

The Impact of SMEs in The Economic Growth in Albania

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Abstract

In the case of Albania, SMEs also play a very important role in the economic aspect, creating numerous employment opportunities as well as becoming a development engine for the country and its specific regions. In Albania the number of enterprises in SMEs is 99.8%, the same as in the EU. The number of employees in this group of enterprises is 79.8% in Albania from 66.6% in the EU. Value added realized by SMEs in Albania constitutes 69.1% from 56.4% in the EU (INSTAT, 2018). This research explores the impact of SMEs in the economic growth in Albania. Most of the countries in the world are developed through SMEs business, in many aspects such as employment, export, tax, income, innovation, competitiveness (METE, 2016). Unlike large corporations which have large budgets for investment and to support research and development for the use of new technologies, SMEs face a number of difficulties such as limited access to finance, often associated with a lack of liquidity they have, the challenge of increasing competition driven by economies of scale, lack of database, low R&D costs, technological change, and capacity constraints related to knowledge, innovation, and creativity.

Keywords: Albania, Economic Growth, Government Role, SMEs Components, National Policies.

1. Introduction

In previous years, most of the studies have focused on large businesses. This is because, until 1970, economic development was achieved mainly through the mass production they provided. Since then, a different trend towards “production reduction” has been observed and this has significantly increased the commercial importance of small businesses (Krugman, 1994). In terms of their study, for a long time, there has been a tacit speculation that the theories and organizational models developed over large businesses were directly applicable to SMEs as well. However, Burns and Dewhurs (2003) has found that it is now widely accepted that small businesses differ greatly from large ones (Liang, 2007). This also affects the growth of SMEs, which provide a significant contribution to the growth of GDP and employment. SME growth is an essential component of economic development. Currently, the private sector contributes in more than 75% of GDP and in more than 62% of the total number of employees. SMEs constitute in about 98% of private enterprises and employ about 75% of employees in non-agricultural sector. However, in Albania, as in other transition countries, the businesses access for funds is a significant obstacle for their growth. Currently, in Albania operates three levels of lending to businesses: commercial banks, credit foundations and equity funds. The strengthening of the financial sector is one of the key issues to enable successful business performance of SMEs in Albania. Although, the financial sector is still fragile, the banking sector has helped it for strengthen.

Similarly, an important contribution is given to the financial institutions and to the donors, who have encouraged investments and credits in our country.

2. Significance Of The Study

National policies on development and support of SMEs - Even in Albania was approved legislation to develop and support small enterprises and medium enterprises. Its necessary to discuss the development of national policies in three aspects. According to **Paskaleva and Shapira (2006)**, *financing SMEs* is considered as one of the main disadvantages of SMEs. So, its important to create a business-friendly financial sector for a good economic stability that it is essential in improving access to finance of SMEs. In general, some measures to be taken to improve SME financing are:

- *Increasing the levels of lending and the creation of the Albanian fund loans.*

Creation of credit guarantee funds. There is a growing demand from SMEs to finance through borrowing. For this reason there is a need for a sequel and regional expansion through the branches of commercial banks or even some donors who contribute to the financing of SMEs. Establishment of new institutions, such as funding and for the development of SMEs.

- *Increasing funds for microcredit.*

It should be supported by the non-financial institutions of micro-credit, by foreign donors and by the government of Albania.

The strengthening the capacity of microcredit institutions (Paul, Parthasarathy and Gupta, 2017).

3. Review Of Related Studies

SMEs enterprises have been a distinguishing characteristic of all Albanian transition, that has resisted to the economic difficulties our country (Voerman, Wedel and Zwart, 1998). The contribution of small enterprises is for the growth of service sector, construction, trade and agriculture, where micro enterprises that constitute the majority of this group was undoubtedly important in long-term sustainable recovery of our economy (Abor and Quartey, 2010). The increase of Small and Medium Enterprises and their impact in the economic development its related with their structure and size. As already is known, the SMEs model is almost completely in opposite to the pattern of large enterprises, which are characterized by a concentrated shareholding structure and extremely stable (Acs and Preston, 1997). So, when it is talked about SMEs is more about the natural model in terms of companies that with reduced dimensions, those that occur on each site (Zhang, 2005). According to Audretsch (2003), Small and Medium Enterprises are more simple in structure than large firms for that the cost of capital is lower in relation to job creation. The growth of SMEs is accompanied by an increase in employment, alleviating one of the most serious social problems, which is unemployment. One of the advantages of SMEs is their flexibility. This made them less affected by crises and with faster and easier opportunities to recover. They represent an untapped opportunity in the dynamic restructuring of developing economies. They are valued for their advantages but also for their potential risks (Buckley and Ghauri, 2004). SMEs are considered the "backbone" of the economies of many countries. They represent 80-95% of the total number of enterprises, contribute with about

60-75% of the gross domestic product and about 65-80% of the employees are close to them. This significant contribution imposes the recognition of the advantages and disadvantages of SMEs, to build proactive policies in support of them and to build national programs for the reduction of obstacles to the development of SMEs (Branco and Nuno, 2003). The size of an enterprise is an important variable in economic development. Almost all firms in Albania are included in the category of SMEs as defined in the European Community (Burns and Dewhurs, 2003). In Albania, the classification of enterprises according to INSTAT is as follow:

Table. 1. Size class of enterprises

Type of enterprises	Number of employees
Micro enterprises	1-9
Small enterprises	10-49
Medium enterprises	50-249
SMEs	1-249
Large enterprises	Over 250

Source: INSTAT, 2020

In 2019, 99.8% of active enterprises are occupied by SMEs, in the same percentage as in 2018, 81.6% of employees are employed by SMEs from 79.8% in 2018 and 68.2% of investments in the country are made by SMEs from 70.6% made in 2018 (INSTAT, 2019).

4.Objectives Of The Study

- The expansion of the banking system, a support factor for SMEs.
- The importance of SMEs for the albanian economy.
- The strengthening of the networks for supporting SMEs.

5. The expansion of the banking system, a support factor for SMEs

Rules relating to the process of lending standards are mandatory to be implemented by all commercial banks (Levii, 1983). The lending policies are defined and are determined by the Board of Directors in accordance with the development strategy of the bank (Muranda, 2003). The purpose of the loan is the financial support of the economic activity of its clients, the realization of an acceptable profit for themselves and the loan insurance (Liang, 2007). It should be emphasized that the duration of the award of credit is consistent with the purpose for which credit is given (Li, 2006). This is determined depending on the type of business, earning income from the sale of products and services and depending on the funds committed for the purpose of bank lending and insurance at the right time of the expected profit (Lin, 2005). To gain a more competitive position in the interbank market is of a particular importance to know the needs of customers and businesses, that they develop. This would be done through collection, analysis and scheduling information, which creates the possibility that at

the time of applying bank be able to operate more quickly and qualitatively in terms of lending (**Motohashi, 2005**).

The improvement of business environment. - Costs that are burden on SMEs are higher than those in large businesses. SMEs can have a major benefit of establishing a non-discriminatory investment framework. The creation of consultative councils of business, provided by the Stability Pact will contribute to this process. The establishment of a transparent tax system and a regulatory framework that allows SMEs to benefit from the opportunities offered by the process of privatization, in order to contribute significantly to the development of this sector (**Hanns and Voithover, 2006**).

The strengthening of the networks for support SMEs. - SMEs have conditioned the relations with other firms and this is an unfavorable condition for them. They have different requirements for support in various stages of the business cycle such as the finding of partners to reach out to the market, how to transform the ideas into business plans, etc. (**Storey, 1997**).

6. Data Analyses of The Importance of SMEs for the Albanian Economy

SMEs are seen as a source of innovation at the aggregate level, as they are more flexible, dynamic and sensitive to changes in demand compared to large enterprises (**Kayanula and Quartey, 2000**). According to statistics in general, SMEs are not only dominant in the economy, but they have the ability to be dynamic in the economic development (**Kohata, 2006**). SMEs provide a unique contribution as an integral part of the economic structure. They are also a supplier to large enterprises and contribute to the increased competition in the markets (**Jones and Haven-Tang, 2005**). The rapid development of sustainable businesses requires considerable resources (**Krugman, 1994**). During these years many donors have supported this development as EBRD, IFC, UNDP, GTZ, World Bank etc.. Initially, businesses have operated in an inappropriate environment, starting with the pyramid scheme crisis of 1997, political instability, corruption, constant changes in legislation, etc.. The main obstacles to the growth and formalization the businesses are related to the inability of law enforcement, underdeveloped capital markets, poor infrastructure, lack of property rights and an underdeveloped judicial system (**Knight, 2000**). It has been noted that most enterprises are established in the commercial sector, because the barriers are lower in this sector. The majority part of enterprises is growing in the sector of industry and services, while the sector of transport has been a decline.

According to **INSTAT (2020)**, the number of active economic enterprises in 2019 is 104 090, which decrease by 3.1 % compared to 2018. Enterprises that operate in trade sector comprise 40%. Also in 2019, the number of total employed increased by 15 146 employed or 2.9 % compared to 2018. Services and goods producers have contributed respectively by +1.8% point and +1.1% point in the total increase of employed. The situation for investments is different because goods producers have the major contribution on investments increase. Investments of this group constitute 62.1 % on total investments for 2019.

Table. 2 Number of enterprises, employed and value added by economic activities, 2015-2019

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Indicators	Number of enterprises					Number of employed					Value added (mln ALL)				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
All market producers	104 534	108 526	107 677	107 450	104 090	435 437	469 665	492 913	515 706	530 853	460 332	491 026	525 642	565 478	582 083
Goods producers	13 269	13 875	13 701	13 560	13 220	153 756	167 464	177 143	184 850	190 636	209 833	218 561	223 885	244 969	242 627
Mining & quarrying	626	498	487	646	688	11 747	11 120	11 281	11 540	11 318	42 960	27 067	31 802	34 414	36 570
Manufacturing	8 137	9 337	9 035	8 669	7 961	83 107	95 562	100 642	106 470	109 140	63 246	70 559	82 269	85 269	88 554
Electricity, gas, water supply & waste manag.	679	656	701	637	641	20 082	20 571	22 559	21 814	22 953	48 598	55 716	35 658	49 567	44 271
Construction	3 827	3 384	3 478	3 608	3 930	38 820	40 210	42 661	45 027	47 224	55 028	65 219	74 157	75 719	73 231
Services producers	91 265	94 650	93 976	93 890	90 870	281 681	302 202	315 770	330 856	340 218	250 499	272 465	301 757	320 510	339 457
Trade	45 093	45 041	44 571	44 441	41 660	111 848	113 957	121 324	125 445	131 030	112 119	113 075	119 148	124 048	129 682
Accommodation & food services	18 586	20 043	19 599	18 966	17 394	45 309	52 141	54 524	56 183	59 104	14 994	17 621	20 893	24 546	27 797
Transport & information & communication	7 365	7 838	7 389	7 654	7 902	31 082	34 256	34 380	38 236	38 116	48 281	57 055	61 682	63 794	64 844
Services	20 221	21 729	22 416	22 830	23 914	93 442	101 848	105 541	110 992	111 967	75 105	84 714	100 034	108 121	117 133

Source: INSTAT, 2020

According to INSTAT (2020), in total active enterprises in 2019, have employed 530 853 persons. Enterprises with 50 and more employed have engaged 41.4 % of the total number of employed which has realized 46.8 % of total turnover and has invested 55.8 % of total investments even this group constitutes only 1.4 % of active enterprises.

Table. 3 Main indicators by size class of enterprise, 2015-2019

Indicators	Number of enterprises					Number of employed				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Micro (1-9 employed)	99 143	102 965	101 595	100 876	96 924	181 048	194 015	192 817	194 867	196 403
Small (10-49 employed)	4 360	4 413	4 839	5 246	5 736	84 845	87 796	95 574	102 950	114 451
Medium-sized (50-249 employed)	892	996	1 077	1 147	1 251	88 035	98 491	107 171	113 911	122 330
SMEs (1-249 employed)	104 395	108 373	107 511	107 269	103 911	353 928	380 302	395 563	411 727	433 184
Large(250+ employed)	139	152	166	181	179	81 509	89 363	97 350	103 979	97 669
Total	104 534	108 526	107 677	107 450	104 090	435 437	469 665	492 913	515 706	530 853

Source: INSTAT, 2020

Also enterprises with 1-9 employed engage 27.2 % of the total employed and realized 13.0 % of total turnover. This size class of enterprises realized 6.7 % of total investments, even this group constitutes 85.4% of active enterprises.

7.Recommendations

- It would be important that the state review the financial policies with impact on business performance, for example, references in the application of imported goods.
- A flexible fiscal policy and tax incentives for individual branches will help to increase the number of enterprises.
- It should be viewed with importance the role of the municipal in the economic development and local policies to promote increased productivity and competitiveness of local businesses, entrepreneurs and employees by creating new opportunities.

8. Conclusions

- SMEs has an important impact in economic development, by contributing to new places of work, to the technological innovations, such as stimulating economic competitiveness and influential in the development of large enterprises.

- The banking system is an important factor that supports SMEs, as for the diversity of services that the business offers, and with the help that provide banks through the credit system.
- SMEs has an important contribution in several aspects in the economy such as in the labor market, increasing revenue to the state budget, innovative new products with modern technology and standards.
- SMEs are a key variable of the economy, while they are developing strongly day after day, while large businesses are few in number, and generally they are not subject to competition, because very few banks have had the exclusivity to have them like clients.

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