

**THE IMPACT OF SME IN EASING OF THE EFFECTS OF GLOBAL CRISIS IN COUNTRIES IN TRANSITION**

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**Abstract**

Global crisis has had and still has impact all over the world whereby even countries in transition were not immune to this crisis and other financial crisis that may happen in the global level. With this paper, we shall analyze how countries in transition with possible measures towards strengthening small and medium enterprises in order to decrease the effect and impact of this crisis and other chain crisis while undertaking measures with direct influence in decreasing unemployment, increase competitiveness of these enterprises, utilize comparative advantages and increase cooperation of these enterprises not only with enterprises in their countries, but also abroad. Analyzing and comparing the sectors of countries in transition that can face sectors of other countries shall constitute a significant portion of the paper whereby obtaining information from sectors that managed to successfully overcome effects of such situations. Empirical evidence from this analysis is discussed, conclusions are derived and the recommendations of the paper are provided.

Key words: Transition, unemployment, competitiveness, impact

**Introduction:**

Small and medium enterprises play a very important role in the economical development of a country. These enterprises are very important because they employ a large number of employees within the country while on the other hand their economical activity covers various economical fields and it is not limited to trade and services but also include manufacturing, this makes them more important because they have a direct effect in the growth of general economical welfare by increasing the domestic production and decreasing the local economies dependency on foreign economies.

The importance of these enterprises is very big not only in developed countries but also in developing countries because these are the enterprises that drive forward the economical development. In order for these enterprises to be able to face the challenges which many contraries face and especially the developing ones, necessary steps need to be taken for creating a climate where these enterprises can perform efficiently in business and such business would have a very positive effect in many areas and perhaps such effects could not be achieved by large enterprises.

The small medium enterprises (SME-s), defined for the first time in history of industrial development, constitute an important and progressive segment of economy.

Today their investment, technology and production patterns at local level are determined by national and international factors. They are characterized with the techno-economic merits of both small and large enterprises. They enjoy easy access to capital, technology and markets production, distribution and consumption of their products across the globe.

But at the same time the new policy measures introduced in industry, trade and financial sectors have provided new challenges as well as new opportunities for operating SMEs internally and externally from both within and outside the country. The economy is now opened up for global competition, so they will have to face stiff competition from global players. Therefore they have to upgrade their management styles to survive and grow in the changed economy, and to become global leader.

There is also need for new types of policies and programs on behalf of the central and state governments. In the emerging business environment their sustenance is possible only if they have competitive edge in terms of cost, quality, techniques, processes etc. and their customers are fully aware of their product, services and have easy access to them.

In this regard the government, with a well envisaged institutional framework is endeavoring to help small and medium enterprises by providing new ideas, approaches, processes and techniques to consolidate and strengthen their operational efficiency.

But there is lack of information in regard to their number, investment, output, exports, spatial distribution, techno-economic requirements etc. This study attempts to provide a baseline pertaining to their size, spread, strengths etc. which may help for evolving new policy measures.

According to the UNECE statistics provided by the SME national focal points of the 27 transition countries and emerging market economies, the SME sector includes 15.7 million

Individual entrepreneurs, 7.8 million incorporated enterprises with juridical personalities. The

SME-s without individual entrepreneurs employ about 44 million people. Near 11 million

SME-s in the 27 Countries in Transition have more than 55 million employees, while the number of unemployment amount for 19 million.

There are various criteria of size that might be used to define an SME (turnover, number of employees, capital base, profits, extent of imports and exports...), and various definitions have indeed been developed for application in a range of countries. For whether a particular enterprise appears for tax purposes to be large, medium or small differs very widely across countries, depending on their degree of development and the general scale of economic activity. For example in European Union a firm with turnover of less than EUR 10 million is considered as 'small', but in many developing countries would be considered as a 'medium' firm

The World Bank and the European Commission, definition regarding the size of enterprises is as follows:

<b>World Bank (2004) EU</b>		<b>(Commission Recommendation 2003/361/EC)</b>	
Micro	10 or fewer employees, <u>assets</u> no more than USD100,000	10 or fewer employees	balance sheet total of no more than EUR 2m
Small	10 to 50 employees, <u>turnover</u> and assets between US\$100, 000 and US\$ 3 million	10 to 50 employees,	and annual turnover and/or balance sheet total of less than EUR 10m
Medium	50 to 300 employees; <u>turnover</u> and assets between <u>US\$3 to 15 million.</u>	20-250 employees	and turnover and/or annual Balance sheet of EUR 10-50m

Perhaps even more important is the substantial heterogeneity of SME-s within any country. They are likely to vary substantially in size itself, of course, from the small retail outlet to the substantial manufacturing enterprise. They are also likely to vary widely in their organizational form, which will typically include, for instance, sole proprietorships (with or without employees), small corporations (public or private), professionals, and partnerships.

These latter differences may in turn carry differing obligations for record-keeping that affect the costs to the enterprises of complying with (and to the revenue authorities of administering) alternative possible tax obligations. Public corporations, for example, commonly have stronger accounting requirements than do sole proprietorships, and enterprises with employees may be subject to the full panoply of requirements associated with withholding labor income taxes and social contributions.

In countries in transition, it is generally recognized that SME-s play an important role in economic development, with a particular contribution in terms of employment generation. In transition and developing economies, SME-s demonstrate a strong contribution to development, although in other countries in this group the sector is less developed with fewer SME-s able to grow. Whilst such a situation reflects a variety of problems and constraints on SME development, co-operation with foreign partners offers some advantages as a development strategy, although its limitations and potential disadvantages also need to be recognized.

One of the growing influences on the environment in which SME-s are operating is internationalization. Although increasing internationalization forces are contributing to changes in the external environment for firms of all sizes, they present particular challenges and opportunities for SME-s because of a variety of size related influences. Since internationalization forces are associated with an increasing interdependence between national economies (such as with respect to markets, patterns of supply, capital and production systems), governments have an interest in seeking to exploit the potential that such interdependence offers, as well as trying to better deal with the related competitive pressure on businesses and jobs, if the SME sector is to fulfill its potential role in national and international economic development.

In countries in transition, the last two decades have seen a marked increase; however the international crisis is affecting firms of all sizes. While large firms attract a lot of attention when disclosing layoffs and dramatic declines in sales and earnings, many micro, small and medium sized enterprises (MSME-s) are also trying to cope with weak demand, tight credit and reduced orders from larger companies. Small businesses across a range of sectors and organizational types have been affected, although preliminary evidence suggests that the cooperative form of enterprise is managing particularly well and many are adding new members.

Governments in many countries in transition have responded with a range of policies, often combined together in fiscal stimulus packages. These policies are designed to stabilize the financial sector but also support companies and workers in the real economy. Many enterprise-related policies provide assistance to companies of all sizes, while others specifically target the MSME sector. Policy support is also designed for specific (notably exporting) sectors where smaller firms are known to be a significant part of the enterprise landscape.

Access to finance and low demand are the chief factors affecting small businesses in the current downturn. Governments have responded by loosening monetary policy, strengthening banks, encouraging lending and providing demand stimulus through fiscal policies. It is too early to tell which policies will be effective in supporting recovery. This section sets out the various financial constraints faced by small businesses and the measures being taken by policymakers.

Small and medium sized firms dominate both developed and developing economies in terms of employment and number of companies, yet their full potential remains untapped. These trends need to change. The ability of smaller firms to create jobs is clearly a major attraction for governments in the short term. SME-s must be encouraged and supported to flourish. This is important so that economic objectives (economic growth and development, favorable balance of trade and payment and employment) and social objectives (poverty alleviation and improving standards of living) can be realized.

The economic contributions include economic growth, maintaining a favorable balance of payments and balance of trade and employment creation. Socially, entrepreneurship results in poverty eradication and

improved standards of living. Furthermore, entrepreneurship is important as many small businesses emerge as a result of entrepreneurship in developing countries.

Entrepreneurship is therefore an essential tool for improving the standards of living in a society and the stability of a country. Through entrepreneurship the high rate of unemployment can be combated and poverty levels can be reduced. The role of the small business in job creation and revenue generation is being increasingly recognized by governments worldwide. This is mostly due to the prevailing international trends in downsizing, outsourcing, privatization and automation which are seeing the traditional large companies cutting jobs.

Throughout the world SME-s are playing a critical role in absorbing labor, penetrating new markets and generally expanding economies in creative and innovative ways. The stimulation of SME-s must be seen as part of an integrated strategy to transform the economy to ensure that it becomes more diversified, productivity is enhanced, investment is stimulated and entrepreneurship flourishes. SME-s are important in that they contribute significantly to economic growth through employment creation. Employment creation leads to more people having disposable income which results in an increase in the demand for goods and services. Disposable income also results in more purchases of goods and services which lead to economic growth. As a result of increased economic growth, the general standard of living of people can be improved. SME-s are a vital component of every country's economy and their success is critical. Innovation is mainly achieved through SME-s hence they must be fully supported and guided against failures. It is of great importance to identify and understand the challenges faced by SME-s in Transition Countries. This is due to the fact that SME-s are the corner stone of the Country in transition economy and also many economies in the world. SME-s must be nurtured and supported to ensure their survival, growth and development and they must be guarded against any failure since SME-s are an important sector of the economy, factors that affect the performance of SME-s must be established and recognized. The establishment of these factors will result in tentative solutions and strategies being adopted to decrease the rate of failure of SME-s in Countries in transition which would lead to increase in the levels of employment and economic growth in this country.

#### **Reforms Policies, Regulation, and Legal Frame work for SME-s:**

Policy design and regulation for new star-ups, registration of firms, the tax system, Labor laws, financial markets and access to formal source of finance, bankruptcy laws, and regulation of intellectual property rights should be enacted or simplified so as to attract new and existing entrepreneurs to enter the formal market and the benefit from a systemized approach to operating a business.

Involve the Private Sector in the Policy Process: Government needs to establish permanent councils/partnership/collaboration arrangements through chamber of commerce and industry with the

representatives of SME-s, to serve platforms where SME-s views can be discussed and deliberated before finalization of any policy and implementation of changes.

Promote an Entrepreneurial Culture: The Government both central and local need to promote their vision for entrepreneurship development, innovation, and competitiveness of the enterprises at the local level, national and international level by introducing entrepreneurship awards, financial products and schemes, Web-based portals for marketing and information, entrepreneurship training and technological innovation etc

#### **Identification of Investment Opportunities & Benchmarking of Information:**

In today's world, knowledge is power hence information process must be in place. Paucity of authentic information on investment opportunities and gaps for the guidance of prospective entrepreneurs and data on number of industrial units, manufacturing lines, sales/exports, export opportunities, etc. is one of the major bottleneck of MME-s. Country-wise/region-wise mapping of investment opportunities, identification of growth centers, markets, export potential, project profiles for taking quick investment decisions by the promoters, census, developing electronic data base for dissemination of latest information are some of the areas to be taken care of.

Realizing the skill and resource constraints of both the new and existing entrepreneurs for gathering the required information, a three-tier information network is needed to be built up at local, regional and national level. The manufacturers individually as well as their associations, associations of traders and private consultants must be involved in collecting and disseminating market information.

In the rapidly changing economic and commercial environment, after building such a network there is need for a constant monitoring and up gradation to provide relevant and up to date information. Further, expertise from government, public and private sources should be utilized to make market information more purposeful and professional. The local associations of industrialists can play an important role by scanning through the various commercial websites and disseminating the relevant information to their members.

#### **Technology**

Technology plays a key role in SME growth. Therefore there is need to adopt suitable technology to harness the resources available. As up to date, no specific data is available on the technology levels of various products and services. To draw a long-term technology map, it is necessary to carry out technology missions to:

Bring awareness and promote introduction of new and emerging technologies for MME-s,

Assess the present level of technology in the various sectors and to forecast technology level to be achieved, set up an IT portal for information dissemination and creating awareness, coordinate the efforts of various agencies, technical centers and institutions engaged in Technology studies & audit Encourage R&D of indigenous

technologies to assist MME-s, Create incubator infrastructure facilities in various technical and management institutions, Motivate MME-s to obtain BIS/ISO certification, Organize awareness campaigns among MME-s pertaining to quality, standardization and customer satisfaction, Focus on selected sectors contributing to the economy by developing five year plan act.

### **Public-Private Partnership**

Public private partnership (PPP) should make concerted efforts to deliver the State-of-the-Art infrastructure, support services, entrepreneurship training and education, access to broader financing operations, and market access through viable partnership models like, 'Build – Operate and Transfer' . The government should take a lead in introducing special funds/grants schemes for technology development, market development, research and development, professional education and training, and mentoring programs for entrepreneurs etc. through larger alliances and linkages with business schools, universities, and NGOs.

### **Investment lending**

Few small businesses are initiating new investment projects in sectors and countries where demand is weak. Existing projects, notably those that are more than three-quarters finished, are likely to be completed because of the sunk costs and thus the need to begin generating a return. In countries and sectors that are less affected by the crisis, the desire for investment loans will be stronger.

### **Credit Policy Options**

Continue with loose monetary policy to encourage low interest rates  
Ensure adequate SME lending through state-owned development and commercial banks  
Ensure adequate credit for working capital requirements  
Increase lending through enterprise support programs.  
Expand micro-credit to micro-businesses, including those newly created by laid-off workers  
Improve access to finance for exporters  
Encourage prompt payment and enforce rules on late payment in the private sector  
Ensure local and state governments pay promptly their bills to SMEs  
Assist enterprises in preparing high quality loan proposals

### **Working Capital**

A major concern of enterprises is to ensure sufficient working capital, especially when payments for goods sold or services provided are delayed. This involves, in part, astute cash flow management, tight tracking of accounts receivable, maximizing the use of supplier credit and managing overdraft facilities .Several countries have instituted programs to support working capital, notably through loan guarantee schemes.

### **Taxation**

A reduction in tax can ease working capital constraints for businesses and stimulate demand among consumers. As

taxes are levied at several levels - income, production, value added, sales and imports - there is considerable room for governments to make cuts. Many of these measures are applicable to enterprises of all sizes but governments are aware that in many cases they will benefit SMEs.

Such cuts result in the loss of public revenues but a number of governments around the world are not particularly concerned about the size of deficits at the present juncture. The benefits of keeping business operating and workers employed currently outweigh concerns about the effects of future public debt servicing. Tax cuts today will require additional taxation in the future, which, however, will be resisted by taxpayers and businesses. Policymakers need to decide judiciously how much cutting is feasible and to what extent debt accumulation will inhibit future growth prospects and future social spending. Changes in taxation will affect formal sector businesses but are likely to have only limited direct effects on the fortunes of informal enterprises. The latter tend to fall outside of the tax net and their owners' income may also not be taxed. Informal operators may benefit indirectly, however, if purchasing supplies from formal firms which normally do pay tax.

Business associations have also a critical role to play in advising governments on the hardships of their members and on where tax cuts can be most effective in stimulating output, exports and employment.

### **Employment**

While layoffs reduce businesses costs, they put further downward pressure on consumption, thereby prolonging the downturn. Thus, efforts to maintain employment are of benefit both to the welfare of workers and to the prospects for economic recovery. Worker retention may also aid businesses if it allows them to avoid losing valuable human capital, although businesses are unlikely to retrench their best workers .

### **Conclusion**

The outlook of the medium sector is broader and there is continued search for improved ways and ready adaptability. Their up-to-date products and designs suit the modern needs of the economy in transition from developing to develop. There is greater utilization of physical and technological advancements. Machines, materials and processes are used optimally. Entrepreneurs are well versed with organizational and management planning, budgeting, market and grievances handling. There is awareness of benefits of training for skill development However, the process of privatization, liberalization and globalization of economic activities has affected the whole economy in one way or the other. It has increased the sphere of competition both horizontally and vertically in national as well as international markets and created an environment where fittest will survive and inefficient will be weeded out. It has underlined the concepts of productivity, quality, effectiveness and efficiency.

Therefore the suggested policy interventions when implemented in letter and spirit are expected to make SME-s more competitive nationally as well as globally. It will add new vibration and impetus to harness growth potential with a view to stimulate socioeconomic transformation through production of quality goods and

provide services for customer satisfaction, contribution to export development & national wealth. Above all it will inculcate entrepreneurial culture and generate employment opportunities for youth and instill a sense of pride amongst them.

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