

Strategic role of SMEs in the regional economy

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Abstract

Attitudes towards regional economy should be permanently straight and honest. The objective of the Municipality of Peja is favouring the free market economy, promotion of SMEs mainly in processing production and enterprises, tourism development, privatization, revitalization and youth employment creation of infrastructure, creation of conditions for attracting and encouraging investment from domestic and foreign donors, such as EU funds, IMF, World Bank etc. Also, priority is setting an Industrial Zone, incubators and business parks, association and the consortium of businesses, etc.

Keywords: SME, Albania, Economy.

Introduction

SMEs are the main pillars of the national economy. They are the basis of the economic system of the free enterprise. For many, the ownership of an SME, due to the great independence and financial gains it brings, is very tempting. Even some have dreamed of having all their lives owned by their own business. However, many people are reluctant to give birth to a dream of life because they think they have no education, experience, or money, or simply fear that they may fail. However starting a business again, the real difficulties and risks arise. In the last few years, there has been a great revival of SMEs towards the developed world. Even in Eastern Europe and the Soviet Union, such skills are highly appreciated. In most of the developed economies, 6-15% of the working population are men and women of SMEs. For example, In the United Kingdom from 27 million people working around 3.4 million employed in trade and industry working in SMEs. It is well known that after the collapse of centralized economies, the private sector appears at an impressive rate in all transition economies and the number of SMEs grows day by day. It is also known that the growth of entrepreneurial activity is more oriented to trade than to industry or production.

SME development is an essential element of economic development. The strategic importance of SMEs is well-known around the world for the following reasons:

- SMEs contribute to employment growth to a greater extent than large enterprises.
- SMEs are the main pillars of the market economy and for transition economies in the long run it can secure the bulk of employment.
- SMEs produce mainly for the domestic market, using mainly national resources.
- Relocation from large state-owned enterprises to smaller enterprises and private firms will increase the number of owners, representing a group of people with a greater commitment and responsibility than in the former centralized economies.
- The increased number of SMEs will bring more flexibility to society and the economy, and can facilitate technological innovation and provide significant

- opportunities for new ideas and skills to implement.
- SMEs use and develops mainly technologies and internal skills.
- SME development is a key factor for the regional development of the country.

The state of the business economy in SMEs as well as the market prospects

Up to now 3400 private businesses have been registered in the Municipality of Peja, where 80% of them are concentrated in trade. The city of Peja has won the main epithet of Kosovo by developing trade with Montenegro, Albania, Macedonia, Turkey and several other countries. The push for a development of the economy was the establishment of a large number of SMEs. Since SMEs are a key factor affecting the growth of national incomes as well as reducing unemployment as a key issue, there is a credit for the establishment of new SMEs and the expansion of business for existing ones. One of the main problems faced by private enterprises is the lack of financial resources.

However, besides the establishment of a large number of SMEs, a large number of banking institutions and other non-banking institutions have also been established that enabled the creation of a financial market, although lending conditions are still unfavorable starting from the short term Time period, high interest rate, short break period (grey period), so because some long-term investment projects can not be realized due to the short-term loan repayment term.

In the Municipality of Peja there are 7 branches of Kosovo banks with several branches and it is hoped that in the near future the banking system will continuously improve services for peja businesses.

Overview of SMEs for the Municipality of Peja

The SME sector is the main source of job generation and revenue growth. Therefore, the private sector is a motor of growth and transition throughout the municipality of Peja. SMEs in Peja, most of them family businesses experienced a rapid expansion during the 1990s, especially in the trade sector. This was not a result of favourable conditions and a suitable environment, but rather a reaction of the citizens of Peja to the massive departure of Albanians from this community from the social sector and the establishment of so-called "violent measures" by the then regime.

At the beginning of the re-registration, 3499 businesses were registered and re-registered according to the Business Registration Office of the Ministry of Trade and Industry, of which 95% with sole proprietor. In order to achieve SME development, conditions need to be created for the proper functioning of the legal system and institutional structures that will support the private sector. Thus, local institutions should pay particular attention to this important issue and rush to the legal and institutional completion that would contribute to the development and expansion of the SME sector. Therefore, there is still work to be done in this regard. An important factor for an efficient development of the private sector is external financing. In Peja there is a limited number of financial instruments and a SME financing system but is still not satisfactory. In the Municipality of Peja there are 7 commercial banks that are

licensed and perform their activity in Peja, so their conditions for SME financing from the establishment until 2010 have improved but still the interest rates are high and the deadline for return of credits is short. But we hope that based on the competition these conditions will be significantly improved.

The Municipality of Peja as other Kosovo Municipalities has passed and is going through a transition period starting with the arrival of UNMIK and KFOR in Kosovo in accordance with UN Resolution 1244. SMEs are playing a crucial role in the recovery and development of Peja in the future. They provide great employment of workers by contributing to the improvement of the social situation. SMEs are thought to be key to further economic development. Pejë/Pec Municipality has sufficient potential for SME development because it has a new population, which is commercially prepared, has a favourable trading position.

1. Demographic indicators

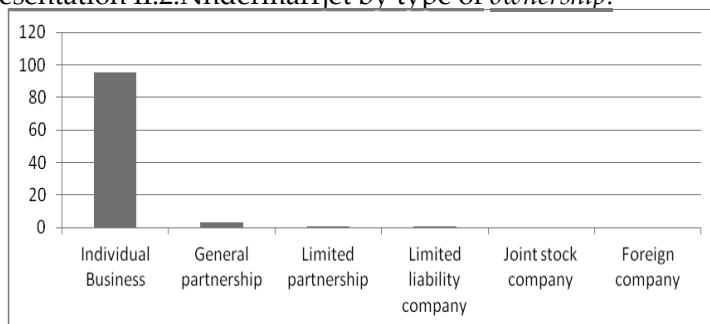
<i>Surface</i>	<i>603 km²</i>	
<i>the population</i>	<i>181.130</i>	
<i>Density</i>	<i>300 ba.km²</i>	
<i>the average age</i>	<i>24</i>	
<i>Average life</i>	<i>70 men</i>	<i>75 women</i>

2. The structure of private enterprises

Table II.2.: Number of enterprises by type of ownership in% (percentage):

<i>Nr.</i>	<i>Type of ownership</i>	<i>%</i>
1	<i>Individual Business</i>	<i>95.4</i>
2	<i>General partnership</i>	<i>3.5</i>
3	<i>Limited partnership</i>	<i>0.1</i>
4	<i>Limited liability company</i>	<i>1</i>
5	<i>Joint stock company</i>	<i>0</i>
6	<i>Foreign company</i>	<i>0</i>
	<i>Total</i>	<i>100</i>

Graphical presentation II.2. Nndërmarrjet by type of ownership:



Classification of Enterprises

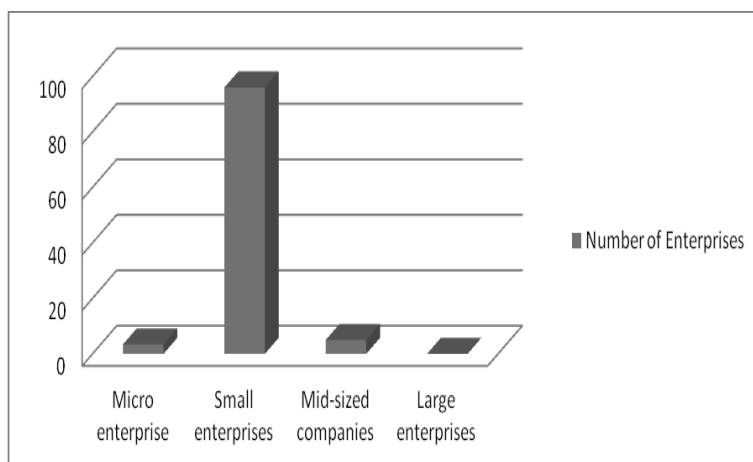
Enterprises are classified into:

- Micro enterprise with 1-5 employees;
- Small enterprises from 6-49 employees;
- Medium sized enterprise from 50-249 employees;
- Large companies from 250 - and more employees.

In the Municipality of Peja, these enterprises are classified as follows:

<i>Classification of Enterprises</i>	<i>Number of Enterprises</i>
<i>Micro enterprise</i>	3.398
<i>Small enterprises</i>	96
<i>Mid-sized companies</i>	5
<i>Large enterprises</i>	0
Total	3.499

II.3: Classification of microenterprises, small, medium and large enterprises graphically.



Graphic representation II.4: Businesses registered in%

Number of employees by sector of private businesses

Table II.5: Number of employees by sector of private businesses

Agriculture, hunting and forestry and fishing	39	123
Construction	115	339
Extracting, manufacturing and power supply industries	367	1215
Business	1804	2819

Hotels and restaurants, financial intermediation and rents	439	799
Transportation, storage and communication	353	536
Other (public administration and compulsory social security, education, health and social protection)	382	744
Total	3499	6575

Table II.5. Number of employees by sectors of private businesses in%

Agriculture, hunting and forestry and fishing	0.1	1.9
Construction	3.3	5.2
Extracting, manufacturing and power supply industries	10.6	18.5
Business	51.6	42.8
Hotels and restaurants, financial intermediation and rent	12.5	12.2
Transport, storage and communication	10.1	8.1
Other (public administration and compulsory social security, education, health and social protection)	10.9	11.3
Total	100	100

Problems that currently charge the economy of Peja

Peja's economy is facing numerous problems such as the lack of legal infrastructure, financial system, SME lending conditions, fiscal and customs policy, property transformation policy through the privatization process and capital investment refreshment, unemployment as a more valuable potential for the population, etc.

Innovative investment and SME activities

It is generally accepted that most new jobs in the economy are created by small and medium-sized enterprises. It is known that micro enterprises create immediate income. In order to move on with progress, technology, globalization, SMEs must make investments and support the renewal of their activities continuously. There are some things that you still need and need to use in this regard. These actions should focus on creating a political environment to stimulate the implementation of research and development activities between small and medium enterprises, a productive presentation remains a concern for the entire municipality. Today, society is confronted with new challenges that include globalization, trade liberalization and technological change. These changes in the global economy give the need to support and assist investment in research and development between SMEs. Some of the enterprises have invested in the rehabilitation of war damages, and the rest have invested in expanding existing capacities. Generally, these investments are made almost by small enterprises or through means from traditional sources of funding

(such as loans from friends or family members).

However, with the development of the financial sector, investments have increased as compared to the first post-war years. Although entrepreneurs are aware of where to invest, but the circumstances in which, after the military conflict, they have forced them to focus on investments in reconstruction and rehabilitation of their existing business assets.

Proposals on key SME policies

Small and medium-sized enterprises should also make efforts to increase their level of performance, tend to adapt to modern management principles, increase the quality of their products and services standards, and also penetrate foreign markets. This may mitigate the current unbalanced export and import balance in the Municipality of Peja, increase domestic production and increase employment.

The liberalization of the economy and the favourable functioning of the business environment are the main policies that will guide the economic development of the Municipality of Peja. Removing barriers to trade and opening up to other economies as well as further improving tax policy should be seriously considered by decision-makers over the medium to long term.

Conclusions

Finally we conclude that the purpose of this topic has been to develop the economy before and after the war, the development of social enterprises and their privatization, the role, the definition, the types of activities and the causes of the failure of the SMEs. Despite the general economic problems carried forward from previous years in fiscal policy, the lending conditions for SMEs, the unfair competition, the customs system, and especially the delays in operational policies related to the privatization of Socially Owned Enterprises, the Directorate for Economic Development will approach a proper economic management, especially in those segments that favour the free market economy and establishing micro, promotion of SMEs, especially those manufacturing and processing, tourism development, youth employment and the creation of legal infrastructure.

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