

THE ROLE OF SME (SMALL AND MEDIUM ENTERPRISES) IN ALBANIA'S ECONOMIC DEVELOPMENT, LEGAL AND FINANCIAL PROBLEMS.

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Abstract

Successfully coping with the pressures of the global market, is one of the main challenges faced by Albanian entrepreneurs today. Supporting SMEs is of a particular importance because the success of these companies means their growth and as a result the increase of competition capabilities of our economy, higher employment and increase in welfare. Small enterprises are the most sensitive to all changes in the business environment. They are the first to be prosecuted by excessive bureaucracy. They are the first to grow and develop through initiatives to act ... (Report of the European Commission 2009). In Albania small and medium enterprises represent 99.6 percent of all registered business entities. The institution in charge of drafting SME policies is the ministry of Economy Trade and Energy(METE). This Ministry has played an important role in drafting legislation, strategy development and supporting business initiatives. The Government of Albania has expressed an interest in creating a financial sector that would increase a stable credit access for the private sector. This interest is expressed in measures taken in strengthening the banking system and stimulating activities of non-banking financial institutions. A number of laws have been passed with the objective of reducing the administrative barriers. Moreover, the establishment of the National Business Registration Centre and its decentralization in 31 business registration desks in all country has increased company registration procedures and facilitated them. Strategies of the Government and medium-term programs for the SMEs development were designed and are being implemented. Furthermore, licensing procedures are simplified and a National Licensing Centre has been created in order to serve as a one-stop-shop. According to Doing Business Albania 2010, from 2007 to 2010, Albania has progressed in adopting reforms regarding the facilitation of the business practices such as the publication of an electronic registry, simplification of registration procedures, tax registration, social security registration etc. Institutional problems such as lengthy and non-transparent judicial procedures, corruption and inadequate infrastructure are also of major concern (EBRD 2009).

Key words

Economic growth stimulators, business environment, competition capabilities, licensing procedures, government strategies.

Objectives of the study

The study is based on three main points:

1. How is the situation of SMEs and financial opportunities offered by the market in the country?
2. What are the experiences and institutional efforts?
3. How should we be oriented? What should we do to achieve the goals?

Methodology

The study presents the theoretical aspects of the development and financing of small businesses, which are associated with the respective data, official statistics and various institutions as well as data derived from the questionnaire.

The survey was conducted via direct survey model and the filling of the questionnaire by the

Abbreviations

SMEs	Small Medium Enterprises
VAT	Value Added Tax
GDP	Gross Domestic Product
EU	European Union
NRC	National Registration Centre
IMF	International Monetary Fund
MADA	Mountain Areas Development Agency
NLC	National Licensing Centre
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
IFAD	International Fund for Agricultural Development

IPA	Instrument of Pre-Accession of EU
ASCU	Albanian Savings-Credit Union

1.1 Introduction

SMEs are the main force for economic growth, innovation, employment and social integration. Moreover, SMEs are the backbone of the economy of a country, being mainly for economic growth and welfare.

Supporting the sustainable development of the SMEs sector is at the center of the economic policies of the EU governments and in particular of the European Commission because the number of SMEs in Europe amounts to about 23 million and represents 99% of the total number of enterprises. SMEs provide about 70% of employment and produce more than half of the added value of the EU²⁴⁷.

SMEs advantages:

- They can start with low cost
- Their specialization in niche markets
- They respond quickly to market changes because of the fact that they are smaller, with a small number of employees and with focused resources.

The Albanian economy is an opened economy in terms of economic freedoms with liberalized trade and domination of the private sector in all spheres. The private sector continues to represent 80% of GDP and it employs 82% of the workforce²⁴⁸.

²⁴⁷ The European Commission Report 2009

²⁴⁸ Progress Report 2012 for Albania, Economic Criteria

In general, by the end of 2011, Albania has maintained an economic stability after being affected a little by the difficult economic conditions in the region and globally.

Fiscally, Albania has made progress in terms of:

- Reduction of fiscal burden
- Institutionalization of state-business relations
- Improving tax administration

In Albania is operating NRC (National Registration Center) where it is applied the business registration system One-Stop-Shop.

However, all economic indicators started to deteriorate from 2011 and onwards. Thus, according to data obtained from the Progress Report 2012 for Albania:

Economic growth in 2011 declined to 3,1% from 3,8% in 2010.

Private consumption growth slowed to 2,6%, feeling the severity of poor family credit and migrants' remittances decline due to global crisis.

In the first 3 months of 2012 the economy contracted by 0,2% on an annual basis mainly by the strong decline of industry manufacturing and construction.

Agricultural production and other services increased. The percentage of agriculture increased by 21%, at the expense of the construction which was reduced by 11%. Agriculture remains the main employer with 54% of total employment in the first half of 2012.

Consumption costs and investments remain weak, reflecting partly the uncertain global economic situation.

In general, the Albanian economy continued to grow in 2011, driven by domestic demand, but in practice the economic activity passed to stagnation in the first trimester of 2012.

During 2011, IHD flows fell by 10% as a result of global economic conditions, difficulties of neighboring economies and capital repatriation.

The biggest problem of these past 2 years 2011-2012 has been the increase of public spending and deepening of public debt. Thus public debt increased by 58,5% in 2010 to 58,8% in 2011, reaching 62,2% in the first month of 2013.

Despite the constant demands of the IMF and World Bank for debt control, reduction of public spending and maintaining the legal ceiling, the Government changed in December 2012 in parliament the budget management law by removing the debt ceiling.

High and rising public debt, which in majority is covered by the banks of second level, narrows the space for granting loans and constitutes a source of micro-financial threat.

In this economic view develop their activity the SMEs, which in Albania have been raising their impact on GDP and employment. Thus:

In 2008 SMEs provided 72,9% of GDP and 71,4% of the active labor force.

In 2011 micro-enterprises constituted 95,2% of active enterprises with 70% employees at national level.

In 2012 Albania had 105 thousand small and medium-sized enterprises which provided 80% of GDP. 98,9% of the total number of enterprises employ 82% of the workforce in the private sector.

Taking in consideration the number of persons employed in a company, Albanian Law No. 8957, "Small and Medium-Sized Enterprises" dated October 17th, 2002 uses the following criteria for SMEs Classification:

- Micro-enterprises: up to 5 employees;
- Small enterprises: 6 - 20 employees;
- Medium-sized enterprises: 21 - 80 employees;
- Large enterprises: over 81 employees.

EU Member's States and Candidate Countries use the following classification for SMEs:

- Micro-enterprises: 1 - 9 employees;
- Small enterprises: 10 - 49 employees;
- Medium-sized enterprises: 50 - 249 employees;
- Large-sized enterprises: over 250 employees.

INSTAT's SBS data are processed based on EU harmonized standards.

Main characteristics of SMEs in our country are:

- Structure of SMEs changed since 2007 and onwards. Up to 2007 construction and trade sector has been dominant, meanwhile now dominates trade and services with 80% of enterprises in the country.
- Frequent activity changes characterize this structure and more frequent changes belong to the trade sector.
- Over 90% of companies are organized with self-employment, or with 1 to 4 employees.
- The management structure is dominated by the owner's powers only.
- Focus on urban areas and mainly in Tirana-Durrës corridor and in Korca, Fier and Vlora cities.
- Very high rates of establishment of new enterprises (about 16%).
- In recent years, according to the NRC data, it is increased significantly the percentage occupied by new businesses financed by the foreign capital.
- The high percentage of businesses that terminate their activity.

The main problems of SMEs in our country are:

- Impossible banking lending
- Lack of management skills and technological capabilities
- Problems of tax administration bureaucracy
- Failure to know and apply the integrated marketing concepts.

Being an economy developed away from developed financial markets, the global crisis did not affected Albania immediately. However it indirectly (mainly through the 2 neighboring countries Italy and Greece) brought its consequences also in our economy. Decline in domestic consumption is one of the first effects of the crisis in Albania and small and medium-sized businesses have felt the decline in demand for their goods and services.

The decline in consumption, lack of liquidity, investment contraction, contraction of bank loans are the main problems facing business today in Albania.

In terms of the global financial crisis (the increase of unemployment and the problems faced by large businesses) takes an even greater importance the

microfinance and enforcement of such government policies that give breath and development to SMEs.

Microfinance serves as a tool for economic and human development because:

- It assists poor people fighting by themselves the poverty
- It enables and encourages the community's desire for business venture
- It enters into countries and social groups often inaccessible to other financial operators
- It focuses on small projects with direct impact on small communities
- It makes a combination of funds from many sources such as international donations, state funding, private donations, commercial loans, remittances, clients savings.

In recent years, Albania has made progress in creating a favorable climate for business. For the years 2007-2011, Albania is ranked on 15 place for the achieved progress according to Doing Business Survey (see tab. no.)

Although Albania has made improvements in the business sector, it is confronted with many other challenges related to the development of SMEs, such as long-term policy in the development of the country by region in creating financial facilities, consolidation of technological capacities, involvement of favorable financial

1.2 Legal framework and administrative procedure of facilitating the SMEs development

The regulatory framework in Albania has significantly improved over the last seven years, meaning the business climate has developed and administrative procedures have been facilitated. As institutional competences of the

Ministry of Economy, Trade and Energy and the Ministry of Finance, the enhancement of the legislative framework and elimination of administrative barriers, are being treated by these governmental institutions. According to the Albanian Law nr.8957 date 17.10.2002 "On Small and Medium Enterprises", governmental institutions should collaborate with business organizations, trade and industrial rooms, regional agencies of business development, national employment service, and other organizations, for the trainings and qualification of leaders and employees of the SMEs. The Albanian SMEs policy is based on the European Charter for Small Enterprises and the country is committed to implementing the Small Business Act for Europe. The elimination of long administrative barriers has been a priority to the government. In February 2010, the official website of the General Directorate of Taxation (GDT) www.tatime.gov.al was implemented for the electronic declaration and payment of VAT; the declaration of income tax from employment (TAP); the declaration of corporate tax; and the declaration and payment of social security and health contributions. The electronic declaration well functioned during the years 2011-2012 recording 80% of tax declarations e-filed. Moreover, the payment processing time has been cut from three months to one day, saving \$ 1 million per year. In Albania now it takes only one day to register a new business in our country. The indicators of 2012 to open a business in Albania shoq that it requires only 5 days, whereas in the European Union countries it takes 15 days. On the other hand, the cost of opening a business and the time needed to accomplish taxes and the cost of enforcing contracts, are far away from the EU indicators. Below there is a table with these indicators and others, too. The classification is among 183 countries of the world.

	Ease of doing business rank	Getting credit rank	Protecting investors rank	Starting a business rank	Enforcing contracts rank
Albania 2012	82	24	16	61	85
Albania 2011	77	21	15	56	88

*Source: Doing Business Albania, World Bank

Albania continued to implement the Small Business Act, especially in the areas of company registration and business start-up. Development of technology and innovation strategy for SMEs are still goals to meet. The National Registration Centre (NRC) has made a big step forward by reducing the costs of starting up a business, partly by reducing document notarisation requirements. Moreover, its decentralization in 31 business registration desks in all country has increased company registration procedures and facilitated them. The National Licensing Centre (NLC) is established in order to serve as a one-stop-shop and looking at sectoral legislation in the authorisation field and the requisite information and reduce the time taken for issuing local government licences and permits. The EU instruments for the candidate and potential candidate countries are a pivotal help for the development of SMEs in Albania. The cooperation with European Investment Bank (EIB) and the European Bank

for Reconstruction and Development (EBRD) facilitates the access to loans, leasing and equity operations to the eligible countries. For micro, small businesses and start-ups, there are tough borrowing conditions, especially in rural areas.

Leasing is another funding method, where EBRD has used its leasing facilities to provide both financial and operational leases to SMEs.²⁴⁹ SMEs are a big force of employment and an engine for the economy of the country. The exact number of SMEs recorded by the Institute of Statistics of Albania lack for the last three years. So we gathered datas up to the year 2009, for the number of enterprises, the number of employees they secure, and their value added. Table nr. reflectes the datas.

²⁴⁹ Financial and Non-Financial Tools supporting SMEs, IDRA Research and Consulting, Italian Embassy, page 61, 2011.

	Number of enterprises	Employment	Value added
	Number	Number	Million €
Albania 2009			
Micro	70 637	117 306	620
Small	1 579	20 719	190
Medium-sized	1 428	71 047	600
SMEs	73 644	209 072	1 410

*Source of datat: Institute of Statistics Albania, year 2009

According to the 2012 Progress Report of the EU for Albania, a new package of regulatory reforms was launched in March to reduce delays in registering property, obtaining construction permits and connecting businesses to the electricity grid. Upon to the Progress Report 2012, there was no progress with approval of legislation related to regulatory impact assessment.

Albania will need to step up its efforts to remove remaining obstacles to investment. In this context, fighting corruption and the informal economy, ensuring the rule of law, in particular enforcement of contracts, raising the quality of exported products and improving human capital and infrastructure will require attention.

The e-taxation service has strengthened the rule of law, increased transparency, improved services to taxpayers, cut the attendant cost and time, cut down the administrative burden, created a paperless system, reduced the need for contact with the tax authorities and minimalised corruption.²⁵⁰ (page 9, SBA Fact Sheet 2012 Albania)

1.2 Actual Projects in Albania

Actually in Albania operate 3 powerful organizations that support and promote the development of SMEs as the Mountain Areas Development Agency (MADA).

Albanian Savings-Credit Union and the Italian-Albanian Program for the Development of Small and Medium Enterprises.

The latter should be considered a success story because of the cooperation between two governments that should bring it further.

Italian-Albanian Program for the Development of Small and Medium Enterprises in Albania:

- One of the most successful programs able to assist concretely and quickly with businesses liquidity.
- The program started in January 2009 with Euro 36 million and despite the economic crisis of Italy, the resigning of the agreement between two countries became possible also with other Euro 15 million.
- This program helps SMEs to improve their access to bank lending. Lack of banking collateral prevents SMEs to approach banks. The establishment of the guarantee fund of Euro 2,5 million as guarantee fund has overcome this problem.
- This program contributes to the rapid growth of the Albanian economy and its innovation. In cooperation with 8 second level commercial banks that are more active in loan provision market, the program has been extended

to 13 districts of the country with the largest percentage in Tirana, Lushnja, Durres, Kruja, Shkodra etc..

- As of October 2012 there are provided 75 loans totaling Euro 16.8 million.
- This program is an innovative financial instrument that facilitates the participation of SMEs in taking loans.²⁵¹
- The program requires from beneficiary companies to contract with an Italian partner to ensure investments in technology. 80% of funds used for loans is used for the purchase of machineries.
- This is also one of the problems of the program. It stimulates more the construction and production sector and less the agriculture or trade sector because a condition of admission to this program is that 80% of the loan should be used for investment in technological lines or equipments of Italian origin.

When asked about the experience and support this program has given to the businesses benefiting from it, they are expressed quite happy and the positive and negative sides are listed²⁵² as following:

- Technical assistance in the stage of investment modeling
- Ease of getting credit
- Interests (5.5%) and general conditions of the program (an initial period when it should be settled only the interest), at a time when banks have reduced lending are attractive.

When asked about problems encountered during the application they stated:

- Long documentation
- Difficult to ensure
- In completing documentation it has helped the fact being old businesses and with long relationships with banks where they have received loans.

When asked how they received information about the program, they answered:

- From workshops
- From the Italian partners

This fact indicated that the source of this information is narrow, limited and difficult to be obtained by new businesses.

MADA Agency for the Promotion of Sustainable Development of Rural Mountain Zones

- Established by DCM (Decision of the Council of Ministers) no. 427, dated August 04th, 2000, it enjoys the status of a non-profit organization,

²⁵⁰ Enterprise and Industry SBA Fact Sheet 2012 Albania, page 9.

²⁵¹ Mr. Pekhan Isipek, Commercial Banking Group Director, NCB

²⁵² www. mete.gov.al

- It aims to combine and harmonize government development policies at national and local level, including the relationship between the public and private sector, business and financial institutions.

- Financed by the Albanian government funds, the International Fund for Agricultural Development IFAD, OPEC Fund for International Development OFID, World Bank, etc.

MADA's role has been and remains very important because it is focused on agriculture and as noted by the European Commission: Agriculture remains the main sector which generates 18,5% of general private sector product and 48,3% of the total of the employed persons. About 500.000 people work in this sector of which 55% full time and 45% part-time. Product of labor in agriculture is only 30% of the product of the entire Albanian economy and 20% of the labor product in EU. More than 50% of the total population live in rural areas where agriculture is the main activity. The annual growth rate of the agricultural product in the last five years has been 3-3,5%. Factors affecting the growth of this sector are small-sized farms (1.2 ha), land fragmentation, lack of infrastructure, low level of development of the agro-food industry, low technology level, poor organization of farmers, lack of access to financing, lack of market access, undeveloped agricultural systems²⁵³.

- Albania is one of the most mountainous country of the region. Mountainous areas account for about 2/3 of the territory of the country where the population living in these areas historically faced natural, physical, economic, structural difficulties.

- Although there were many changes, agriculture remains the main economic activity with very low productivity as evident from the figures cited above. Also there are plenty of resources that remain unused. Albania may soon benefit from other instruments with which operates the EU. One of these instruments is IPA which allows higher ceilings supported by public funds for mountain and less favored areas, but it should have a clear definition which are called mountain and less favored areas according to the provisions of the EU.

For this purpose, MADA conducted in 2010 a study that had 3 main goals:

- To analyze the experience and the European legislation on the definition of mountain and less favored areas.
- To develop a methodology for determining these areas in Albania.
- To collect and analyze data necessary for determining the mountainous areas of Albania.

At the end of the study there were determined 5 criteria for the definition of mountain and less advanced areas in Albania under which it results that:

- 240 local units (municipalities/communes) result as mountainous or less advanced areas, or 64% of local units in which live 37,3% of the total of households in the country.

133 local units result non-mountainous or 36% of local units with 62.7% of households in the country.²⁵⁴

Also seeing the success of the Italian-Albanian Program, since 2010 MADA began to apply as a financial instrument the Guarantee Fund to support farmers and rural businesses in the sectors of agriculture, livestock and any other sector that generates employment and income in the rural mountain area of the country.

But it should be noted that the efficiency and effectiveness of this Agency depends primarily on macro-governmental policies and on the increased management capacities of local government units.

Albanian Savings-Credit Union

It is one of the most important players in the field of microfinance and one of the exclusive providers of financial services in rural areas of the country.

It is established according to the financial cooperatives model recognized also in Europe of which have their origins big banks like Raiffeisen, Credit Cooperative etc..

It represents the voluntary union of savings and credit companies in rural areas which carry out financial activity in over 1,000 villages in 16 districts of the country.

This activity is a response against the rejection of the traditional system for people in rural areas who seek an ever greater number of financial services.

- The Union has faced successfully the effects created by the global financial crisis due to the ability that companies have with customers and their profile, due to the application of the principle of one member one vote in the decision making, defensive schemes and intertwined control mechanisms.

ASCU (Albanian Savings-Credit Union) is classified in 2008 by MIX to 16 best institutions in the world.

1.3 Relevant data from terrain

We conducted a survey with 30 businesses in the area of Tirana-Durres with:

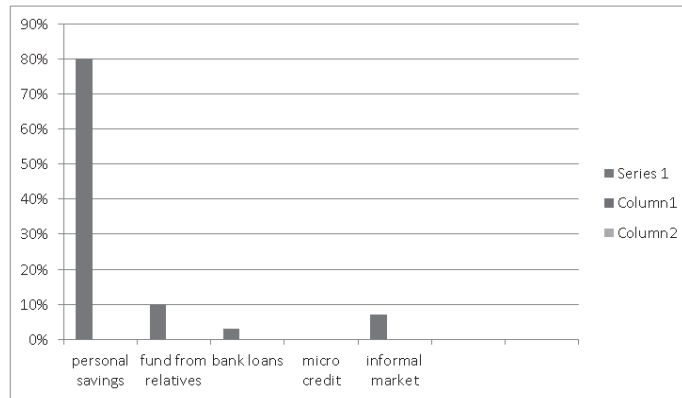
- 10 service businesses
- 10 manufacturing businesses
- 10 construction businesses

Problems arising from the survey:

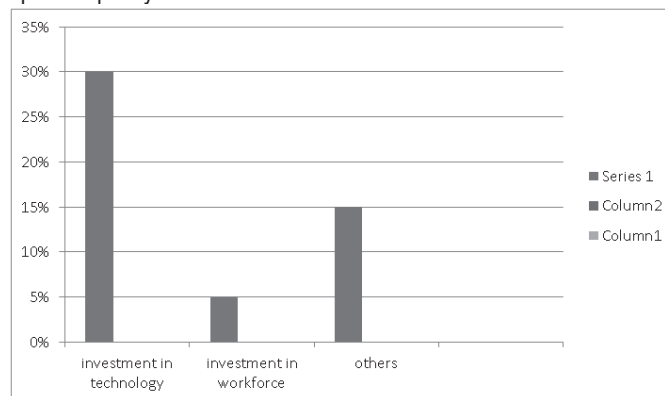
In the field of financing continue to dominate personal savings. It is increased the proportion of funding from the informal market and businesses still have no knowledge of such financial instruments as leasing, factoring, borrowing in foreign financial markets.

²⁵³ Progress Report 2010, p. 68, 3.11 Agriculture and Rural Development

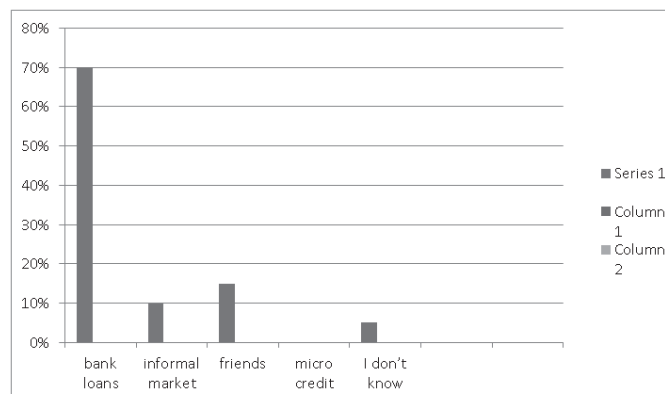
²⁵⁴ www.redeval.org



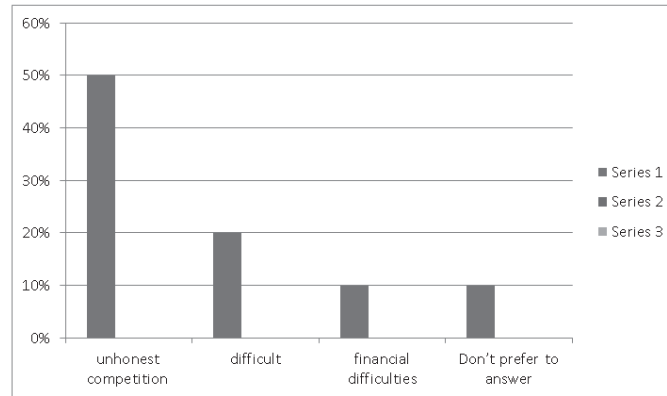
There are few companies that have made investments in terms of business growth and these are mainly in the manufacturing sector. These data relate primarily to business trend that for the moment is not very optimistic and secondly with the absorption capacity of funds from these businesses.



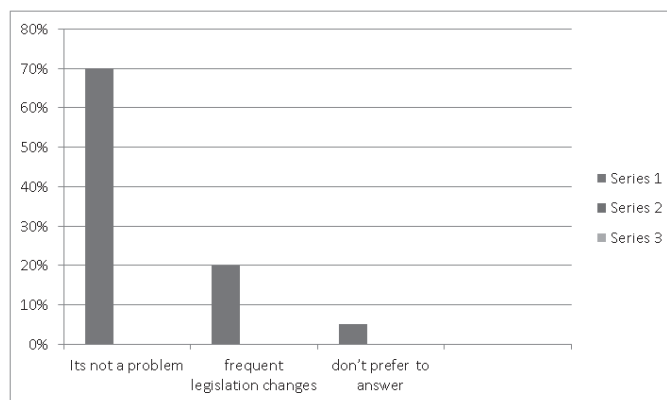
- In connection with the expansion of the activity and financing field, most of them still see banks as a financing possibility because they still see the bank as one of the few opportunities of funding, but not because of its feasibility. In the field of financing, it is noted first the limited value of financing that they can secure and secondly the high cost of existing sources of funding, and the fastest time of the credit to be returned.



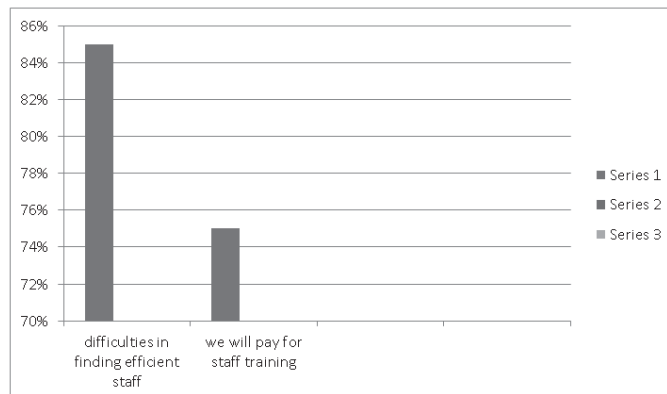
- When asked about the general climate of doing business and the problems that are encountered we can mention: artificial difficulties that arise on the way to business, not stimulating environment for doing business, lack of fair play rules, lack of general infrastructure, lack of financing options with more favorable cost.



- When asked about the political stability, the most part responded that it is not a problem for them. But more problematic is considered the legislation that had to be made easier and not to change often and they acquire equality in law enforcement.



- In relation to managerial and professional skills most firms said that there is a lack of qualified personnel, especially in the field of finance and marketing and they are willing to pay for staff training.



RECOMMENDATIONS

Our economy suffers from growth rates, the rates of business evolution from small to medium and big business. With such a structure of the economy where 98% are companies of micro-business character, it is very difficult for our economy to become competitive.

To achieve growth objectives there should be combined the economic stimulation policies of business, politics of harmonious development of all regions of the country, legal improvements and to create a better climate for investments.

- Encouraging the private enterprise should remain a priority of Albanian government and of the Ministry of Economy in order to improve the climate for foreign and domestic investments. This can be achieved by:

- Legal improvements to promote direct investment in small and medium enterprises.
- Reduction of risk for investors by offering state guarantees for their investments, as well as working to improve the country's image as a welcoming place for investment.

- Strong investment in infrastructure as a powerful assistance to business.
- Governments should stimulate the increase of competition between banks and non-bank financial institutions to influence in the geographical extension of the activities of these institutions being closer to stakeholders.
- In terms of the global crisis when there will be reduced the funding opportunities and grants from donors, it is time to think on the licensing of a bank specialized in small business financing.
- It is immediate the creation of a well designed and functional financial market that would increase

investment opportunities and financing of the Albanian business. Actually the government has a project for an agreement with a regional bourse and the establishment of a regional electronic platform of trade, in order to give the Albanian businesses the opportunity of new financial ways.

- The business community through their associations and chambers of commerce, should increase the level of organization and active participation in social and economic life of the country.

The business associations should inform their members about the banking and financial market developments, as well as opportunities and conditions of financing provision.

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