

# Study on the impact of the COVID-19 crisis on SME digitalization efforts

## EXECUTIVE SUMMARY

28 September 2020

■ **95% of SMEs experienced a decline in sales/turnover** in the period of March to June 2020 compared to the same period in 2019. Many SMEs had only (or not even) half the sales figures of last year. Export sales decreased more than domestic sales (but only 5% of Kosovo SMEs are active in exporting).

■ **SMEs are shortening working hours and trying to keep their staff.** Confronted with significantly shrinking sales, almost 50% of SMEs have shortened working hours. 25% of SMEs still had to lay off employees.

■ **SMEs' reactions and strategies are mainly of a defensive nature.** So far, Kosovo SMEs have reacted to the crisis almost exclusively by reducing their level of business activity. Besides reducing staff and working hours, many companies have also stopped investments (24%) and purchasing of inputs (19%). 8% of SMEs have (temporarily) closed their business. By contrast, only 1% have started to adjust and change their product or service offer and only 1% have invested in digital tools (e.g. e-commerce), so deploying more aggressive and pro-active strategies to cope with the crisis.

■ **Compensation of employee salary is the most important government support measure.**

Around 55% of Kosovo SMEs have benefitted from the government's compensation of monthly employee salaries (170 €), which therefore is the most important support measure for SMEs. However, 32% of SMEs have not benefitted from any government support measure.

■ **SMEs do not expect a speedy recovery**

Almost 65% of SMEs in Kosovo expect the dampening economic effect of the COVID-19 crisis to continue until 2021. Only 35% expect their sales to return to pre-COVID-19 levels still in 2020. Hotels, restaurants, and personal services firms are particularly pessimistic in this respect.

### ■ **Business goals: most SMEs focus on striving to survive and reducing costs**

In the current COVID-19 context, 53% of SMEs in Kosovo say their main goal is simply “to survive” without any particular strategy and 33% say their main goal is to reduce costs. A significant share of more than 10% is actually considering closing their business.

### ■ **Digitalization efforts remain modest**

Kosovo SMEs seem to be somewhat hesitant with further digitalizing their businesses. Only 18% of SMEs are planning to advance and accelerate digitalization over the next two years and for only 6% digitalization has become a priority in the context of the COVID-19 situation.

### ■ **Fields of digitalization to be promoted**

Business digitalization is a multifaceted field. Supporting digitalization efforts is most needed and most effective in areas where SMEs see immediate applicability. Interest in applying more digital tools is most widespread (between 20% to 30% of SMEs), and the untapped potential is therefore largest.

### ■ **Obstacles to digitalization are costs, lacking skills and expert services, data protection**

SMEs need help in overcoming the major obstacles to using (more) digital tools. In addition, around 60% of SMEs have doubts regarding any benefits or advantages in making greater use of digital tools. This indicates a lack of awareness of the benefits of digitalization, which also needs to be addressed by appropriate measures.

### ■ **General business support: access to finance schemes are most popular among SMEs**

In general, support schemes facilitating access to finance are most popular and regarded as most useful among SMEs in Kosovo. Investments grants have been used by 8%, but are valued as useful by 57%. Credit guarantees have been used by 13% and are regarded as useful by 28%. Micro finance has been used by 12% and is seen as useful by 23% of SMEs. So far, other types of schemes, such as training, consultancy, online business plan tools, business parks and so forth have been used by only small fractions of SMEs (each less than 8%).

### ■ **Most needed advisory services: marketing & sales**

For SMEs in Kosovo, the most needed fields of advisory services include:

- Marketing & sales (mentioned by 39% of businesses)
- Taxes, accounting, and controlling (27%)
- Financing (22%)

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