners or general managers. The survey used the stratified/random probability-sampling technique, giving each subgroup of a statistical population an equal chance of being selected. Three levels of stratification were used: firm sector (trade, production, and services), firm size (micro-enterprises, small enterprises, and medium enterprises), and geographic region. The survey was conducted in 7 regions that are considered urban centers and then based on the sample, in smaller locations with the sole purpose to match an adequate representation for the case of Kosovo.

The database is country-specific and many other relevant studies have been conducted using identical data, or this approach justifies the reliability of the data. The dataset for businesses selected in the sample is unabbreviated by size and covers many sectors at the same time (manufacturing, services, trade, financial services, etc.). The businesses in the study include micro, small, and medium businesses. The study attempts to investigate business perceptions of the main obstacles that present themselves as challenges to their growth and development. In addition to the focus on access to funding sources used by financial institutions, the survey has enabled a detailed exploration and presentation of other difficulties such as interest rates, difficulties in bureaucratic procedures, high demands on behalf of the security measure – collateral, etc. Furthermore, the survey conducted and the data used contain abundant information detailing the financial challenges faced by SMEs.

Variables

The *dependent variable* is defined as a business evaluation as an indicator of SME growth in the study, where various researchers have used turnover, sales, and productivity to evaluate business success. The variables were chosen and arranged under the context of the study by Ferrando and Mulier, (2013) and Kunoviku-Demiri *et al.* (2021), which examined the association between the degree of profitability and access to funding sources. Several other studies show that profitable SMEs have easy and quick lending than less profitable SMEs (Quartey *et al.* 2017); (Bose *et al.* 2016). The same approach will be used in Kosovo, but it will be tailored to the specifics of the variables chosen. As exposed in the table below, the dependent variable “Business evaluation for 2021” is coded with 1 better performance than in 2020 or 88.1 percent of them rate it better than in 2020, the second category is coded with 2 we do not expect changes compared to 2020 or 8.6 percent of respondents do not expect better performance, and 3 we expect

worse performance than in 2019 or 3.3 percent of respondents declared. Therefore, according to the descriptive data given in table 1, the mean value of business evaluation for 2021 has a coefficient of 2.35 and a standard deviation of 0.32 percent.

Descriptive data on credit lending reveal the following: 42.7 percent of respondents had lending, namely commercial bank loans, 53.4 percent did not apply for financing, and 3.9 percent were denied by commercial banks. The mean value of credit lending in our paradigm is 1.61, the minimum value is 1, and the maximum value is 3. The remaining factors in the econometric study include control variables such as own investment, business plan, funds provided by donations, and borrowings from family and friends. Around 56.3 percent of businesses employ their own investment, while the others use other options.

Table 1:

VARIABLE AND STATISTICS DESCRIPTION

Variables	Description	Obs.	Mean	St.dv.	Min.	Max.
<i>Dependent variable</i>						
B_e	Business evaluation for 2021	336	2.35	.032	1	3
<i>Independent variables</i>						
CL	Credit-lending	336	1.61	.062	1	3
<i>Control variables</i>						
OI	Own investment	336	1.69	.046	1	2
BP	Do you have a business plan	336	1.54	.019	1	2
DON	Funds provided by donations	77	2.93	.121	0	100
BFF	Borrowing from family or friends	77	15.97	.071	0	100

Source: Author’s calculation

In light of if they have a documented business plan, 51.3 percent of the rated businesses stated that they have, as evidenced by the mean value of 1.54. The other predictor variable, “funds provided by donations,” reveals that 77 businesses reported having used funds from donations with an average proportion of investments of 2.93 percent. According to the summary analysis of the last explanatory variables examined in this sample, 77 businesses borrowed from family and friends for an average of 15.97 percent of the investments made during 2020.

Independent variable. To examine the effectiveness of funding sources on the firm’s success or productivity, a binary variable is used, coded as one of the

respondents says “yes” to the question “Have you used loans from financial institutions, and have you found proper support?” and 0 otherwise.

Control variables. To evaluate the SMEs’ success or SMEs’ growth, additional determinants that impact SMEs’ growth must be considered. In this context, and grounded on previous research, some control variables are included in this study. Small and medium-sized enterprises (SMEs) rely on funding sources to survive, grow, and develop. The study as well includes the following control variables: own investment, do you have a business plan, donation, and borrowings from family or friends. However, from this perspective, the approach and capturing the difficulty of access to finance is one of the most significant challenges they face (Carbo-Valverde *et al.* 2016); (Duygan-Bump, 2015); and (Shen *et al.* 2009). Furthermore, the literature indicates that SMEs face more funding constraints than large firms (Beck, 2008); (OECD, 2017); and (Wang, 2016). Additional limitations are seen as a result of not having an adequate business plan during the loan application process, creating an asymmetry of information for decision-making bodies within financial institutions, to avoid regulation and taxation in the formal sector (OECD, 2006).

The methodology used in the empirical context will begin with detailed statistics that introduce all of the determining factors in business evaluation. Table 1 explicitly reflects the evidence shreds examined in the study, beginning with the set of data, the mean value, standard error, smallest, and the largest value. The positive evaluation of the business for 2021 by 336 respondents yielded a mean value of 2.35, with a standard deviation of 3.2 percent. Credit-lending, which is regarded as the primary external financial source for micro and small businesses, has resulted in a mean value of 1.61, with a minimum of 1 and a maximum of 3. Table 1 exhibits control variables that produced nearly identical results to the other variables, except the variable borrowings from family or friends, which revealed an average value of 15.97.

Table 2:

CORRELATION ANALYSIS

	B_e	BP	OI	CL	DON	BFF
B_e	1.000					
BP	-.056	1.000				
OI	.325**	.056	1.000			
CL	.110*	-.086	.338**	1.000		
DON	-.049*	-.108	.160*	.447	1.000	
BFF	.066	-.033	.281*	.250*	.329*	1.000

Note: (***), (**), (*) correlation is significant at the 1, 5, and 10 percent.

Source: Author’s calculation

In terms of the series’ additional characteristics, it is necessary to identify the relationship between the selected factors. As shown in table 2, there is indeed a moderately positive relationship with a coefficient of .325** between own investment (OI) and business evaluation. During the analysis of the association around borrowings from family and friends (BFF) and business evaluation, it was discovered that we have a non-linear positive association because its value is close to 0.0, which in this study is with a coefficient of 0.066, while credit lending (CL) and business evaluation have a low positive link. Lastly, the business plan (BP) and funds provided by donations (DON) have quite a negative non-linear association with coefficients of -.056, respectively -.049*.

4.2. Empirical model

Using the empiric ordered logit model, this section evaluates the parameters defined in the study of these variables’ impact on business evaluation. Given the characteristics of the applied parameters, the model used in the study is similar to the outlook used by Erdogan, (2019), who tested the elements that affect perceived bank-funding accessibility. The ordered logit analysis is being used to test whether and how the likelihood of having a business plan, own investment, credit lending, funds provided by donations, and borrowings from family or friends affect business evaluation, through using vectors BP, OI, CL, DON, and BFF in equation (4). The dependent variable “ B_e ” is a binary variable with a value equal to one of these

factors and a value of zero otherwise. The next sections describe the evolution of the general equation, its extension, and the application of concrete parameters within the context of the study.

$$L_r (Y = 1 | X) = \phi(X^T \beta) \quad (1)$$

L_r Signifies the prospect, as well as ϕ , reflects the constant variance. The probability technique is naturally used to predict β parameters. Similarly, in the case of latent paradigms, the technique is as follows:

$$Y^* = \alpha + \beta_x + \varepsilon \quad (2)$$

$$Y_i = \begin{cases} 1 & \text{if } Y_i^* \geq \tau \\ 0 & \text{if } Y_i^* \leq \tau \end{cases} \quad (3)$$

Equation 4 represents the formula in our scenario by converting the parameters involved in the analysis based on the formulas presented above.

$$B_e = (B_{e,i} / 1 - B_{e,i} | X_i) = \alpha + \beta_1 BP_i + \beta_2 OI_i + \beta_3 CL_i + \beta_4 DON_i + \beta_5 BFF_i + \beta_6 + \varepsilon_i \quad (4)$$

where B_e is the chance that a firm does not have trouble obtaining funds for the participant i , and $1 - B_e$ is the chance that a firm will have trouble obtaining funds for the participant i . We tested the hypotheses using the OLR model to see if external sources of funding (i.e., credit lending, owner investing, borrowing by family or friends) and business plans have a significant effect on business evaluation. When the dependent constraints are not a continuous number but have two or more categories, ordered logit regression is used more often (Osborne, 2015); (Adeleke and Adepoju, 2010).

5. ECONOMETRIC FINDINGS

The research uses chi-square, as well as Pearson and Deviance chi-square to eliminate doubts about the robustness of the proposed model analysis. Table 3 presents that the applied chi-square approach is typically evaluated at the significance level of $p < 0.05$. The study's results argue that the selection of OLR is sound and fit, as $p = 0.003$. This result indicates that the model correctly predicted the observed data.

Table 3:

MODEL FIT & GOODNESS-OF-FIT INFORMATION

<i>Model Fitting Information</i>					<i>Goodness-of-Fit</i>			
Model	-2 Log-Likelihood	Chi-square	df	Six.		Chi-square	df	Sig.
Intercept only	79.398				Pearson	30.760	31	.478
Final	53.115	26.283	15	0.003	Deviance	31.175	31	.457

Link function: Logit

Source: authors calculation

Furthermore, for the goodness-of-fit, the chi-square test, was found to be insignificant for deviance chi-square with a coefficient of $p = .457$, arguing that the defined model is appropriate (Petrucci, 2009); and (Field, 2018). The pseudo-R-square, on the other hand, varies from OLS regression within the application when using binary data and is employed in our scenario to validate how well the model fits the data. The coefficient of pseudo-R-square is .458, indicating that the model is adequately suited to the variables used. In general, there is no solid evidence in the literature on how this indicator should be interpreted (Osborne, 2015); and (Pituch and Stevens, 2016), and as a result, caution must be taken during interpretation. The Durbin-Watson test was performed to examine data on serial correlation. Based on its outputs, it can be concluded that the data have an adverse serial correlation if the coefficient is between 0.0 and 1.5, as well as a confident serial correlation if the coefficient is between 2.5 to 4.0. If the coefficient is between 1.5 and 2.5, the data have no autocorrelation (Durbin and Watson, 1971); (Racine and Hyndman, 2002), which is consistent with the findings of our study with a coefficient of 2.01. This is also taken into account as an additional argument that the data and the model specification are appropriate.

The early findings are that of all respondents, 53.7 percent of them even during the COVID-19 period had access to funding from financial intermediaries, while the remaining 46.3 percent had no access or did not apply for funding at all. The main reason given by businesses that did not have access to finance was the high demand for securing loans through collateral, overloaded demands for reporting financial statements, and two additional demands as a guarantor.

Table 4:

PARAMETER ESTIMATES

		Estimate coefficients	Significance
Threshold	Business assessment for 2021 = 1	20.140	.098
Location	Do you have a business plan	1.487	.004
	Own investment	-.304	.574
	Credit lending	2.024	.001
	Funds provided by donations	-2.990	.080
	Borrowing from family or friends	-19.851	.006
Diagnostics			
<i>Likelihood ratio test</i>		26.28	.003
<i>Pseudo R-square</i>		.458	.007
<i>Durbin-Watson</i>		2.011	--
<i>N</i>		336	--

Link function: Logit.

Source: authors calculation

Table 4 displays the results of the ordered logit analysis, such as the coefficients and levels of significance for the observed variables. The findings observed as per our scenario: from five (5) variables applied, four (4) of them have proven to have a significant effect on the business evaluation. Credit-lending and business plans have a positive effect, whereas donations and borrowings from family or friends have a negative effect. The main finding of this study is that credit lending is positively and significantly correlated with business evaluation, with a confidence interval of 1%. Based on the observed model, this finding validates the hypothesis (*H1*) presented in the second section, namely, that funding sources have a significant positive influence on business evolution, i.e., on the growth of SMEs. To elucidate, Lokshin and Sajaia, (2011) recommend that after estimating the model's parameters, the effect of treatment on the treated, or the expected effect of treatment on individuals with observed characteristic *x* who took part in the experiment, should be estimated (in this study the firms who had access to finance during covid-19).

According to the findings of the study, a one-unit increase in credit lending increases the odds of having a positive perception that financing will increase business evaluation by 2,024 units. The empirical findings for SMEs are consistent with

the findings of (Kachlami and Yazdanfar, 2016) who examined data for SMEs in Sweden using OLS, random effect and fixed effect. Throughout three defined models, their conclusions on the financial predictors shown in the analysis have a positive impact on SME growth in Sweden. Khan, (2015) reached the same conclusion that financial institution financing is vital for SME growth. Furthermore, when it comes to perceptions (expectations) of business evaluation or SME growth, financial institutions may have insufficient evidence on the business prospects, which is mentioned as asymmetry evidence. To bolster the empirical findings, a recent study conducted by Su and Zhu, (2020) using the dynamic panel quantile regression approach in the framework of financing structure found that it has a significant positive influence on business growth, whereas equity financing and debt had a significant negative influence. Furthermore, in the recent study on the determinants of SME performance with the effect of trade credit interaction conducted by Khan et al, (2020) the findings argue that commercial credit, trade credit, and retained earnings have a positive correlation with the performance of SMEs.

According to the results presented in table 4, on the control variables used to evaluate their impact on business evaluation, the business plan had a significant impact at the level of 1% reliability. Identical conclusions have been confirmed by the authors Durguti *et al.* (2020), who argue that SMEs with a business plan have more sustainable development and growth than SMEs without a business plan. Kunoviku-Demiri *et al.* (2021) found a similar result, arguing that there is a steady relationship between credit lending and business growth in the instance of Kosovo and Northern Macedonia, particularly in the context of the Covid-19 epidemic. This evidence demonstrates that businesses that do not have business plans do not have easy access to funding from financial institutions, i.e., commercial banks. The other parameter considered is the funds provided by donations, which proved to be significant at a confidence level of 10%. The findings regarding the variable of providing funds through grants or donations are consistent with the findings argued by Dvoulety *et al.* (2021) after examining the 28 European Union countries. According to the conclusions of this study, public grants or donations have a significantly positive influence on the survival and growth of SMEs. Finally, the borrowings from family or friends' parameters for developed countries may appear surprising, but it was found to be statistically significant at the level of reliability of 1% in our study. The research findings are consistent with the findings of Kachlami *et al.* (2016), who investigated the impact of financing issues on SMEs. According to his findings, obtaining private funds is statistically significant at 1%. According to Wellalage and Fernandez, (2019) the inability to access finance from capital markets confines many SMEs, particularly young firms, to obtain financial support from family and friends, and motivates SMEs' owners to develop innovative projects for getting financial support from formal institutes. Kijkasiwat, (2021) obtained the same findings by evaluating the effect of SME owners' behavior in

adapting to private finance. This component may not be considered in developed countries and may be surprising to be addressed in the examination. Nonetheless, this issue is treated with increased and special treatment in this revision because Kosovo is known for a sustainable diaspora that sends income to help their families in terms of social welfare and business development.

6. CONCLUSION

This study investigates the variety of funding sources and their impact on SMEs in the Kosovo context throughout the COVID-19 pandemic. The sample used consists of SMEs operating in the seven (7) regions of Kosovo. The data are derived from a survey conducted by Economic and Education Consulting, that included responsible managers from 336 SMEs out of 536 who responded to the survey during the first quarter of 2021. This analysis of SMEs in Kosovo reveals that more than half (53.7%) of businesses have had access to various funding sources during a certain period and that this financial support is positively and significantly associated with a greater opportunity to achieve their desired performance growth objectives. However, the findings of this study should be interpreted with caution in the context of SMEs not growth-oriented through various financial sources and can only be interpreted in the context of modest business valuation goals.

Furthermore, the research creates a modest contribution to the theoretical and empirical literature that supports the argument that the use of financial alternatives does not always harm the evaluation of SMEs. According to the observations, SMEs that have been in the market for a longer period and have a good history with financial institutions have higher perceptions of the ease of access to bank financing than new SMEs. Furthermore, we can conclude that SMEs with a long relationship with financial institutions, i.e., the bank, have the easiest access to contracting financial support, implying that the bank's risk is reduced as a result of good customer history. The study's empirical findings confirm the hypothesis and the expected results. As a result, credit lending and business plans have a statistically significant effect of 1%, whereas own investment and borrowings from family or friends have a negative influence on SMEs' performance. This study has implications for various groups of SMEs looking to improve their access to finance. Young SMEs and SMEs with a short-term relationship with their bank should strive to reduce information asymmetry between the bank and the firm by pursuing initiatives such as improving accounting and financial reporting quality.

Although the study has limitations, it is worth noting that it was conducted from the perspective of Kosovo, respectively, a country and that the sample size

was limited. Future studies may employ even more advanced approaches to assess the impact on the usage of various funding sources, broadening the range of funding to include other financial instruments.

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PROCJENA POSLOVNE UČINKOVITOSTI I UTJECAJ RAZNOLIKOSTI FINANCIRANJA TOKOM COVID-19: DOKAZI S KOSOVA

Sažetak

Ovaj rad ima za cilj ispitati prepreke i izazove s kojima se suočavaju poduzeća na Kosovu u pogledu pristupa izvorima financiranja MSP-a tijekom pandemije, kao i njihov utjecaj na poslovnu procjenu MSP-a. S obzirom na to da su više od 99 posto poduzeća na Kosovu mala i srednja poduzeća, koja se smatraju ključnima za gospodarski razvoj, ona također doprinose stvaranju radnih mjesta. Ova studija koristi kvantitativni pristup, s prijavljenim podacima koje dostavljaju mala i srednja poduzeća izravno putem upitnika. Empirijski pristup korišten u studiji je uređena logit regresija za mjerenje učinka kreditiranja, poslovnog plana, vlastitog ulaganja, donacija i posuđivanja od obitelji ili prijatelja na procjenu poslovanja tijekom pandemije Covid-19. Empirijski rezultati pokazuju da kreditiranje i poslovni planovi imaju značajan pozitivan utjecaj na procjenu poslovanja, dok posudbe od obitelji ili prijatelja te donacije imaju značajan negativan utjecaj. Unatoč ograničenjima studije, uvjereni smo da bi ona trebala potaknuti raspravu između istraživača, akademika i kreatora politike. Studija sadrži izvornu vrijednost i doprinos u empirijskom aspektu, koji je osmišljen na temelju podataka dostavljenih za Kosovo za procjenu povezanosti između malih i srednjih poduzeća i korištenja izvora financiranja tijekom pandemije Covid-19.

Ključne riječi: MSP, financiranje, vladina politika, regulacija