

SME-s and their economic impact Albanian Case

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Abstract

In this paper it is made an attempt to discover some of the factors that influence the creation and the thrif of small and large businesses on credit. Credit problems are analyzed in countries in transition, and in particular in Albania. Also the macroeconomic situation constitutes a significant factor in the accumulation of bad loans. Despite many other factors that affect the quality indicators of the loan portfolio, macroeconomic factors have played an important role. Meanwhile, the consolidation of ties and quantitative results, without any doubt will support future analysis and research in the field of banking supervision. In this point of view it will be emphasized the fact that despite the relative indicators that are applied in the analysis above, there should not be overlooked the absolute ones. Through this paper I will perform the role of credit research and its impact on business performance. This study is focused on four important aspects of credit and its impact on the progress of business, which contributes on the atmosphere of doing business and especially its financing, such as: comprehensiveness, the development of a cooperative spirit, the establishment of motivation and cultivation of values and partnership.

Keywords: SME, Credit problems, Business performance, Albania.

Introduction

This paper aims to reflect the role of credit and its impact on the progress of business in the region of Elbasan (Albania), in particular. Through this paper I will perform the role of credit research and its impact on business performance. The study focuses on four important aspects of the credit and its impact on the progress of the business, which were stated above. In compiling this work I applied the methods of research in economics, normative methods, analytical and synthesis, induction and deduction, statistical methods etc. In particular I tried to illustrate the research with an empirical presentation reflecting the situation of academic substance treatment. During the drafting of the paper I have used national and international literature that refers to the fields in question.

Development

During the last 25 years, private sector as well as banking sector has suffered radical changes. After the financial crisis, the banking sector has tightened the rules and has imposed restrictions on the part of creditworthiness. The purpose of this paper is to analyze the impact of financial constraints on investments of SMEs (small and medium) and BB (big business) as well as the need for frequent growth of these businesses and further development in Elbasan region, with the aim of classification of risk categories to which they are exposed, and the construction of a model that will

aid the financial analysis. Businesses are divided according to the different economic sectors such as construction, import - export, manufacturing, services etc.

Certainly one of the main aims will be the theme of the receipt and utilization of credit from these sectors. SME occupy a significant weight in the overall market. SME is known as the engine of economy, because it generates jobs and encourages innovation, but nevertheless it is faced with difficulties to obtain financial resources. Lending refers to the clear and formalized process of credit. As an important agent of doing business and financing of doing business for small and medium enterprises, credit is part of the process of this achievement of attitudes, values and behaviors needed by businesses and banks as members of a society (Shafer, 1986, 442). Lending has become a large and complex institution in modern society playing fundamental roles in almost all aspects of people's lives.

For example, lending businesses prepare for various roles required by the market, other institutions and the economy. Lending also plays an important role in the transmission and transactions of doing business, financial control by promoting change. Representatives of this process are banking institutions, as launched from the Central Bank and second -tier banks.

The definition of European SMEs "category of small and medium enterprises (SMEs) is made up of enterprises which employ less than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance which does not exceed 43 million euro".

The new definition is more suited to the different categories of SMEs and takes better account of the different types of relations between enterprises. This helps to promote innovation and new partnerships, ensuring that only those enterprises which require support are targeted by public schemes. The new definition introduces three different categories of enterprises, where each corresponds to a kind of relationship which an enterprise might have with another. This distinction is necessary in order to create a clear picture of an enterprise's economic situation and to exclude those who are not SMEs. In general, most SMEs are autonomous since they are completely independent or have one or more minority Associate (each less than 25%) with other enterprises. If that holding rises to no more than 50%, the relationship is deemed to be a partner venture.

Until January 1996 small and medium enterprises were considered those companies which had a total number of employees under 500, with the following subdivisions :

- a) micro - enterprises (1-9 employees);
- b) small enterprises (10-99 employees);
- c) medium companies (100-499 employees)

This division is based on the EU criteria. In 1996, the European Commission set out a new definition of small and medium enterprises based on four quantitative criteria (EC 1996):

- a) The total number of employees in the enterprise;
- b) The annual volume of turnover;
- c) Total assets in the balance of the enterprise;
- d) The degree of independence of the undertaking or property thereon.

An enterprise is considered to have a small or medium size when the total number of employees is fewer than 250. The European Commission noted that an enterprise can be considered secondary in fact, when it meets the following conditions simultaneously:

- a) the number of employees is more than 49 and less than 250;
- b) The annual turnover doesn't exceed 40 million or total balance sheet is not more than 27 million euro.

Small enterprises are considered those companies which do not have more than 50 employees and an annual turnover of at least 7 million or assets of which, the overall balance does not exceed 5 million. Many small enterprises are defined as those with no more than 10 employees. Apart from these criteria's, another fundamental criterion should be considered, namely the forms and modalities of distribution of wealth within the enterprise (the criterion of independence of large enterprises). Therefore, it is necessary that the participation of a large enterprise owned by a small or medium-sized must be no more than 25 % of the share capital. This criterion allows the differentiation of those enterprises that are really small and medium enterprises from those that are part of large enterprises. Given the fact that the total amount of the turnover and balance are not the same in all countries, these criteria could lead to difficulties in the classification of enterprises. The role of SMEs in the economy is very important. For individuals, SMEs often provide the first job, the first step in a career. They are also the first step in the world of entrepreneurs (Zaman & Vilceanu, 1999).

A significant involvement of external influence of small and medium enterprises is the fact that their contribution is everywhere in the economic sector. Based on various studies, the Observer report "Small and Medium Enterprises in Europe 2003" (2003) argues that small and medium enterprises serve as engine of economic growth. Statistics in almost all countries show that SMEs are absolutely dominant in the economy, representing more than 99 % of all companies, having considerable influence in obtaining gross domestic product and job supply.

An essential attribute of small and medium consists in the fact that they constitute an important source of jobs. Two-thirds of jobs are newly created due to small and medium enterprises. Costs associated with the creation of a job in a small or medium enterprise are reduced compared with those involved in the creation of a job in a large enterprise. Realization of products and services at lower cost than larger companies; main factors that determine this difference are lower costs, higher productivity of labor in the context of the permanent presence of an entrepreneur in the company. Small and medium enterprises represent a balance factor on a micro and macro level. In terms of an economic environment in a permanent change, SMEs are flexible and they have a great capacity of adjustment, encouraged by lower dimensions and rapid decision-making process.

They easily adapt to customer requirements, being closer to the market. Another important aspect is the fact that they generate a greater extent applicable technical innovation in the economy. Most of the jobs will come from innovation and new discoveries will bring about new entrepreneurial adventures. Paul Almeida, a professor at Georgetown University, says that "SME-s play a unique role, active and critical in

the process of innovation by their ability to bring innovation in the area of new technology and improve networks of high information technology" (Almeida, 2004). Specialists agree that social networks, formal and informal, are vital to the process of innovation in SMEs. Small companies create regional networks more easily than large companies. Creativity of small companies is the subject of the entrepreneurial spirit and economic growth. John W Snow - US Treasury Secretary, praising the entrepreneurial spirit in the US, says: "They are a generation full of courage. ... Nobody works as they do and no one takes greater risks." In the new context of the knowledge revolution, crossing the economy is dominated by, tangible resources in the economy dominated by knowledge, small and medium enterprises become dependent on microeconomic industry. The small number of components, low dimensions of tangible assets, low complexity of activities and streamlined structures make it easier to place in the foreground concerns, decisions and actions of knowledge resources. The entrepreneurial spirit, intense interpersonal relationships, skills, organizational flexibility and dynamism in the definition of the elements for the economy and the company based on knowledge, which are traditionally found in small, dynamic companies (Nicolescu, 2001).

A global phenomenon over the past two or three decades has been the way in which SMEs have replaced large firms in the conduct of economic activities (ZJ Acs, 1992, 38-44) and there has been a recent trend in terms of doing empirical focusing on the issue of the relationship between SMEs and economic growth.

Conclusions

Bank loan remains a widely used resource for companies, although there are high interest rates, due to the lack of other financing alternatives. The lending activity of banks has increased. The quality of loan portfolio in the banking system in Albania, before the world financial crisis, was in the best levels in the region (3, 4 %).

Despite Albania's ranking among countries in the region with the highest growth of credit towards the private sector, the share of loan to GDP ranks it among the countries with the lowest level for this indicator in the region. Since the second half of 2007 onwards, banks were more conservative in the process of adoption of new business loans. This was especially for large businesses and long-term loans with maturities in the form of loans for investment.

Nonperforming loans from 2008 onwards have been increasing. As a result of the global financial crisis, commercial banks in Albania have renounced the aggressive policies for credit granting. Criteria for corporate loans and credit provided to finance investments have been tighter than the criteria for loans to small and medium enterprises and for loans to finance working capital purposes based this also on the EU financial crisis.

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