

Albanian economy, sustainable development and comparative analysis of SME growth rates

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Abstract

Financial activity in Albania as well as in other countries of Eastern Europe during the past few years has seen significant important developments. One of the main features observed is that financial activity in Albania is dominated by banking activity, while non-banking activity remains extremely limited. The investment funds in Albania according to the Albanian legislation on "Investment Funds" could be any private entity that accumulates financial resources of natural or legal persons (Vouchers, cash etc). In this paper we will focus precisely on the definition of SME and their ability to build a business plan that will help them to be successful in terms of seeking funds. For this reason, SME and their financing opportunities in Albania is one of the issues that will be analyzed. Firstly we will treat the business plan in theory and its role in SME, and how to draft a business plan for a Travel Agency. In this paper we study the literature on the concept of SME and the business plan. For this reason we have found valid date information on studies from various writers and publications. By giving a financial view on SME on Albania, we have analyzed information from bulletins of the Albanian Bank.

Keywords: SME growth, Albanian business, Business plan, Economic rules, Law Problems, FDI, traditional culture.

Introduction

Since 1992, Albania has progressed rapidly in the transition from a centralized economy to a free market economy. These were the years of the implementation of macroeconomic stability policies and economic growth, based on a series of reforms. At the end of 2007, total assets of the banking system constituted about 96.8% of total assets of the entire financial system, while those of non-bank system only 3.2%. Therefore, it is evident the need to reform the nonbank financial system. The development of non-bank financial intermediaries and capital markets would provide alternative ways of financing, and will have a positive impact on increasing the efficiency and competitiveness of the financial system. Another important trend is that the degree of banking intermediation in Albania has increased considerably in recent years, but it is low compared with that of the euro area. Total assets of the

banking system to GDP in Albania was respectively 76%, 69% and 60% at the end of 2007, 2006 and 2005 respectively.

This indicator for Albania is close to the average for the countries of Eastern Europe, but it remains far from the average for the euro area countries where the value reaches 240%. The growth of banking intermediation is also seen in increasing the diversity of financial products in large geographical territorial coverage and rapid credit growth.

Loan indicators and GDP growth

Loan outstanding in Albania has shown higher annual growth rate: 48%, 55% and 82% during the years 2007, 2006 and 2005 respectively. Thus, Albania was identified as one of the countries with the highest growth of credit during these three years. However, outstanding credit to GDP in Albania for 2007 was 30% and for 2006 was 22%, which was low compared with that of the euro-zone. The study of "Banking in Eastern Europe" by the research team of Deutsche Bank, among others, estimates what should be an equilibrium level of private sector credit to GDP for some countries in the region, in case it would be achieved the convergence with the Euro-zone.

The structure of the economy, in terms of development, has undergone significant changes over the years as well as in many other countries. Thus, the role and importance of primary production (agriculture, forestry sector, etc.), secondary production (industry, wood processing, construction) and tertiary production (services, public services, communications, etc.) in the national economies of many countries, was changed in a noticeable order. Primary and secondary production has decreased, while services have taken the leader position in the economies of many countries, resulting in increased employment and added value. We see the same situation in our country.

The global experience makes clear the importance of entrepreneurship and small business management as a driving force in the new world economy. Albania is one of those countries after the collapse of centrally planned economies was characterized by rapid development of the private sector, with the premise of small business growth, referring as the backbone of the market economy. Private sector development has been hard during these difficult years, the streamlining of our economy physiognomy. Entrepreneurship and small business management and secondary have been and remain still today the promoter of generating sustainable economic growth, employment and poverty alleviation. The main role today in the failure or success of the business is played by entrepreneurs; it creates a new business which puts greater risk and uncertainty, with a view to achieving profitability, growth and identification of opportunities. It is the duty of entrepreneurs to work harder to be transformed these opportunities, in order to secure profits. State intervention in the economy must be legitimate and originally defined in Constitution. It is the fundamental law of a state and contains basic general principles upon which will be built state policies. In order to run these policies in all economic activities in the country the laws are regulators. They are accompanied by rules which are generally divided into three main categories: economic rules, safety rules and regulations of information.

Development of Entrepreneurship and SME

During recent years the Albanian government has undertaken significant reforms to channel the Albanian economy in the formal sector. Entry into force of the flat tax, the establishment of fiscal cases, reform of the VAT system, improvements to the tax authorities' procedures, the success of the National Registration Center and simplifying business licensing procedures have been very successful reform and Albania has shown that economic growth despite the global crisis. Albania, too, in the last 5 years has become overrun in most global rankings on reforms and competitiveness. However, a significant part of the economy remains in the informal sector. Albanian Government with the support of the donor community has been the leader in the region in terms of efforts on electronic governance and pervasive system of procurement on line operation in Albania is a success story for which Albania has been hailed in the international arena. Great efforts are being made in the field of taxation, implementation and transparency with database online properties and similar efforts are being made in health and education.

1. Literature Review And Hypotheses

1.1 Current Situation and Development of SME Sector

By the end of '80 in almost no important economic reform Albania was not taken. Starting from the '90s the government started to show signs of readiness to set aside the utopian goals imposed by the former regime. In 1989 former president then was found in an irreversible process of liberalization of Albanian Economy. This process began with the granting of limited financial autonomy for state enterprises, in recognition of the right of farmers to livestock cooperatives in the state. Still it was not for the emergence of SMEs Property title and the ability to sell agricultural products prices at open market were dictating by government. Immediate measures taken by the state at the time could not serve to stop the economic downturn that was manifested in all directions, starting with the explosion of foreign debt, inflation (which in the years '91 / '92 touched respectively 104 % and 236.6%), decreased drastically by more than 50% of GDP in the period '90 / '92 (-13% in the 90s, in '91 -28% and -10% in '92), immediate growth of unemployment and almost paralyzing generate agricultural and industrial production.

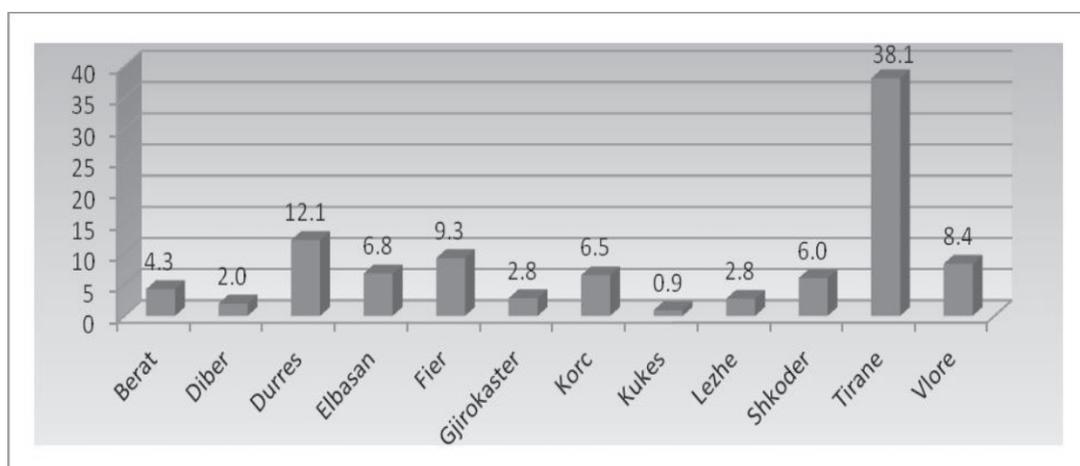
1.2 The economic transition and development in Albania

To treat the social- political emergency and economic situation in May of '91 was formed a coalition government. In the economic field was drafted by the government and approved by parliament a program containing urgent measures for macroeconomic stabilization and liberalization of the economy. The SME sector has a substantial contribution to economic growth and employment. Based on data from INSTAT (2011), the contribution of SMEs to GDP is more than 73% and more than 71% in the employment sector. Also the number of active enterprises in late 2011 was about 106.503. Compared with active enterprises in 2005 has increased by 65% .The

number of enterprises that run or are owned by females is 27%. According to the structure of active enterprises in 2011 is noted that SMEs are mostly dominated by micro-enterprises with 1 to 9 employees, who constitute about 95.2% of the total number of active enterprise.

Distribution of active enterprises by economic sectors is as the following: trade market 43.8%, 16.1% hotels & restaurants, transport & communications 10.2%, industry 9.8%, construction 4.3%, agriculture and fishing 1.8% while other services occupied 14.1%. It is worth mentioning that the sectors of trade, hotels, bars and restaurants are dominated by domestic enterprises with a slight shift in recent years towards international trade, especially during the summer as a result of increased tourism in the country.

Graph3. Distribution of SME according to regions



Source: ASN - INSTAT 2011

Over 50% of active enterprises that are operating in Tirana, Elbasan prefectures, Durres, Vlore, Dibra and Kroc, it is noticed only a slight increase of enterprises leaving the situation in the state of almost a year ago. Prevailing in number are the activities in trade market and catering sector - restaurants with 60%. 43.8% of enterprises are in the trade field with a slight decrease of 0.6% compared to 2010. The producers account only 16% of service providers. Such dominance is common in all prefectures. Compared with last year turnover in 2011 has been risen by 8%. This increase of 32.3% came as influence in construction-building field. Compared to 2010 commodity producers has been risen by 6.3%, while service providers, compared with the same year has been risen by 5.7%.

1.3 Financial and Credit Facilities

- According to the report "Doing Business" from World Bank 2011-2012, Albania is ranked as 23rd in the world for ease of lending. Based on data from the Albanian Bank, the share of private sector credit of GDP in December 2012 was 40.2%. Annual growth rate of the loan portfolio was found to be about 14%.
- Banks are the biggest funders of the economy as the banking sector constitutes more than 95% of the financial sector. In order to improve the financing environment for SME, in recent years have been taken measures in relation to the introduction of schemes to guarantee loans to SME.
- SME scheme implementation credit from the official launch of the program in January 2009, until December 2012 has been lending to SME 25 million EUROS, which were financed in 79 Albanian SME projects with a funding of 17.4 million EURO of which 10 projects are "Started up". Moreover, a guarantee fund of 2.5 million is available as part of the Program for the Development of SME in order to guarantee bank lending.
- The European Fund for Southeast Europe (EFSE). FEEJ has given a loan of 20 million EURO to National Commercial Bank (NCB). So far, 23.8 million loans were approved for 332 clients financing businesses in several different districts and for different purposes such as: investment in inventory and active properties. The condition of these loans outstanding was 17.9 million, while having a very satisfactory repayment performance.

1.4 *Development of Hypotheses*

The purpose of the study is to check the system evaluation from 2004-2010 **until** today. The rapid growth of credit in many countries has been accompanied by a significant increase in prices of various assets, such as the price of real estate, which later exploded and adversely affected the value of collateral and the quality of loans issued against them. The evaluation of the employees was made of two phases:

- The first evaluation (Primary data & Secondary data)
- The last evaluation. (ESPS method & Statistical method)

The most recent case of the consequences of this phenomenon is the market crisis "subprime" in the United States, which has not yet exhausted its negative consequences and contamination for other countries. This crisis appearing as a liquidity crisis, with direct impacts on capital markets associated with the the food crisis, and the rapid increase in oil prices has raised many questions about the development prospects of the world economy.

The SME financing argument has increased in recent years, but is still considered insufficient to induce a rapid development of this sector. Also SME and especially SME encountered enough difficulties to obtain loans from the banking sector, where the cost of credit is relatively high. Requirements of banks are not favourable for business, especially for the high level of 120-150% collateral and high interest loan when is required for investment in materials, machinery and equipment, but there are still missing supportive policies to start-up businesses. The lack of alternative financial resources for SME, such as venture capital, innovation vouchers, small business, etc.

During the last three years Albania has had an economic growth of 6%, an increase has been noticed as among the best in the region. No doubt that the SME sector has

an important contribution on this process.

The contribution of the SME sector is estimated at 64% to GDP and employing about 66% of employees in the private sector.

Referring to the structure of employment, small enterprises and medium SME with 1-80 employees are more than 99% active companies in Albania. The number of companies with over 80 employees is 423, while the number of companies with over 250 employees is only 40. The data above constitute the backbone of the policies in the field of business development for the coming years.

During 2005 there has been found a rapid growth of new enterprises created respectively by 9993 with an increase of 4% compared to the year 2004. Even during the first 10 months of 2006 is being noted a high number of new enterprises registered at about 16,000 new entities.

Regarding the geographical distribution of businesses in Albania, about 50% of active companies are concentrated in the area between Tirana - Durres, employing 57% of private sector employees. About 69% of companies with foreign capital are concentrated in Tirana prefecture, about 5% in Korce, Shkoder while about 5% and 3% in Vlora. (INSTAT, enterprises repertoire, Statistical Bulletin)

Sectors	2006	2007	2008	2009	2010	2011	2012	2013	Sums
Promoting SME	0.5	12.4	26.7	39.3	28.5	35	44	42	228.4
Promoting exports	0	3.1	7	11	7.9	8	7	7	51
Promoting FDI	0	2.01	6.475	7	12.16	17.4	17.25	21.35	83.645
Mines	0.37	0.756	0.756	0.732	0.626	0.455	0.463	0.472	4.63
TOTAL costs	0.9	18.3	40.9	58.0	49.2	60.9	68.7	70.8	367.7

Table of indicative costs by sector (draft business development strategy and investment)

Internet and electronic commerce

During recent years in Albania, the number of SME that use the services of internet has increased, especially by the younger generation of entrepreneurs and managers. According AKEP⁵ 2011 online coverage rate is over 50%, but much lower compared with 67.6% of the EU countries. Despite improvements in the legal framework only 10,000 businesses have broadband internet from 100.687 active businesses

Creative Economy: It has been felt necessary the intervention with concrete policies for the sector as it can be:

i) regulatory measures aimed at removing legal and administrative barriers; ii) improving the system of vocational education and training (for all activities designers / design, advertising and crafts); iii) legal and financial incentives to support this sector and iv) improve the capacity of organizations that represent the sector.

Include social responsibility in enhancing the competitiveness of businesses, CSR

Corporate of Social Responsibility is a key part of the new strategy "Europe 2020", which requires an integrated approach to "a fast growing, sustainable and inclusive",

within an overall vision of a social market economy.

Development of Innovation and Technology for SME

Albania continues to lag behind other countries in terms of poor performance in innovation. Enterprises finance on technological developments are mainly from internal resources, which are limited. The lack of business incubators and clusters is felt; Albania is now part of the European Network of SME, EEN. Implementing proactive policies to support technology capacity building for enterprises, especially SMEs remains a challenge for the next period 2013-2020. Enterprises run by women proprietors are low, at around 27% of all active businesses in 2011. Over 90% of businesses run by women are in the service sectors (retail, tourism, freelance etc.). About 30% of the self-employed are women. Percentage of disbursement of loans by business women reached 25% in 2011. Lack of policy to support female entrepreneurship and according to the "SME Policy Index 2012" Albania is estimated to 2.5 points (out of 5 points maximum).

Through, the analyses of development of SME we can guide the following hypotheses:

H1: Is the development of the wood processing industry normal in Albania?

H2: Are promotion and support of industrial enterprises efficient in Albania?

H3: Albania was relatively rich in mineral resources, in particular for chrome, copper, nickel, titanium-magnetite and a large number of non-minerals. Industries mineral mining has traditionally been the backbone of the economy. Is this sector efficient ?

1.5 Promotion and support of industrial enterprises

In terms of global competition, support is needed for those enterprises that integrate business opportunities in the value chain of industrial investment with foreign capital. With government support and specialized agencies such as AIDA (Albanian Investment Development Agency), a needed draft with the skills and specific things was matched with the interests of foreign investors operating in the Albanian market. Usually sophisticated industries such as electronics, etc., create opportunities to subcontract a number of small and medium enterprises in the production of some aggregates (products, equipment, knots, etc.) of their product, resulting to be lower cost than import ones.

This objective seems difficult at the current stage. However, it remains possible and aims to set to a long-term project starting with the support of enterprises that can fulfil needs of large domestic and international ones.

Development of such industrial capabilities is valued in the context of politics "*import substitution*", releasing funds as a result of the decline in imports of these products.

It aims to assess the process of cooperation between foreign investors with local industries, estimating an increase in the production averaged 0.5-1% per year.

From 1970 until 1990, Albania was one of the main producers of chrome and products and a major exporter of processed products of copper, nickel, other metals and minerals processed differently. Large industrial complexes operated in a process of increasing the value of minerals in an integrated manner in the form of a chain that

began with the mine production proceeding further in enrichment processes, metallurgical processing and fabrication of metal products.

Due to the difficult economic transition, restructuring and investment in the sector starting pace of development was delayed for nearly a decade. After 2000 the effect of the restructuring of the sector reforms that opened the way for investments in the mining industry, the sector began restoring. FDI search focused on the discovery and exploitation, (as through the opening and reactivation of existing mines and development new ones), and the recovery and development of mineral processing infrastructure system. However, the sector is far from realizing its full potential and its development will remain a priority in the coming years.

1.6 *Sample and Data Collection*

The survey of this study is conducted on the transformation of the mining sector in an industry based on the growth of the Albanian economy, that will promote and supply the development of other sectors of economy, increase exports and contribute to socio-economic development of the country. The adaptation and modernization of the Albanian mining legislation will harmonize the legislation sector with the EU and will set international standards in the mining industry sector. In particular, the Government will enhance the legal framework regarding ownership of land, rights of access to land ownership and access rights in a mining area. The government will continue with the privatization of mining and mineral processing facilities. Further steps will be taken to improve the investment climate and environment creating incentives to attract FDI in the sector, improving productivity and competitiveness. An important objective will be the withdrawal of major mining companies to develop new mines.

Ensuring the implementation in practice of sustainable mining operations and environmentally sound as existing mines and new ones, too. It will be designed and implemented a legal framework to ensure sustainable mining activities and based on international best practices.

The aim will be to maximize the rational utilization of mineral resources and reserves while minimizing negative impacts on the environment and society. This will require planning of mining operations, which must satisfactorily address all issues related to environmental, social and economic ones. List of such issues will not be limited, but will include, through others, mining waste, air pollution, adverse impact on land use, biodiversity, pollution of water and its availability, hazardous materials, noise and vibrations, energy usage, as well as local and regional economic effects.

An important aspect of this policy will be better management of mining waste, promote recycling processes, and to ensure full closure and safe mining facilities which will become an integral part of any mining activity under cycle concept of a mining activity. To ensure the realization of this goal, the Government will establish a system of effective supervision and monitoring modern mining activities and facilities.

Analyses and Results of this paper research, SWOT model, Calon A 2012

<p>STRENGTHS:</p> <ul style="list-style-type: none"> -Implementation of regulatory reform to help improving the business climate and reducing the costs of doing business; -The development of ICT; -Implementing Strategic document for the development of SME in particular continuous reduction in administrative barriers; -Centre For the National Register, the NRC, as a one stop shop, where registration is done in one day cost 100 ALL -National Licensing --Your, NLC, as a one stop shop where most of the licenses granted within a period -2-4 days, and licenses provided by institutions -Other issued by 10-30 days (excluding licenses construction); -Fiscal -Reform. 10% flat tax on personal income and corporate income. -Creation of AIDA & BRIC. Albania is a part of the European network of SME, EEN; -Stable macroeconomic mounting. -Equal treatment between domestic investors. 	<p>Weaknesses:</p> <ul style="list-style-type: none"> Lack of financial support schemes business start-up; - Weak entry and micro enterprises enterprises to sources of financing; -Lack of alternative financial resources SMEs, as' venture capital ', innovation vouchers', 'business angels'; -Gaps in the provision of services to business; -Poor-performance innovations; -Lack Technological skills enterprises; -Lack of space and industrial parks; -Lack of business incubators and clusters; -Informality in the economy; the lack of reliable statistics in analysing the economic indicators; -Limited access to private financing. -Problems To the right of ownership; - Difficulties in obtaining building permits, getting electricity, registering property and payment of fees; - Lower R & D & Capacity (especially in technical fields); - Limited consults with stakeholders and interest groups; -Management Of ISO, is achieved only by a small number of companies. -Lack of gender programs, programs support for women entrepreneurs; - Disabilities in IT and "education", -Internet access;
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Conclusions and Recommendations

The replacement of a functioning economy and a competitive market is a big challenge for the country. The institutionalization of the market will mean improving the governing way, making it effective for business and investment. Albania is making an important progress in recent years regarding the business environment and investment climate, as business registration, or fiscal burden. Good laws and

regulations do not mean that is sufficient to create good climate, there are more important ways and extent of their application. Having regard the gap that exist in the financial market, a recommendation would be the establishment of a new financial institution, managed by the government, providing various financial services for SME, especially for their support in the phase of their creation. The implementation of business development of a strategy for bridging this gap is impossible to be a responsibility of a single ministry. Ensuring a proper attractive environment for business, political and financial stability requires a collaborative approach by all government structures from higher levels of government to the local ones.

It is important to draft a safe detailed business plan, in order not to failure. History has shown that 90% of new businesses that have failed have not previously drafted a business plan for their management. In this way, banks assess credit award only in the cases when businesses have a plan. Small enterprises in their activities do not have the same economic effect as larger ones so they are trying to present their unrealistic balance and do not have the necessary staff for building a business plan. So banks prefer to finance small amounts of money in order not to risk disbursement. Therefore, banks prefer to finance large businesses and construction businesses as well as medium and small ones in many cities of Albania. Other recommendations in the *further improvement of the business climate*, include the reduction of procedures for starting a business, reduction of days for construction licenses, the improvement of service for online tax payment, etc.

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