

SMALL AND MEDIUM ENTERPRISES; WHERE DOES ALBANIA STAND?

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Abstract

Small and Medium Enterprises are vital for economic growth and development in both industrialized and developing countries. They provide the majority of jobs and create new ones, they have the biggest share in added value, turnover, profit, and in the most developed economies in exports. The purpose of this paper is to give information on Small and Medium Enterprises (SMEs) in Albania. Where does Albania stand, how competitive is the economy, what has accomplished so far and what need to be done further. By answering how the Albanian Government promotes their development and what reforms are undertaken to make the business climate more friendly, the conclusion provides some recommendations.

Keywords: SMEs, competitiveness, strategy, reforms

Introduction

Micro - small and medium-sized enterprises (SMEs) are the engine of the European economy. They drive job creation and economic growth, and ensure social stability. In 2013, over 21 million SMEs provided 88.8 million jobs throughout the EU. Nine out of every 10 enterprises is an SME, and SMEs generate 2 out of every 3 jobs. SMEs also stimulate an entrepreneurial spirit and innovation throughout the EU and are thus crucial for fostering competitiveness and employment. Given their importance to Europe’s economy, SMEs are a major focus of EU policy. The European Commission aims to promote entrepreneurship and improve the business environment for SMEs, thereby allowing them to realize their full potential in today’s global economy. (EU, 2015; pg.3)

Different definitions on SMEs (EU& Albanian law)

International Institutions which have their focus on SMEs can make several definitions. Limits of SMEs definition generally change according to economic size of countries. Thus SMEs phrase have economical meaning rather than legal meaning. Most of countries accept that number of employee is a common measurement of SMEs definition. According to some institutions number of employee have more importance, for the others enterprises turnover have more importance in SMEs definition.(Şentürk et al, 2008)

Different countries define SMEs differently for example; in Canada the term SME refers to businesses with fewer than 500 employees. They further define a small business as one that has fewer than 100 employees (if the business is a goods-producing business) or fewer than 50 employees (if the business is a service-based business). A firm that has more employees than these cut-offs but fewer than 500 employees is classified as a medium-sized business. Generally in Canada an SME is any business establishment with 1 to 499 employees and less than \$50 million in gross revenues. In Germany an SME has a limit of 250 employees, while, in Belgium it has a limit of 100 employees. In New Zealand a small business has 19 employees or fewer. In the United States (U.S.A) a small business refers to those with fewer than 100 employees, while medium-sized business refers to those with fewer than 500 employees.(Thomas, 2014)

Small and medium-sized enterprises (SMEs) are defined in the European Union (EU) recommendation 2003/361.

The main factors determining whether a company is an SME are:

1. Number of employees and
2. Either turnover or balance sheet total

Table 1

Company category	Employees	Turnover	Balance sheet total
Medium-sized	< 250	≤ € 50 m	≤ € 43 m
Small	< 50	≤ € 10 m	≤ € 10 m
Micro	< 10	≤ € 2 m	≤ € 2 m

Source : (EU, 2015)

According to the European Union (2015) definition: ‘The category of micro, small and medium-sized enterprises is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro’. Small and medium enterprises are thus defined

as firms with 10 to 250 employees, and more than 10 million euro turnover or annual balance sheet total. This definition is more encompassing, and much larger, especially with regards to turnover, than some others.

Albania as a country attempting to become member of EU, amended the law no. 8957, date 17-10-2002. On "Small and Medium Enterprises" on 29-10-2008 with the new law no. 10183 in order to bring the SME definition closer to EU standards. The definition is stated in article 4 of this law:

○ Micro, small and medium enterprises (SMEs) includes those entities which employ fewer than 250 people and have an annual turnover that does not exceed 250 million Albanian Lek.

○ Small enterprises are those entities which employ less than 50 persons and have an annual turnover that does not exceed 50 million Albanian Lek.

○ Micro enterprises are entities which employ less than 10 persons and have an annual turnover that does not exceed 10 million Albanian Lek. (Kruja, 2013)

At the end as all these definitions exist, the important thing is that every definition is related to the size of each economy, and micro, small or medium is a relative concept in different countries. Most of the countries adopt the EU employment criterion but use different parameters for turnover and asset classification. (OECD, 2007)

Overview of small and medium enterprises and statistics in Albania,

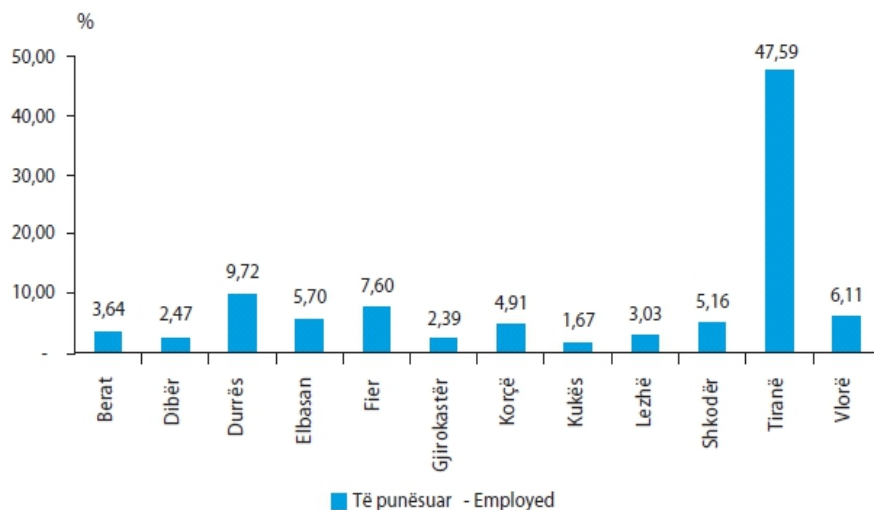
a) Geographical dispersion of SMEs (Local units)

• In 2014 were 112,537 active enterprises. 110,336 of the total operate only in one location and are considered one local unit.

• 2,201 enterprises carry out their economic activity in more than one location. They cover 2 % of total active enterprises and hire 33.5 % of total number of employed.

• 78.6 % of local unit are concentrated in urban area and 51.3 % of them carry out their economic activity in prefectures of Tirana and Fier.

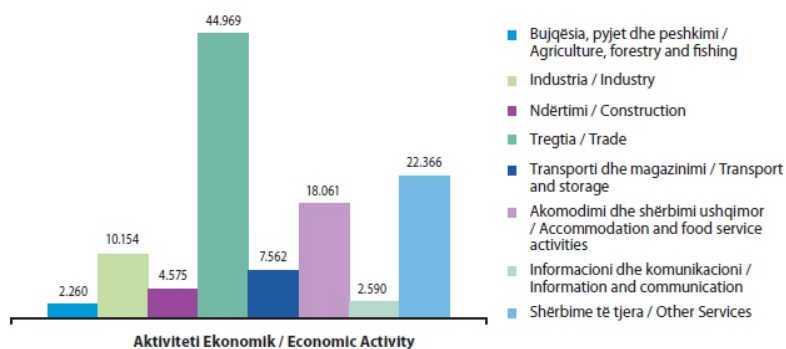
Figure 1: Employed of local units by prefectures



b) Active enterprises by economic activity, number of employed and year of creation

Enterprises with main activity trade, accommodation and food service activities dominate with 56 %. Trade activity continues to be the most favorite when decide for a new activity, and represents 37.4% of new enterprises.

Figure 2: Active enterprises by economic activity



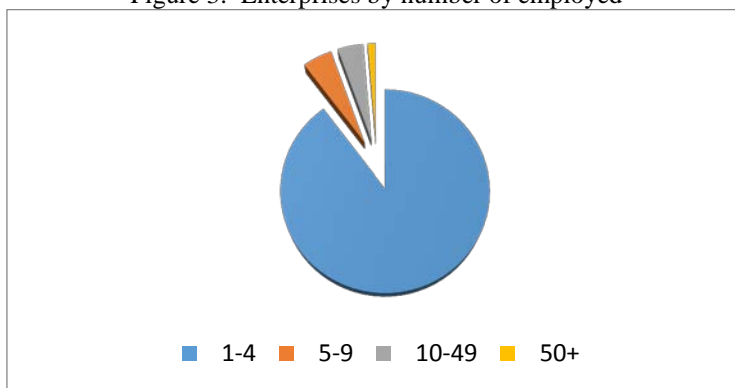
Producers of goods dominate in manufactured economic activity, with 52 %. Producers of services dominate in wholesale and retail trade; repair of motor vehicles and motorcycles, with 47%. (INSTAT, 2014)

Table 2: Number of enterprises by the number of employed and year of creation

Year of creation	Total	1-4	5-9	10-49	50+
Total	112.537	101.025	5.387	4.647	1.478
	17.377	16.572	497	267	41
2013	11.176	10.418	502	211	45
2012	10.081	9.499	357	173	52
2011	8.999	8.457	316	193	33
2010	10.492	9.863	412	184	33
2009	7.558	6.925	357	208	68
2008	8.324	7.574	411	276	63
2007	5.565	4.772	314	417	62
2006	5.379	4.808	272	232	67
2005	27.586	22.137	1.949	2.486	1.014

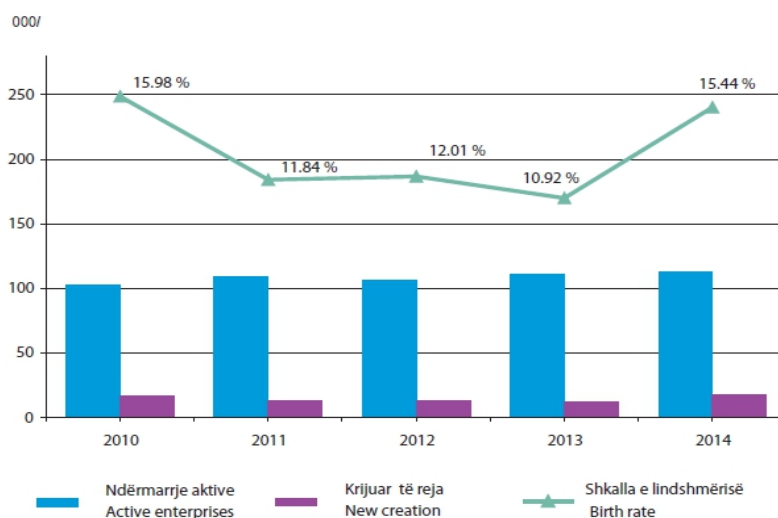
Source: INSTAT; Regjistri ekonomik i ndërmarrjeve

Figure 3: Enterprises by number of employed



From the chart it is easily seen that the major part (90%) of the enterprises are those with 1-4 employed and then (5% and 4%) are enterprises with 5-9 and 10-49 employed respectively. Those enterprises that have over 50 employed are only the 1% of all.

Figure 4: Active enterprises , New creation and Birth rate



c) *Birth rate*

The birth rate of a given reference period is the number of births as a percentage of the population of active enterprises. As it can be seen by Figure 4 during 2010-2014 the number of active enterprises has a growing trend but the birth rate has been at a higher value of 15.98 % in year 2010, and then in 2013 has the lowest rate of 10.92% , with a value of 15.44% in 2014. (Source of Figure 4: INSTAT 2014)

d) *Active enterprises by economic activity and size*

From INSTAT database, it can be retrieved data given from the economic register of enterprises, about the number of active enterprises, by activity and size, during period 2010-2014. What it can be seen in absolute values in total there is an increase in number during these 5 years time with 9 499 enterprises or an average of 9.21%. If we analyze their increase in number for each size category, we can state that firms with 1-4 employees have increased in number with 8.86 % those 5-9 employees with 7.35%, and firms with 10- 49 and over 50 employees, have increased respectively with 13.95 % and 29.19 %. Since microenterprises have the major weight with nearly 90% of the total, its influence in the weighted average is greater than the others. (See Figure 3)

Table 3: Active enterprises by activity and size (2010 -2014)

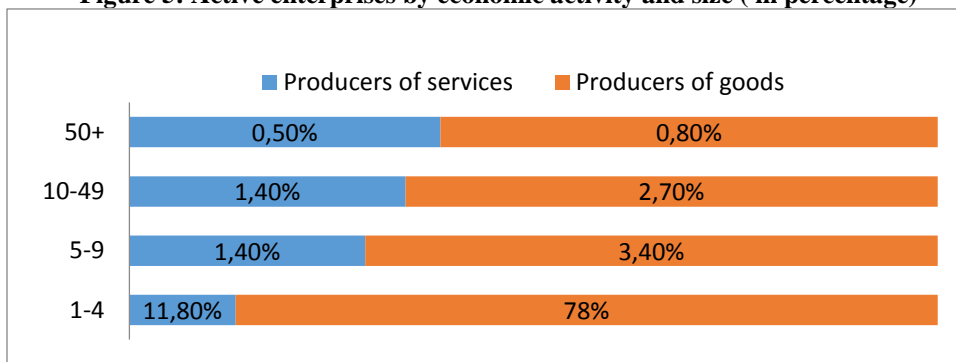
	2010	2011	2012	2013	2014
Total	103.038	109.039	106.837	111.083	112.537
1-4	92.798	97.836	95.520	99.782	101.025
5-9	5.018	5.194	5.636	5.235	5.387
10-49	4.078	4.744	4.439	4.660	4.647
50+	1.144	1.265	1.242	1.406	1.478
Producers of goods	16.049	17.099	16.413	16.842	16.989
1-4	12.198	12.991	12.592	13.071	13.273
5-9	1.791	1.717	1.718	1.565	1.603
10-49	1.649	1.923	1.650	1.681	1.562
50+	411	468	453	525	551
Producers of services	86.989	91.940	90.424	94.241	95.548
1-4	80.600	84.845	82.928	86.711	87.752
5-9	3.227	3.477	3.918	3.670	3.784
10-49	2.429	2.821	2.789	2.979	3.085
50+	733	797	789	881	927

Source Instat 2014

Table 4 Active enterprises by economic activity and size(in percentage)

Number of employed	Total	1-4	5-9	10-49	50+
Producers of services	15.10%	11.80%	1.40%	1.40%	0.50%
Producers of goods	84.90%	78%	3.40%	2.70%	0.80%
Total	100.00%	89.80%	4.80%	4.10%	1.30%

Figure 5: Active enterprises by economic activity and size (in percentage)



Burimi: Regjistri i Ndërmarrjeve Ekonomike- INSTAT 2014 (Authors calculations)

As we can see from data in the Table 4 producers of services account for 15.1% of total (mainly in the trade sector, transport and storage, accommodation and food service activities, information and communication, and other) and the producers of goods account 84.9 % of the total. So the

biggest contribution to employment is given by producers of goods (mainly in agriculture, industry and construction).

e) *Albania GDP Annual Growth Rate*

The Gross Domestic Product (GDP) in Albania expanded 2.82 percent in the first quarter of 2015 over the same quarter of the previous year. GDP Annual Growth Rate in Albania averaged 5.03 percent from 1996 until 2015, reaching an all time high of 13.50 percent in the fourth quarter of 1999 and a record low of -10.84 percent in the fourth quarter of 1997. GDP Annual Growth Rate in Albania is reported by the Instituti i Statistikave (INSTAT).

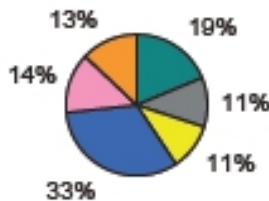
Figure 6: Albania GDP Annual Growth Rate



Source: www. TRADINGECONOMICS.COM (INSTAT)

Figure 7

GDP by major sectors, 2011



According to a United Nations study (2013)(Figure 7) the contribution of major sectors in the GDP are as follows:

- 19 % of GDP come from agriculture, hunting and fishing;
- 11 % from manufacturing, mining and quarrying, energy;
- 11 % come from construction;

- 33 % from wholesale and retail trade, repairs , hotels and restaurants, transport and communications;
- 14 % from financial intermediation, real estate, renting and business activities and 13% other services activities.

1. SMEs in Albania vs. European Union

To have a more clear understanding of the SME sector an overview in figures of the three core indicators by size class are:

- the number of enterprises,
- employment and
- gross value added

The Table 5 is taken from SBA Fact Sheet 2014- Albania Profile, the figures in the table are provided by INSTAT (Albania's National Statistical Office. The data does not cover the enterprises in agriculture, forestry, fishing and services such as education and health.)

The small business sector is well represented in Albania and is similar in structure to the European Union's (EU). Small businesses in Albania provide the majority of jobs and value- added just like in the EU. Small and medium-sized enterprises (SMEs) are very important for the Albanian business economy, accounting for 81 % (EU average 67 %) of employment and generating about 70 % (EU average: 58 %) of added value.

Table 5: SMEs related to added value, employment and number (Albania vs. European Union)

	Number of Enterprises			Employment			Value added		
	Number	proportion	EU 28 proportion	Albania Number	Albania proportion	EU 28 proportion	Albania Billion EUR	Albania proportion	EU 28 proportion
Micro	73 748	95.6 %	92.4 %	130 929	45.6 %	29.1 %	0.65	23.2 %	20.6 %
Small	2 839	3.7 %	6.4 %	55 307	19.3 %	20.6 %	0.79	28.1 %	18.2 %
Medium-sized	503	0.7 %	1.0 %	47 677	16.6 %	17.2 %	0.51	18.1 %	18.3 %
SMEs	77 090	99.9 %	99.8 %	233 913	81.4 %	66.9 %	1.95	69.5 %	58.1 %
Large	89	0.1 %	0.2 %	53 278	18.6 %	33.1 %	0.85	30.5 %	41.9 %
Total	77 179	100 %	100 %	287 191	100 %	100 %	2.8	100 %	100 %

Source : SBA Fact Sheet 2014- Albania

However, since the data for Albania were collected according to a different classification, they cannot be directly compared to EU statistics.

Another distinct difference between Albania and the EU is the importance of the different SME size categories. With almost 46% of all jobs, compared to the EU average of 29%, microenterprises dominate the business economy. In 2012, there were more SMEs operating in the wholesale and retail trade sectors in Albania (34%) than in the EU (27%),

followed by manufacturing and construction. In terms of added value and employment (over 90 %), SMEs dominate the accommodation (96% and 97%), wholesale and retail trade (98% and 96 %) and construction (93% and 96%) sectors. By contrast, in the EU, SMEs in these sectors account for only between 71 % and 88% of employment and 68% to 82% of added value. The construction sector also accounts for more added value than the EU average SMEs in this sector account for 20% of the added value SMEs produce. This is above the EU average of about 11 %. (SBA Factsheet 2014)

3.1 European Charter for Small and Medium Enterprises

The adoption of European Charter for Small and medium enterprises – a pan-European instrument developed under the frame work of the Lisbon



Agenda by all the Western Balkan Countries contributed to a change in policy perspective. Since then the Charter policy guidelines have become a key reference for enterprise policy development in the region.(Bahiti & Shahini, 2010).

To evaluate where Albania and other countries stand in the enterprise policy development is used the SME Policy Index. **(Figure 8)**

The Index is structured around the Charter’s ten policy dimensions:

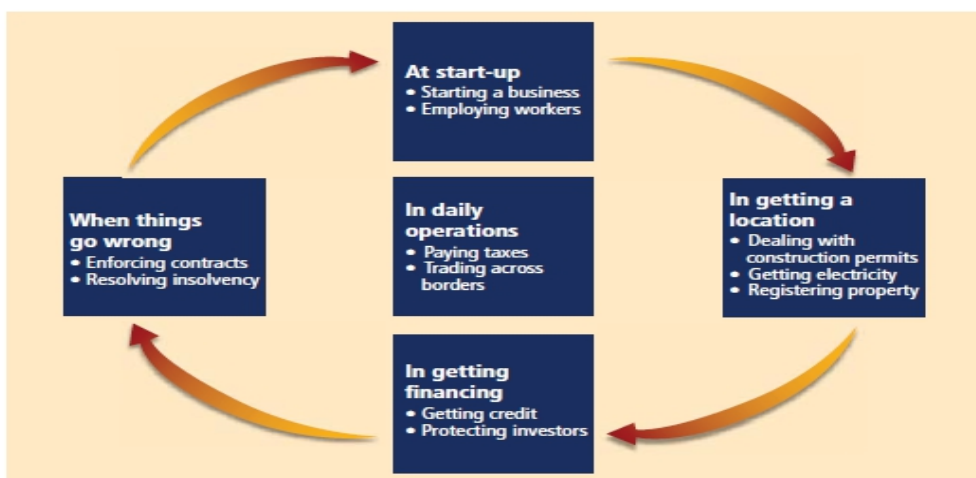
Education and training for entrepreneurship, Cheaper and faster start –up, Better legislation and regulation, Availability of skills; Improving on-line access; Getting more out of the single market; Taxation and financial matters; Strengthening the technological capacity of small enterprise; Successful e-business models and top class business support; and

Developing stronger, more effective representation of small enterprises' interests.

3.2 Competitiveness of Albania

According to World Bank report “Doing Business „ Albania has shifted to different positions during years. It is ranked 68-th out of (189 economies) in DB 2015, with a change of 40 positions. Comparing the 10 indicators (regulations as measured by Doing business affect firms throughout their life cycle (Figure 9) of the ranking (as presented in the Table 6)

Figure 9: Regulations as measured by doing business affects firms throughout their life cycle



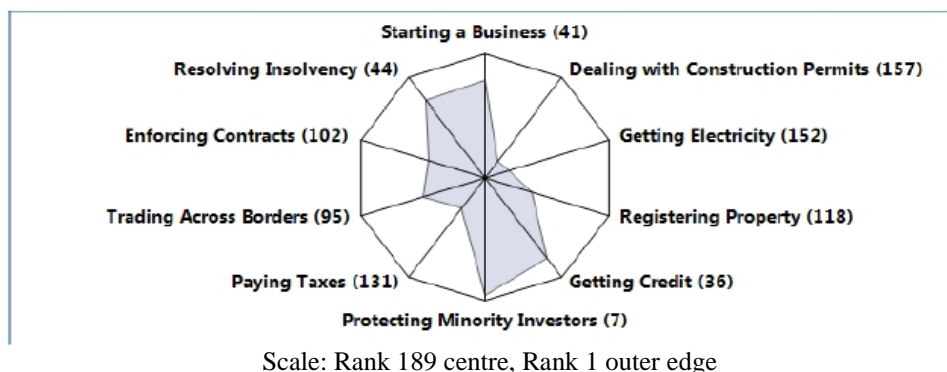
Albania has performed well in some indicators, has a poor performance in some others and no change for two of them.

- Getting credit, trading across borders and resolving insolvency are three indicators that need improvement.
- Protecting minority investors and enforcing contracts have no change in position. (but the objective should be to improve).
- And the other indicators like getting electricity or starting a business although have a positive shift need improvement too.

Table 6: Indicators of Doing business

Nr.	Indicators	DB 2015 rank	DB 2014 rank	Change in rank (2015-2014)
	Ease of doing business	68	108	40
1.	Starting a business	41	45	+4
2.	Dealing with construction permits	157	189	+32
3.	Getting Electricity	152	153	+1
4.	Registering property	118	136	+18
5.	Getting credit	36	19	-17
6.	Protecting minority investors	7	7	No change
7.	Paying taxes	131	144	+13
8.	Trading across borders	95	93	-2
9.	Enforcing contracts	102	102	No change
10.	Resolving insolvency	44	41	-3

Figure 10: Ranking on business DB topics – Albania



2. Reforms for the improvement of business climate for SMEs

The creation of a suitable business environment and the support of the sustainable development of SMEs, are basic conditions for the economic development and the increase of social welfare as a employment source, innovation and productivity. For this reason these objectives are today at the center of the economic policies of many governments, including Albanian Government.

4.1 Administrative simplifications

An immediate effect in the improvement of business climate has come from the law on the National Registration Center (QKR)³(Law no. 9723, dated 03.05.2007) which facilitated shorter procedures for the business registration. Currently, a new business can complete its registration within one day. The same effect was generated by the law on licenses,

³ QKR – in Albanian the acronym for the National Registration Center

authorizations and permits in the Republic of Albania passed on February of 2007, which confirmed the founding of the National Business Licensing Center (QKL)⁴ QKR is one stop shop. The registration in QKR could be done in a work day with a minimal cost of 100 ALL (0.81 Euro). There are 32 QKR offices in all the country. QKL is also one stop shop. It works based on the principle of self-declaring and silent approval. Licenses that belong to group I and II, are issued in a period of 2-4 days. Licenses of group III, need 10-30 days

4.2 Taxes reform

The Albanian government has approved law 179/2013, which has as principal objective the preservation of the macroeconomic stability and the ongoing of structural reforms. The fiscal policy is oriented towards economic recovery of the country in all its potential.

4.3. E-government

Relating to the simplifications of doing business procedures in public administration, there is achieved progress in four main fields: Public procurement, business registration, taxes administering and licensing.

- Online service for taxes declaration and payment
- Online procurement
- Online service in the customs

3. Albanian Government promotes SMEs development

For the period 2014-2016, the Albanian Government has begun to put into action Strategic Programme for Technology and Innovation Development of SMEs, with the approved Decree Nr. 104, date 09.02.2011 of Ministers Council.

The main objectives of strategic programme are as follows:

1. The increase of ability of albanian businesses to develop, use, adapt and commercialize technology.
2. The support of business innovation.
3. The infrastructure development will make possible:
 - i) the creation of *incubators*; to create a favorable business environment to help new innovative business initiatives, creating new jobs, business opportunities.
 - ii) supporting the business *clusters* in key sectors
4. Capacity development and technology transfer
5. Incentives for new business opportunities in the digital age:

⁴ QKL – in Albanian the acronym for the National Business Licensing Center

- *Information and communication technology (ICT)* will be at the service of businesses' development. It is a main instrument in increasing of economic growth and in particular of SMEs. Investments in the digital technology is a way how SMEs can become more competitive. This is considered to be an opportunity and a challenge at the same time, because small businesses need time and financial capital in the application of these new business models.

- "*digital entrepreneurs*" are considered to be all those businesses that make use of digital services and products (with the help of internet). In the framework of European Union Initiative "the smart use of information technology and SMEs integration in the supply chain value of the global industry" will help Albanian SMEs to become part of a global digital network.

- *an awareness campaign* for entrepreneurs and SMEs over the benefits of the new digital evolution.

- *empowerment and support for start –up businesses* in the field of ICT.

6. Empowerment of business services

7. Empowerment of institutional capacities.(MZHETS, 2014)

4. **Concluding remarks**

Today, economic development is at the heart of many economic scholars debates, and the role of small and medium enterprises in this context, is a very important one, based on the contribution it makes to the economy of a country.

- There is a strong entrepreneurial culture in Albania, and as in all other European countries, small and medium sized enterprises (SMEs) form the backbone of the private sector – representing the largest percentage of companies and employment in Albania.

- SMEs play an important role in Albania – fuelling the economic growth, providing flexibility, engaging in bridge-building between Albania and the European Union, and promoting employment.

- The reforms of the government has aimed promoting a friendly business climate, and to provide assistance and incentives for SMEs. Strategies for the business development are based on European Union directives, and are some of the priority obligations that Albania has to fulfill towards European integration.

- The existence of competitive SMEs that have the ability and possibility to grow will be a critical condition for Albania's future growth and prosperity.

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