

## ROLE AND PROBLEMS OF DEVELOPMENT OF SME-s IN ALBANIA

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### Abstract

*The private sector has been and remains main generator of development of our country. In this context SMEs as an integral part of the private sector, play an important role in increasing competitiveness and economic development. They constitute the largest part of private businesses with over 98.5% of the total in number and significantly affecting economic development, increasing the level of employment and income. Rightfully they are considered as the main source of employment in general and in particular the self-employment. The development of SMEs, especially in countries in transition faces a number of problems such as: limited access to finance, administrative barriers, high levels of exposure to risks, limited opportunities to apply the new technology as well as poor infrastructure and undeveloped. Being one of the important factors for economic growth and employment, it is important to evaluate the performance of SMEs in the country as well as the constraints and challenges they face. Crediting to the Albanian economy in recent years has experienced an increase of which have benefited most large businesses have a positive experience in lending and collateral sufficient to finance their capital needs, while lending to small and medium continues to be limited. Using borrowed capital constitutes one of the main ways of developing business and insurance costs are a main factor in the profitability and competitiveness of entrepreneurships. In this paper we have tried to provide an overview of the SME sector in Albania, recognition and identification of problems, and ways to encourage and sustainable development of their activity.*

**Keywords:** SME, economic development, financing, productivity, competition

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## 1. INTRODUCTION

Small and medium enterprises (SMEs) play a social and economic role very important in transition economies, due to their contribution to economic development, job creation as well as poverty reduction (Acs, Z., *et al.*, 2007).

Economic stability is crucial in improving the access to finance of SMEs, as well as creating a climate more friendly to businesses (Xhepa, S., 2006).

The development of the SME sector is associated with a number of problems related to the financing of their constant activity, diversification of products and services, human resource management, improvement and application of new technologies and as well as costs associated with these businesses, etc.

The main challenges to increasing the competitiveness of SMEs, remain improving

the investment climate and financing, law enforcement, management skills, etc.

In the current conditions of the Albanian economy, while the market is increasingly competitive, one of the important problems of the development of small and medium business is financing their activities and fulfillment of the needs of capital.

Sources of financing a business are one of the most crucial issues of the beginning of its existence, the continuation and further growth.

Our country has experienced a fast growth crediting in recent years, but financial institutions launched by normal logic of doing business, prefer to lend large businesses with a positive experience in the field of crediting and that sufficient collateral.

Through this study we aim to assess the contribution of SMEs in the development of the private sector and increase the level of

employment, as well as the challenges they face and and effective ways to address their.

### 1.1. Objectives

The main objective of this paper is the analysis and evaluation of the role of small and medium enterprises in economic development.

This objective will be accomplished through the completion of some specific objectives:

- Identification of the role of SMEs as a main factor for economic growth and assessment of their contribution to employment levels in the country,
- Analysis and evaluation of the problems facing the development of small and medium business in the country,
- Theoretical and methodological argument in order to further promotion and development of the SME sector in the country.

### 1.2. Literature Review

Albania in recent years, has made significant progress regarding the facilitation of procedures for opening a business at the time and low cost, regulatory reform, reduction of administrative barriers, tax system, but compared to countries of the region, the level of entrepreneurship development is still considered critical. It should be emphasized that there is considerable progress in this direction through the consolidation of tax administration dialogue with business as well as its involvement in joint structures. The main

challenges to increasing competitiveness and productivity of SMEs, remains the improvement of the investment climate, financing of their activities, law enforcement, management skills as well as implementation of modern technologies, etc.

In Albania, the SME sector is legally regulated according to the law no. 8957, dated 17.10.2002, "For small and medium enterprises".

## 2. MATERIAL AND METHODS

The methodology used for this study consists in structuring the research based on research in the literature regarding the field, discussions and consultations with experts and business leaders as well as to collecting general data directly related to the activity of SMEs in the country our reference to their role and contribution to economic development and employment. For this purpose are used official data sources and data from studies related to SMEs.

We are focused mostly on the use of the method of analysis and synthesis through the collection, processing, interpretation of data and the withdrawal of statistical indicators related to the activity of SMEs, the problems which they face as well as recommendations for promotion and further development of their activity.

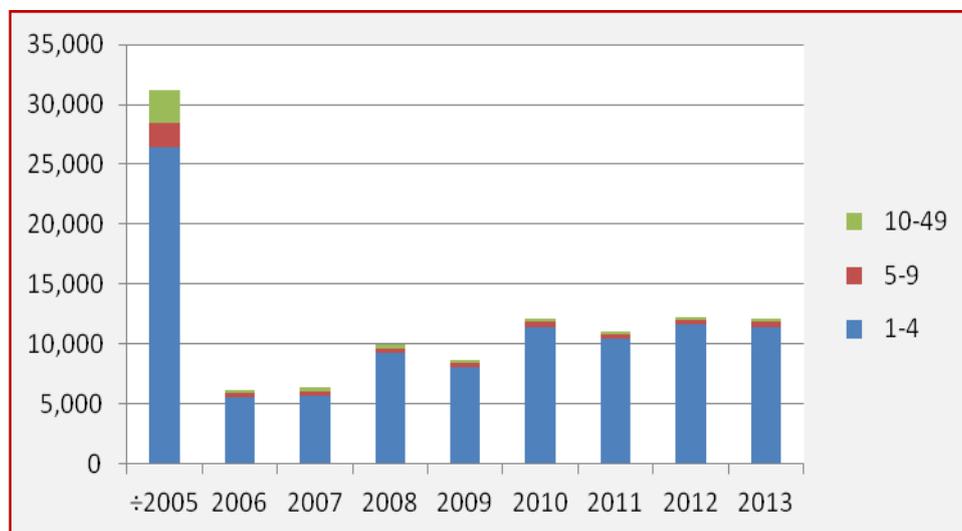


Figure 1. Data to enterprises according to year and size

### 3. RESULTS AND DISCUSSION

SMEs play an important role in economic development, because they constitute the majority of businesses and are the main source of employment.

Small and medium enterprises responding and adapt to market faster than large businesses through provision of innovative products and services, being an important factor for economic growth in the country.

Compared with countries of the region, the SME sector is still considered critical level of development of entrepreneurship and innovation, which constitute the basis of EU standards and are indicators to measure their performance. Development and competitiveness in the global economy dictates the creation of modern enterprises, innovative and competitive, which require healthy business environment for investment and employment.

International Finance Corporation (IFC), argues that the state should promote SMEs because of the great benefits of their economic compared to large enterprises in terms of creating jobs, efficiency and economic growth.

The development of the SME sector has advantages that derive from the characteristics of the type of business likewise many challenges related to with the way the business of creating, financing their activities, diversification of products and services, market competition, lack of a management effective, costs associated with these businesses, financial risk, etc.

One of the main problems is the limited access to finance SMEs activity by financial institutions due to high interest rates and insufficient collateral. Crediting to the Albanian economy in recent years has experienced an increase of which have benefited most large businesses have a positive experience in lending as well as collateral sufficient to finance their capital needs, while lending to small and medium enterprises is limited.

Referring to the specifics of small and medium enterprises (insufficient collateral, high levels of exposure to risk, limited opportunities in their direction, etc.), financial institutions are less inclined to finance.

It is noted that about 84.5% of total SME consists of micro enterprises with 1-4 employees. This business categories built mainly on family basis give the main contribution to the growth of the number of enterprises in years. The number of SMEs in the last 5 years has increased almost constant but still limited to no more than 10% annual increase.

Meanwhile, companies according to sectors of the economy are focused more on sectors "Trade and Services". According to INSTAT for turnover it results that more than 65% of it is provided by the trade and services sector.

According regions largest number of SMEs is concentrated in the area Tirana-Durres, in recent years regarded as an potential area and significant economic.



**Figure 2. Data for enterprises according to economic activity for 2013**

Referring to the above indicators and analysis evaluate the role of the SME sector in economic development and job creation.

From the evaluation of the distribution by sector is noticed a low number of enterprises in agriculture, what makes us think that compared to concrete reality has a significant level of informality.

Today's financial market in the country is becoming more and more competitive, it is necessary to increase the opportunities in terms of financing small and medium enterprises, a role which should play not only banking institutions but all financial market actors country.

There is an ongoing debate among experts about what can be considered today as the leading sector in the economy that may serve as generators of growth in conditions where a considerable number of sources such as remittances, privatization, etc., already are exhausted.

In these conditions shows that encouragement of small and medium enterprises in the field of agricultural and livestock, products processing, where it is evidenced a gap higher and massively country needs fulfilled through imports as well as tourism services sector as a whole will constituted a high potential development.

#### 4. CONCLUSIONS

◆ *For how treated in this study, we conclude that:*

- Small and medium play an important role in the country by contributing to economic development and job creation.

- The reforms undertaken had contributed significantly to the development of the private sector and particularly in supporting SMEs.

- The main challenges for the development of the SME sector, remain improving the investment climate, financing of their activities, improving the legal framework, management skills and the application of new technologies.

- Small and medium enterprises adapt market faster by offering innovative products and services, being an important factor for economic development in the country

◆ *Based on the problems facing SMEs sector and the challenges and strategies for further development of their activities recommend:*

- Improving the legal and fiscal framework, providing institutional support for the promotion and further development of the SME sector in the country.

- Globalization of the economy and markets dictates the creation of modern and innovative entrepreneurships. SMEs should find efficient ways to face with these challenges, providing competitive advantages in the market.

- Increase of financing opportunities for SME sector, creating a more friendly climate and incentive to the development of their activity.

- Diversification of products and services offered by small and medium enterprises by increasing competitiveness in the market through the implementation of new technologies and modern.

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