

SMEs, the Backbone of the Albanian Economy

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Abstract: Small and medium-sized enterprises (SMEs) play a fundamental role in the economic growth of a country. This report's purpose is to determine and prove the great significance they have in Albanian economy, and what measures are needed to be taken in order to stimulate the establishment of new SMEs and assuring a long term sustainability of the existed ones in the market. In this paper is being analyzed the impact that SMEs have in GDP, employment, innovation, and investment.

The data used in this report is gathered from INSTAT; Albanian Ministry of Economic Development, Trade and Entrepreneurship; Eurostat; and European Commission.

According to this data, even though Albania has made improvements in the business sector, there is still much to be done related to SME development such as: the improvement of business climate, further simplification of legislation, implementation of favorable financial assistance schemes, and easily providing low interest loans.

Keywords: *economic growth, GDP, employment, innovation, investment, turnover*

Introduction

Small and medium-sized enterprises (SMEs) have a different definition in various countries around the world because of the number that states decide as a ceiling in staff headcount and either turnover or balance sheet total. The definition made by European Commission defines SMEs as enterprises with less than 250 employees, a turnover less or equal to 50 million euros, and either a balance sheet that does not exceeds 43 million euros³. In order to bring the SME definition closer to EU standards, Albania amended the law no. 8957 in October 17th of 2002. In the article 4 of this law is stated that: Micro, small and medium enterprises (SMEs) include those entities which employ fewer than 80 people and have an annual turnover that does not exceed 80 million ALL¹. Later on 29-10-2008 it further changed with the new law no. 10183. Now the definition states that: "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) To avoid confusion we need to clarify that this definition is only for individual firms, and these ceilings do not apply to firms that are part of a large group. SMEs have a very important role in the economic growth of their country. The significance they have varies in different economies. This report’s purpose is to determine and prove the great significance they have in Albanian economy, and what measures are needed to be taken in order to stimulate the establishment of new SMEs and assuring a long term sustainability of the existed ones in the market.

“The only way to reduce poverty in a sustainable way is to promote economic growth, through wealth and employment creation. In developing countries, SMEs are the major source of income, a breeding ground for entrepreneurs and a provider of employment⁷” (UNIDO Report, 2003). We can measure the real importance of the SMEs in Albanian economy by analyzing the impact that SMEs have in GDP, employment, innovation, and state budget. Most of the data used in this report are gathered from the Albanian Institute of Statistics (INSTAT), Albanian Ministry of Economic Development, Trade and Entrepreneurship, Eurostat, EBRD BEEPS survey, European Commission, European Investment Bank, and SBA Fact Sheet.

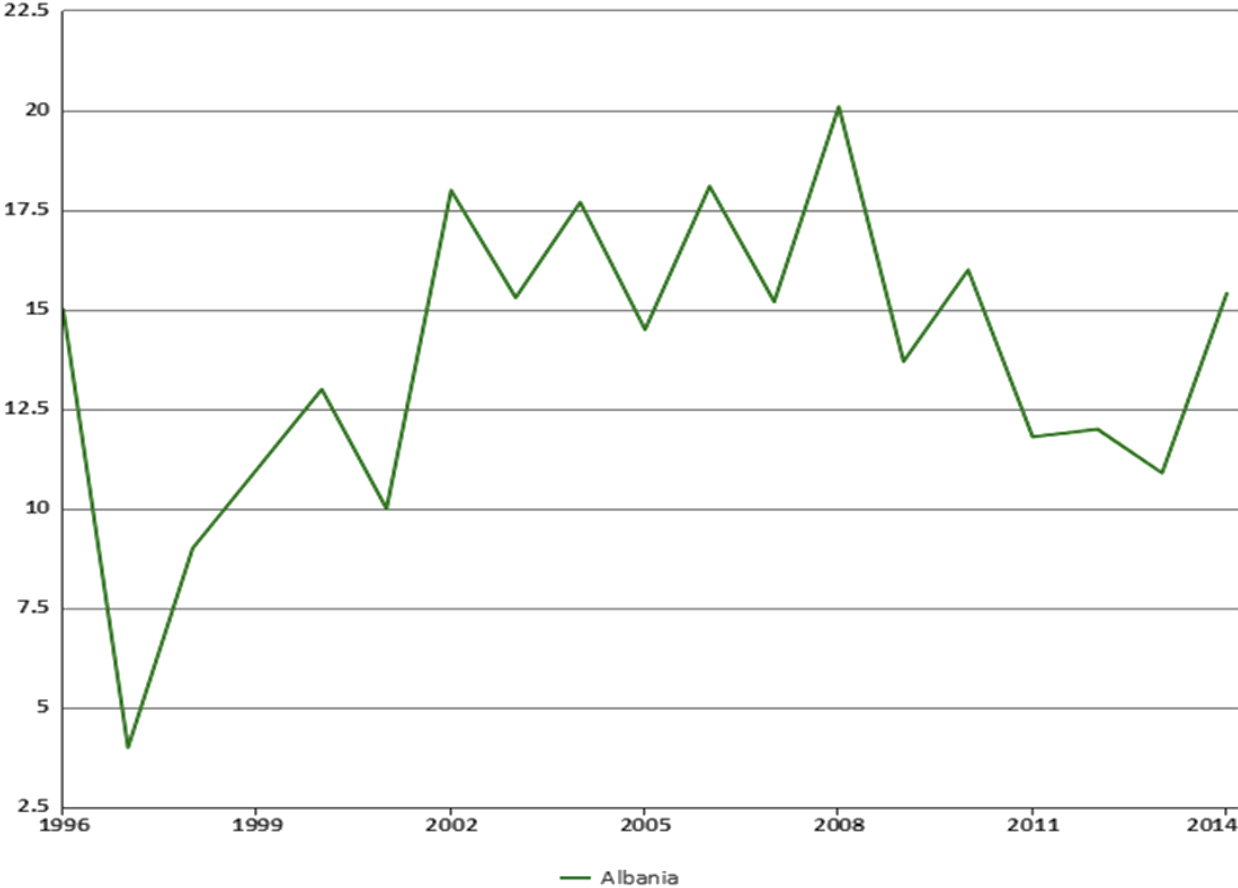
The significance that SMEs have in Albania in reducing poverty through employment, the role they have in state budget, the impact in GDP, and the percentage of investments made on SMEs are shown in Table 1, Table 2, and Table 3.

The importance of SMEs in reducing poverty

As it is shown in Table 1, SMEs are the main engine that can reduce poverty in Albania, because they provide 79.9% of the total employment, while the European Union average is around 67 %. This means that SMEs are the main job providers in Albania, considering the great number of people that get self employed by creating their own businesses, and at the same time creating job vacancies. While the number of unemployed people is reduced, meanwhile the number of people living in poverty line will be reduced. “[We] find that small firms have the largest shares of job creation but large firms have the largest share of job losses⁴” (M. Ayyagari, A. Demirguc-Kunt, V. Maksimovic, 2011, p. 12). The reason why small and medium sized firms have the greatest share of job creation is because the velocity of the creation of new firms is greater than their speed towards failure, that’s why the number of net job creation by SMEs is high as shown in Figure 1. But the number of net job creation by SMEs can be greater if less of these enterprises failed. Failure mostly comes from the lack of finance, because obtaining external financing requires a long bureaucratic administrative aspect of the lending procedures, and in the case of bank loans it is requested a collateral in a form of property or bank deposit with high interest rates, so for SMEs external financing might be unaffordable, time wasting, and no profit is generated from it. A solution to this problem might be implementation of favorable financial assistance schemes as loan guarantee funds and micro credits.

Table 1 shows that the number of persons employed in SMEs in Albania has been increasing since 2008, while in European Union has been having sustainability with the tendency to decline that can better be noticed in 2012.

Figure 2 Business Demography; Birth rates of enterprises %, Source: Knomea (2016)



The role of SMEs in state budget

SMEs in Albania constitute 99.8% of all enterprises, they provide almost 68 % of the total value added, which has dropped by 3% from 2012, due to the poor performance of small firms which experienced a 13 % drop in value added. SME employment grew by 15 % during 2012-14. Moreover SMEs generate more than 3/4 of the State’s turnover. This is why government must support SMEs with different policies as being the main contributors in the state budget. The fluctuations of the value added of SMEs curves in Albania and in EU are shown in Figure 2.

Table 5 SMEs basic Figures, Source: 2016 SBA Fact Sheet

Class size	Number of enterprises			Number of persons employed			Value added		
	Albania		EU28	Albania		EU28	Albania		EU28
	Number	Share	Share	Number	Share	Share	Million €	Share	Share
Micro	73 023	94.1 %	92.8 %	134 609	39.3 %	29.5 %	683.6	23.9 %	21.2 %
Small	3 754	4.8 %	6.0 %	72 098	21.1 %	20.2 %	689.7	24.1 %	18.0 %
Medium-sized	686	0.9 %	1.0 %	67 033	19.6 %	17.0 %	569.6	19.9 %	18.2 %
SMEs	77 463	99.8 %	99.8 %	273 740	79.9 %	66.8 %	1943.0	67.8 %	57.4 %
Large	119	0.2 %	0.2 %	68 734	20.1 %	33.2 %	922.2	32.2 %	42.6 %
Total	77 582	100.0 %	100.0 %	342 474	100.0 %	100.0 %	2865.2	100.0 %	100.0 %

Figure 2: Number of persons employed in SMES (index: 2012=100) Source: European Commission

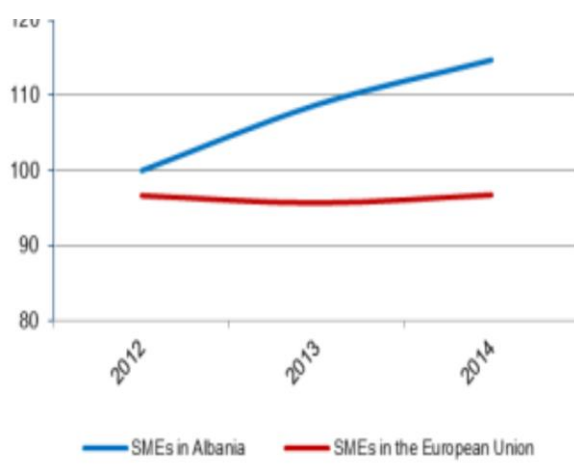
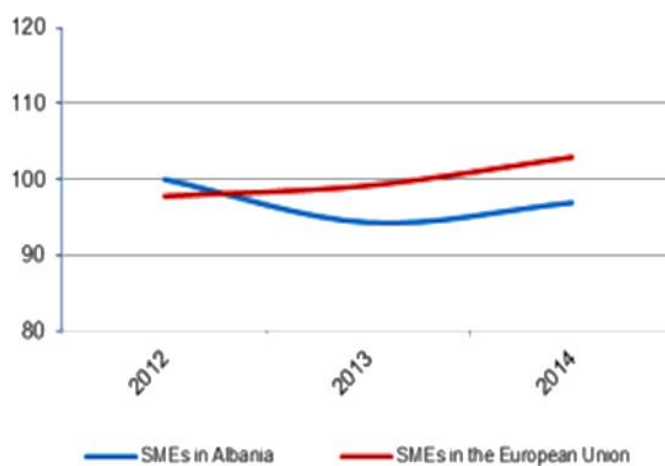


Figure 3: Value added of SMEs (index: 2012=100) Source: European Commission



SMEs impact on GDP

Table 2, 3 and 4 on the other hand shows the right number of: enterprises, people employed, turnover, and investments in all industries, in good producers and in service producers respectively. We drag the following statistics from Table 2: Nine from ten enterprises engaged less than 5 employed. Enterprises with 250+ employed, even though constitute only 0.1 % of enterprises, engaged 18.7 % of employed, realized 33.5 % of investment, 22.4 % of turnover and 33.7 % of value added.

Most of enterprises in Albania are services producers as it is shown in Figure 3. Further on in Figure 4 and Figure 5 are shown the percentages of enterprises according to the number of employees. According to Albanian Ministry of Economy the contribution of SMEs on GDP since 2008 is 73%. As a result, it can be said that the SMEs play an important role in the economy of the country. GDP is the main indicator to evaluate the economic growth of a country, which means that in order to have economic growth a government needs to stimulate with different policies, reforms, and measures the increase of SMEs production. The best way is by favorizing SMEs exports. If we take a look to Table 2 and Table 3 on investment column we will notice that although SMEs cover most of employment, GDP, value added, still investments are not shared equally.

Table 6: Basic indicators and their structure by size class of enterprises

Size of enterprises	Employed		Turnover		Investments		Value added	
	No.	%	min ALL	%	min ALL	%	min ALL	%
Total	435,437	100.0	1,802,364	100.0	208,240	100.0	460,332	100.0
SMEs (1-249 employed)	353,928	81.3	1,398,669	77.6	138,504	66.5	305,113	66.3
Microenterprise (1-9 employed)	181,048	41.6	435,293	24.2	21,879	10.5	101,578	22.1
Small enterprise(10-49 employed)	84,845	19.5	555,735	30.8	54,757	26.3	107,560	23.4
Medium enterprise(50-249 employed)	88,035	20.2	407,640	22.6	61,869	29.7	95,976	20.8
Big enterprise (250+ employed)	81,509	18.7	403,695	22.4	69,735	33.5	155,219	33.7

Source: INSTAT (2015)

Table 7: Enterprises, employed, turnover, investments of goods producers by size class of enterprise

Goods producers	Enterprises		Employed		Turnover		Investments	
	no.	%	no.	%	mIn ALL	%	mIn ALL	%
Total	11,653	100	137,288	100	579,192	100	129,295	100
1-4 employed	8,231	71	15,192	11	44,793	8	13,391	10
5-9 employed	1,197	10	7,663	6	40,407	7	10,502	8
10-49 employed	1,737	15	34,527	25	141,202	24	15,714	12
50+ employed	487	4	79,906	58	352,790	61	89,687	70

Source: INSTAT (2014)

Table 8: Enterprises, employed, turnover, investments of service producers by size class of enterprise

Service producers	Enterprises		Employed		Turnover		Investments	
	no.	%	no.	%	mIn ALL	%	mIn ALL	%
Total	73,554	100	233,677	100	1,158,786	100	53,416	100
1-4 employed	67,411	91	102,440	44	194,819	17	10,209	19
5-9 employed	3,506	5	21,334	9	162,225	14	3,937	7
10-49 employed	2,260	3	42,494	18	380,996	33	12,275	23
50+ employed	377	1	67,409	29	420,746	36	26,995	51

Source: INSTAT 2014

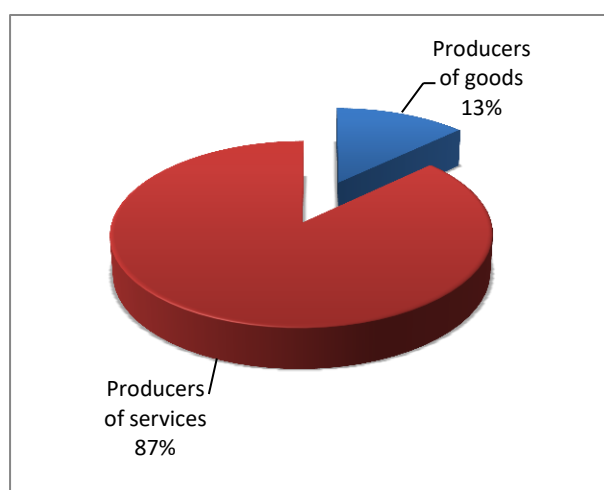


Figure 4: Companies in Albania according to their activities, Source: INSTAT 2014

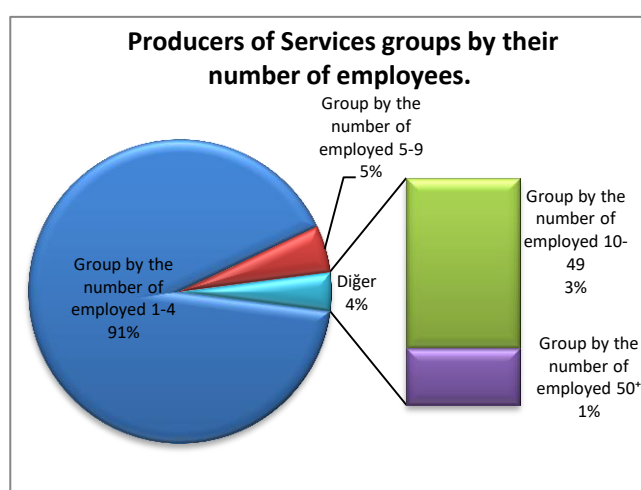
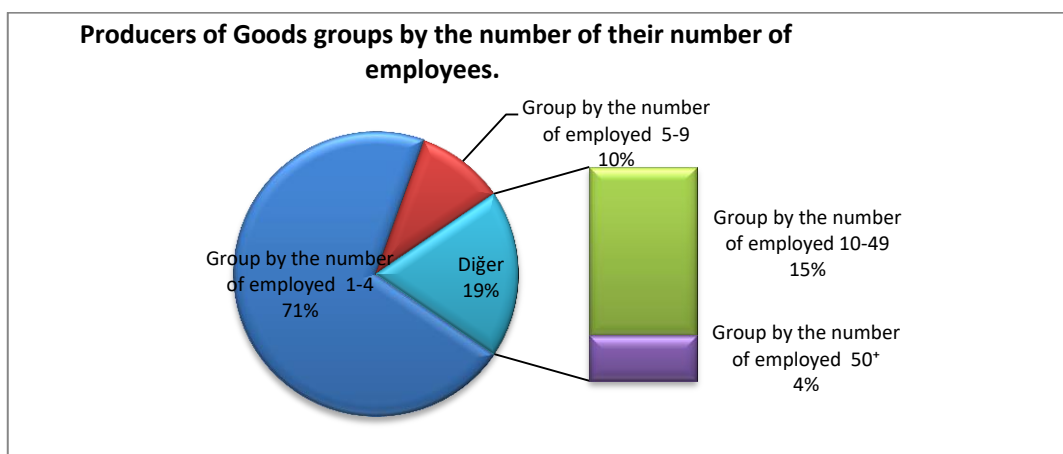


Figure 5: Producers of Services groups by their number of employees. Source: INSTAT 2014

Figure 6: Producers of Goods groups by their number of employees



Source: INSTAT 2014

Innovation and SMEs

“Technological progress is not translated into economic benefits and jobs by governments, countries, or sectors, but by innovative firms. Innovative firms are not superior algorithms to maximize production functions, but efficient learning organizations that seize technological and market opportunities creatively in order to expand production frontiers⁵” (OECD , 1996).

In Albania, in the previous years, used to be organized a business plan competition for innovative start-ups, with the main purpose of attracting young people with entrepreneurial skills. In 2014, the Albanian Investment Development Agency (AIDA) has provided public grants to SMEs through the 'Competitiveness Fund 2013-2015' and the newly established 'Innovation Fund 2015-2017", aiming to improve the quality of exported products as well as to diversify and increase the exports by subsidizing the SMEs². In 2015, AIDA implemented the 'Enhancement of institutional capacities for research and innovation' to further support the development of research and higher education systems. The Albanian government has focused on improving the quality of the Vocational Education and Training (VET), aiming to establish linkages of the VET with the labor market, increasing employment for women, youth and vulnerable groups. Moreover it has adopted and implemented the 'Effective implementation of Digital Agenda Strategy', which introduced a range of instruments to support SMEs using ICT and innovative technologies. Within the last years more organizations are coming up which actively support innovative startups and existing SMEs such as ProTIK ICT Resource Center. It was established in 2012 to catalyze the development of the ICT sector in Albania and has developed an accelerator program for startups. ProTIK aims to become the Albanian ICT hub. Albania needs to work more on setting stronger links between technology, science, higher education and businesses because it is essential in improving human capital. Promotion of entrepreneurship at all levels of education, support of start-up businesses, improvement of

investment climate conditions are also some of the measures that need to be taken. SMEs are flexible in market changing conditions, they are very widespread in all economic activities as they represent 99.8% of all enterprises, and furthermore they run in perfect competition. These make SMEs the perfect tool to spread innovation, try new technologies approaches while they compete one another, all characteristics which result in economic growth. Innovation is very important even for firms, because innovation means differentiation that is accompanied with more incomes, employing more workers, demanding for high level skills, paying higher wages, and offering more stable prospects for the workforce and as the economy functions as a chain one thing will follow another and this will bring economic growth to the firm.

Conclusion

SMEs play a vital role in our economy; they are the generators of employment, main indicators in GDP, and economic growth promoters. SMEs employ 81% of the employed persons, and meanwhile they make up 99.9% of all registered business entities. SMEs in Albania are mostly spread in the service producers' economic activity this because service producers sector has 87% of enterprises in the market. The contribution of SMEs on GDP since 2008 is 73%. They are very widespread in all economic activities, they have the ability to respond quickly to market changes, and furthermore they run in perfect competition, all these make SMEs the perfect tool to promote economic growth through innovation. But even though Albania has made improvements in the business sector, there is still much to be done related to SME development. The new fiscal package that was pass by the Government cause of growing public debt increased the corporate income tax for large and medium companies but reduced the tax burden for small enterprises, which is positive. Some measures that the Government of Albania should undertake in order to promote SMEs in Albania are as follow: the improvement of business climate, further simplification of legislation to open a SME, implementation of favorable financial assistance schemes as loan guarantee funds and micro credits, easily providing low interest loans, or improving access to finance through developing the venture capital market and alternative sources of finance, and setting stronger links between technology, science, higher education and businesses because is essential in improving human capital. They could also consider the promotion of entrepreneurship at all levels of education; they can put more emphasis on the introduction of incubators, clusters and technological parks, enhanced public support to increase their exports, and creating fast-track and specific bankruptcy procedures for SMEs, especially in view of the issue of the non-performing loans.. If we take care for the development of the SMEs Albania will experience economic prosperity.

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Impact of Agricultural Policies on Rural Development and Increase of Competitiveness of Agriculture of Bosnia and Herzegovina with a Special Emphasis on Achievement of Reform Goals

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***Abstract:** For the Balkan countries, the agricultural sector and rural development are of great importance, primarily because they are ensuring food security of the population, and then, also, because they have effects on employment, the creation of total gross value as well as on the foreign trade. Having in mind open processes of joining the European Union in these countries, with a special focus on Bosnia and Herzegovina, the implementation of the EU policies and practices will represent both a challenge and an opportunity for the development of the state and the improvement of its position in the single European market. Bosnia and Herzegovina is a country with a distinct rural character, with over 50% of the rural population, where every third household acquires some kind of income from agriculture, and which is currently facing a number of problems when rural development is concerned (from insufficient investments, uncompetitive production, inefficient administration, abandonment of rural areas, failure to use EU funds, etc.). Nevertheless, with adequate policies and dynamic approach to the agricultural sector, and strategy for increasing competitiveness and attracting investment, the potential of Bosnia and Herzegovina's agriculture could be used and exploited, and the country could go towards progress and success. Therefore, this paper explores and analyzes the European Union's common policies, as well as the ways and means of their implementation in the Balkan region countries, especially in Bosnia and Herzegovina. Then, the paper points the importance and necessity of investing in rural development (infrastructure, mechanization, marketing, agro-environmental measures, etc.), and provides guidelines on how to modernize and reconstruct the agricultural sector, in order to increase the country's competitiveness and reduce the long-standing trade deficit in this area, and, at last, how to effectively approach to the European Union with harmonization of legislation and the use of development plan. The agricultural sector and the overall modernization of rural communities, with a clear vision, and with increasing employment, economic growth and competitiveness, can become the cornerstone of the development of Bosnia and Herzegovina and a key factor of its inclusion in the European and the world trends.*

Keywords: EU common agricultural policy, agriculture, rural development, competitiveness.

JEL Classification: Q17, Q18, O13, O18

Introduction

The Common Agricultural Policy (further: CAP) is one of the oldest policies of the European Union (further: EU) and represents set of measures and programs for subsidizing agriculture in the European Union. It was created in 1962, so the application of common agricultural policy