
Financing Sources of Firms - A Special View of the Municipality of Peja

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The paper focuses on possibilities of business in providing financing resources during their business cycle. Businesses face a number of difficulties in case of providing financing resources especially for external financing source.

With the purpose of identifying these difficulties, a survey was realized with businesses in the Municipality of Peja, respectively with owners or their managers. Research results derived that businesses in the Municipality of Peja have limited possibilities on providing financing resources and as an alternative option for most of them are family loans, remittances, commercial loans and other alternatives to secure survival, increasing and maintaining the life of their business.

Creation of better business climate and government support on favor of businesses through tax facilitating, grants and other support forms in a way to influence the development of businesses and the economy in general are needed.

Keywords: *firms, internal financing source, external financing source, bank loans, remittances, family loans, government support.*

Introduction

Daily confrontation with difficulties of businesses that face during their existence and function, require a concise approach to reflect the reality existing, from the viewpoint of these businesses.

The main purpose of every business is maximization of profit, so that an enterprise can survive and continuously develop it is necessary that the revenues from its activity to exceed the costs, and it often cannot be reached, therefore they need additional sources of financing. The need for external financing sources is a key factor for existence and increase of businesses, meanwhile the possibility to secure the financing sources it is often limited.

Big competition and informal business have shown the need that besides the initial funding for business start-up, owners of enterprise are forced to find alternative sources for increasing and maintaining the life of their business. Their opportunity to rely on financing sources is enough limited and as alternative financing for majority of these businesses are external sources like remittances, family loans, commercial loans or any other financial form.

Limitations of financing resources also limits possibilities to expand the company, therefore firms financing presents one of the challenges facing businesses today.

Definition and classification of firms

Firm can be defined as organization that offers goods and services for others that want or need them. Corporations, companies and firms are organizations that through the trade, work for their clients and wait to take what they want, with a price that they want to pay (Jones, Parker, and Rene ten Bos, 2005, p.10). A business firm is an organization that is constructed with purpose to ensure profit for their owners, by producing goods or value services in market for consummator (Uruçi, 2004, p.184). Business is a group of people who work together to develop, produce or distribute goods or services (Ingram, Albright, and Baldwin, 2003, p.5). In general that is a commercial activity as trade, sale, purchase and production (Konini, 1997, p.45).

There are different types of enterprises. They are classified in different ways: by size, type of ownership, economic sector and activity (Misini 2012, p.22).

For classification by size as frequent criterion is used number of employees: micro enterprises, which has less than 10 employees; Small enterprises, which has 10-49 employed workers and medium enterprises with 50-250 employees. A similar classification of business is done in Kosovo. In Kosovo from total number of registered enterprises (9405) in 2014 year , 99.1% are micro enterprises, 0.9% are small enterprises, 0.1% are medium enterprises, but only 2 big enterprises. This shows the domination of micro enterprises compared with other forms (KAS, 2015, p.167).

According of ownership forms, enterprises are classified: enterprises with one owner, enterprises with partner or corporations (Asllanaj, 2010, p. 20). In Kosovo in 2014 from total number of newly registered enterprises (9405), 76.22% of them are individual businesses , 0.88% are partnership, 21.83% limited liability company, 0.26% joint-stock-company, 0.71% foreign owned enterprise, 0.04% agricultural cooperatives and 0.01% are limited partnership, public enterprise and social enterprise(KAS, 2015, p.167)

When we are dealing with orientation, the aim of activity of enterprise, we traditionally differentiate three different enterprise groups (Myftari, 2005, f. 43): industrial and mining enterprises; commercial enterprises and service enterprises. In Kosovo from total number of enterprises (9405) in 2014, wholesale and retail trade, repair of motor vehicles, motorcycles are 29.89%, accommodation and activities of food service 10.99%, production 10.39%, construction companies 8.53%, agriculture, forestry and fishing 7.16%, activities of other services 6.60%, professional, science and technique activities 6.07%, transport and storage 5.68%, information and communication 3.80%, arts, entertainment and recreation 2.69%, administrative and support activities 2.70%, health and social work activities 1.82%, education 0.95% and other activities (KAS 2015, p.168).

All large or small, private or public companies orientated or not in the profit, regardless the fields where they operate their activities have something in common: the need for financial resources during different phases of their existence. The need of financial resources of a corporation depends on many factors, among which the most important are: type of enterprise, activity time of enterprise, enterprise success and economic

situation (Mustafa, 2008, p. 208). There are two main reasons why enterprise needs additional resources: inability to pay dues also to find recourses for business development. The most frequently main sources of funding of a business are: commercial loans, family loans, grants and partnership (RKS, Financimet).

Financing source of companies

Every enterprise should have its own financial politics, which should be efficient and effective. Main objectives of financial efficient and effective politic are: to provide sufficient financial funds, at right time when funds are required even with a lower price (Govori, 2010, f. 288).

In general, financial sources of a company are divided into two main groups such as (Govori 2010, f.288):

- Internal financing sources: retention of profits generated, savings generated through efficient management of working capital, amortization funds of fix activities and equipment of the firm and
- External financing sources: financing sources through debt (bank loans, obligations, commercial paper and lease contracts) and financing sources through share capital (common shares, preferred shares and guaranteed certificates).

Financing sources by time (maturity) of their liquidation can be divided into: short, medium and long term financial sources (Metushi&Morina, 2012, p.10).

Development of businesses in the Municipality of Peja

Municipality of Peja covers an area of 603 km² while only city of Peja covers 20km² (Peja city is located in Dukagjin Plain in west of Kosovo at an altitude of 498m. This city has 125.752 inhabitants. In the last decade it has a large concentration of population in the city because of better conditions to live and to be employee (KK, Community Report).

Old history of this city, potentials and many cultural and natural assets that has municipality of Peja also geographical position and roads that link it with other countries made possible for Peja to have an early development of tourism and good possibilities for development of businesses.

Crafts in the Peja region have been developed since ancient times, hence in ancient times and it has been transformed depending on the degree of socio-economic development.

According to the cadastral registration in 1582 in Peja there have been 56 crafts in total (KK, Economic). Commercial and craftsman elements constituted a major urban extension, where they included 43% of the population. Craftsmanship in Peja has flourished, especially in centuries XVII and XIX.

In the Municipality of Peja so many businesses have been registered after the war. Basing on a number of businesses in 2000 year now every year we have decline in business registration, but on average amounts of number 450 of new businesses per year.

Table 1: Enterprises registered and closed in Peja during the period 2000-2015

Year	Registered businesses	Closed businesses	Number of businesses by years
2000	1671	0	1,671
2001	608	0	2,279
2002	667	0	2,946
2003	322	50	3,218
2004	679	52	3,845
2005	574	87	4,332
2006	396	131	4,597
2007	300	111	4,786
2008	364	116	5,034
2009	341	120	5,255
2010	357	129	5,483
2011	367	83	5,767
2012	479	94	6,152
2013	455	72	6,535
2014	435	80	6,890
2015	452	91	7,251
Total	8,467	1,216	

Source: The Municipal Center for Business Registration (MCBR), SME structure in the municipality of Peja, 2016, p.1

According to legal status, businesses in Municipality of Peja, from 2000 until 2015, 92% are individual businesses, 3% are general partnership, 4.5% are limited liability companies, while 0.3% are Joint Stock Company, foreign companies, public enterprise, agricultural cooperatives and limited partnership (MCBR, 2016, p.2).

According to business activities in Municipality of Peja, until 2012, dominates trade activity with 42.80% then services 26.40%, production 13.90%, hotel and restaurants 15.50% and construction 4.40%. These percentages shows that Peja businesses are more oriented on trade and on investments return (MCBR, 2016).

Research Methodology

To get answers on research questions : what are the ways of the capital increase (financings) of businesses and which of recourses are more used, data were collected in a field. During research work is used quantitative method. To reach the appropriate conclusions and to express in a more complete way attitudes about financing source by businesses in Peja, it was designed a survey which one is focused at the owners and managers of businesses and it presents their attitudes about use of external financing sources . In total 70 owners (managers) were surveyed. Data samples are taken by managers and owners of businesses in the municipality of Peja who were selected at random.

The derived data are presented in graphical and tabular form. Even descriptive, analytical and comparative methods apply during research work.

Research Results

Personal data of surveyed

From survey results realized with 70 businesses Municipality of Peja, according to gender structure 12.9% of owners are female whereas 87.1% are male. Age of owners of businesses in the municipality of Peja is 20% of 20-30

years, 30% of 30-40 years, 27.1% of 40-50 years and 22.9% of over-50 years. According to residence 60% of surveyed owners live in urban areas and 40% in rural areas. According to education level in municipality of Peja shows that it has a higher percentage of owners with a university degree of 55.7%, then secondary education 41.4% and primary education 2.9%. Whereas regarding the position in the enterprise 35.7% are owners and 64.3% are owners and managers of the enterprise.

Data on business

According to results of research, 17.1% of businesses have been founded in 2000, 54.3% were founded from 2001 to 2009 and 28.6% from 2010-2016, so it can be seen a predominance of the second period regarding business registration. According to size 95.7% of surveyed businesses are micro-enterprises and 4.3%. According to ownership majority of surveyed businesses or 88.6% of them are individual enterprises and 11.4% are partnership enterprises. Whereas according to operating sector majority or 57.1% of enterprises are service, 35.7% are trading and 7.2% manufacturing.

Data on external financing sources of businesses

The survey results show that the majority of business owners in the Municipality of Peja need and use external sources to finance business growth and development, but also to survive.

Data in Figure 1, shows that 89% of surveyed declare that they need external financing sources. From all those who declare that they need external financing sources or 62 owners, 34% of them declare that they use external financing sources to survive, whereas majority or 66% use them to finance business growth.

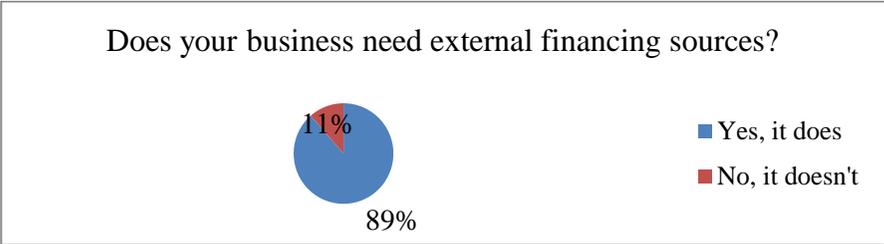


Figure 1: Need of business for external financing sources

The possibility is small and almost impossible to provide sufficient funding in time and with cheap price by businesses in this municipality.

From results of Figure 2, it appears that 48% of businesses sometimes are able to provide sufficient financial funds and that only 42% of surveyed can reassure these external funds in time. As for the possibility of providing funds with low price, 40% of surveyed declare that they cannot provide external funds with low prices and 42% of them sometimes can provide such funds.

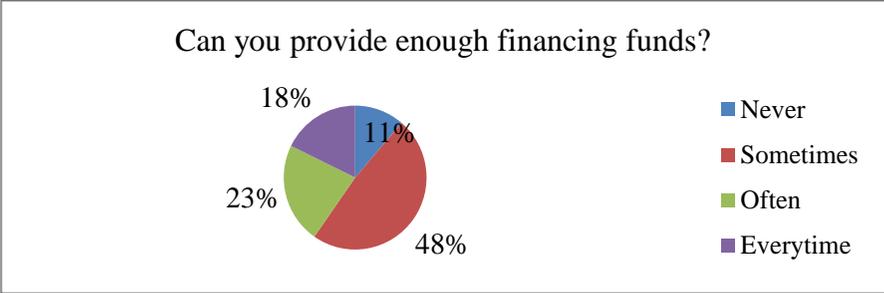


Figure 2: The ability to provide sufficient funds

From data of Figure 3, is noted that most of surveyed (60%) use bank loans as external financing source and from surveyed who use bank loans 32% never have difficulty to obtain loans, whereas majority 60% of them sometimes have difficulties to obtain loans. Toward the existing interest rates, 84% of surveyed consider that interest rates are too high. Related to the repayment of loans , majority or 54% of them have difficulties in repaying loans and only 22% of them declare that they don't

have difficulties in repaying loans. Businesses are able to obtain loans even from microfinance institutions (MFIs) or 35% of surveyed use this financing source.

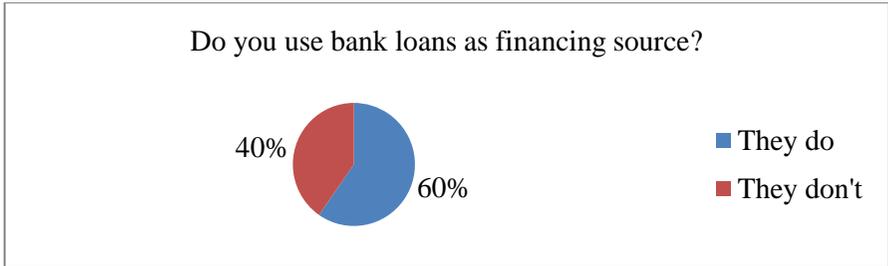


Figure 3: The use of bank loans

The above results show that the use of bank loans by businesses in the municipality of Peja is quite large and that businesses have difficulty in obtaining bank loans, interest rates while taking the loans are high and difficulties in loan return are evident and often occur. Besides bank loans in this municipality businesses use another source of financing such as loans from micro-finance institutions (MFIs).

Family loans are also an important source of financing for businesses in the municipality of Peja. From results of figure 4, is noted that 53% of surveyed declare that they use family loans as external financing sources, whereas 47% of them declare that they do not use.

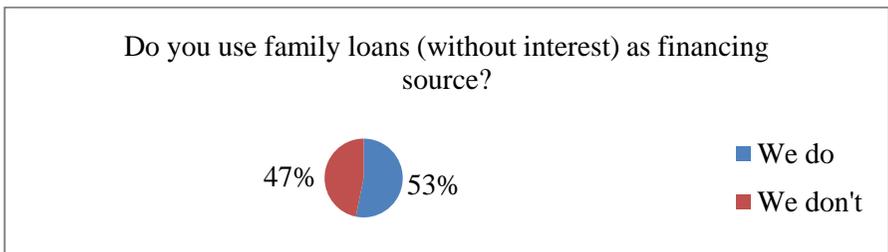


Figure 4: Use of family loans as financing source

Data on figure 5 show that 92% of surveyed declare that they do not use donations as external financing sources and only 8% declared that they

use. Those who use donations, 20% of them take donations abroad and other part takes domestic donation.

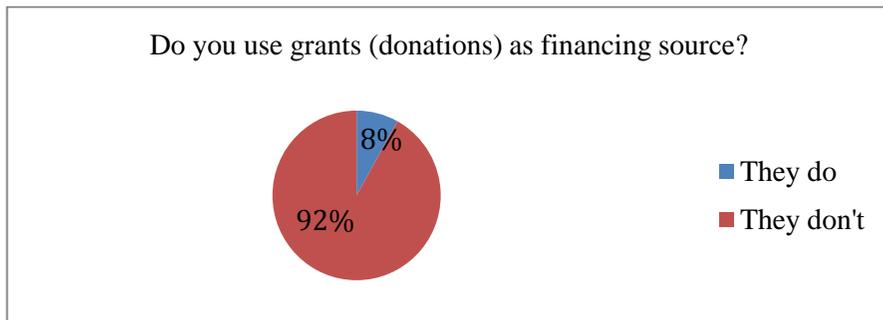


Figure 5: Use of donations as financing source

The above results show that the use of donations by businesses in the municipality of Peja is quite small whereas by the background number of donations is larger domestically than abroad.

From results of Figure 6 is noted that 35% of surveyed declare that they use remittances as external financing sources, while 65% of them declare that they do not use. 36% of those who use them declared that they take 0-1 times per year, 46% take 1-2 times per year and 18% of them declare that they take more than twice per year. Whereas according to the way that they take, the most or 91% declared that they receive them in cash. So, remittances are financing source of businesses in Peja and they usually are taken in form of cash.

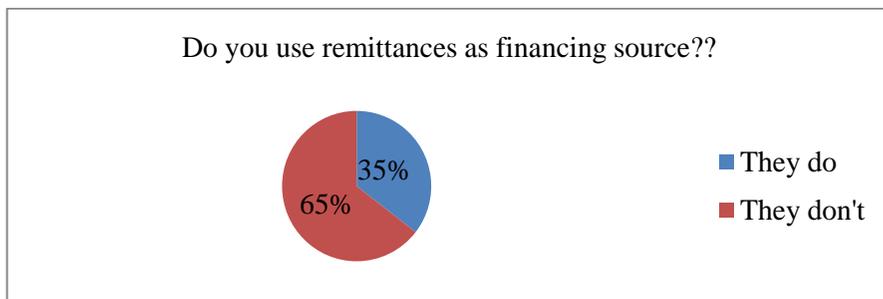


Figure 6: The use of remittances as financing source

Also, the use of own resources as external financing source from businesses in the municipality of Peja is more practiced so it is considered an important source of financing for businesses in the municipality of Peja.

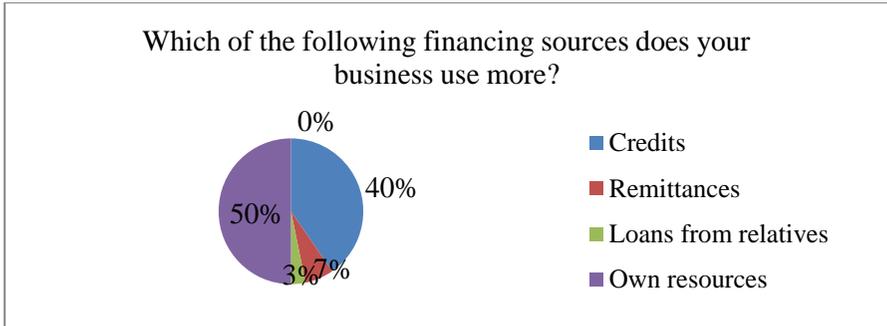


Figure 7: The amount of use of financial resources

From the results of Figure 7 is noted that 40% of surveyed declare that compared with other sources they use loans as financing source, 7% use remittances, 3% use loans from relatives from this come out that own sources come out with a percentage of 50% more than all other sources.

The above results show that the use of own resources (out of business) as external financing source from businesses in municipality of Peja is higher compared with other sources, then are loans, remittances, loans from relatives and donations.

Recommendations

Businesses in Peja municipality should make continued efforts on the development and growth, because the more they are developed and expanded, they have opportunity on more easy access to financing source. Government of Kosovo and the municipality of Peja have made some improvements in the legal and administrative aspects, but the process of reforming the business environment must be intensified in order businesses to reach and have efficient and effective financial policies and to provide financial resources at the right time and at low cost.

The cooperation of local government with small and medium businesses it is indispensable and is considered key of sustainable

development local economic. Today even more when society face new challenges that include globalization, trade liberalization and technological changes.

These changes in the global economy provide need to support and assistance in research and development of investment among SMEs.

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