

ALBANIAN SMEs AND GLOBALIZATION: THE IMPACT OF SMEs IN ECONOMIC DEVELOPMENT.

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Abstract

In the past few years, the impact of globalization on small and medium enterprises has received many attention in international markets. Today, globalization is a key element that has an impact on almost every business. One of the main reasons being studied SMEs is because these firms provide a significant contribution to the economies of developing countries. SMEs contribute over 64% of GDP and over 66% of total employment in high-income countries (METE, 2008). This research explores the impact of globalization on SMEs business in Albania. Most of the countries in the world are developed through SMEs business, in many aspects such as employment, export, tax, income, innovation, competitiveness. Recent wave of Globalization has influenced overall business of the world. SMEs increased more in this wave of globalization. In this research are used data from a case study, Progress Metal G, that are formulated as an instrument for measuring the impact of SMEs in economic development in the city of Shkodra.

Keywords: *Economic Growth, Government Role, Globalization, SMEs Components, Progress Metal G.*

I. Introduction

An important condition for economic development and social welfare increase is the creation of an enabling environment for business. This also affects the growth of small and medium enterprises (SMEs), which provide a significant contribution to the growth of GDP and employment. SME growth is an essential component of economic development. Currently, the private sector contributes in more than 75 percent of GDP and in more than 62 percent of the total number of employees. Micro, Small and Medium constitute 98 percent of private enterprises and employ about 75 percent of employees in non-agricultural sector.

However, in Albania, as in other transition countries, the businesses access for funds is a significant obstacle for their growth. Currently, in Albania operate three levels of lending to businesses: banks, credit foundations and equity funds.

The strengthening of the financial sector is one of the key issues to enable successful business performance of small and medium in Albania. Although, the financial sector is still fragile, the banking sector has helped it for strengthen. Similarly, an important contribution is given to the financial institutions and to the donors, who have encouraged investments and credits in our country.

II. The contribution of Small and Medium Enterprises in economic development.

Small and medium enterprises have been a distinguishing characteristic of all Albanian transition, that has resisted to the economic difficulties our country. The contribution of small enterprises is for the growth of service sector, construction, trade and agriculture, where

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micro enterprises that constitute the majority of this group was undoubtedly important in long-term sustainable recovery of our economy².

The development of SMEs and their contributions for the long-term economic stability depends on their size and structure. As already is known, the SMEs model is almost completely in opposite to the pattern of large enterprises, which are characterized by a concentrated shareholding structure and extremely stable³. So, when we talk about SMEs is more about the natural model in terms of companies that with reduced dimensions, those that occur on each site. In terms of developed markets, this size allows them to have flexibility and ability to adapt to conditions of a severe competition. SMEs are more flexible than large firms and therefore the cost of capital is lower in relation to job creation. SMEs play an important role in economic development and in employment. Modern economies operate as a complex network for companies, in which the position of a competitive firm depends in part from the efficiency of the suppliers. Therefore, the competitiveness of SMEs affects the competitive position of the economy in general.

SMEs improve the efficiency of domestic markets because they use more effectively financial and human resources. The high transaction costs are one of the most important barriers to the development of SMEs, their reduction would encourage the expansion of SMEs and will help micro enterprises to expand to new products or services. The size of an enterprises is an important factor in economic development. Almost all firms in Albania are included in the category of small and medium enterprises as defined in the European Community. In Albania, the classification of enterprises according to INSTAT as follows:

Table. 1 The classification of enterprises.

Type of enterprises	The number of employees
Micro enterprises	1-9
Small enterprises	10-49
Medium enterprises	50-249
Large enterprises	Over 250

Source: INSTAT, *Register of Enterprises, 2008*.

Referring to their structure: micro enterprises with 1 to 9 employees represent 95.7% of the total number of active enterprises, small enterprises with 10 to 49 employees make up 3.5%, medium enterprises with 50 to 249 employees occupy 0.7 %, and large enterprises with over 250 employees accounted for only 0.1% of active companies in the country⁴.

III. The importance of SMEs for the Albanian economy.

In terms of employment, the SME sector covers about 40 percent of private sector employment. Most of the employees belong to the trade sector, followed by service sector and industrial sector to medium sized businesses. SMEs are seen as a source of innovation at the aggregate level, as they are more flexible, dynamic and sensitive to changes in demand compared to large enterprises. Based on this classification, we can say that 98 percent of Albanian businesses are part of the SME. Statistics show that 78 percent of companies consist of only one employee and 0.2 percent from more than 100 employees.

Table.2 The distribution of businesses by economic activity and number of employees.

Economic	1-5	6-20	21-80	Over 80	Total
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² Ibrahim F., Remarks at the launch meeting of the "Programme for the Development of Small and Medium Enterprises", Tirana, 20 January 2009.

³ Uruci E. Dhe Begani A., (2006) *The Albanian Corporate Governance, Accounting and management Information Systems*, Journal edited by the Faculty of Accounting and Management Information Systems No.18/2006 Bucharest, Romania.

⁴ Annual Statistical Bulletin, (2010), Ministry of Economy, pp. 23.

Activity	employee	employee	employee	employee	
Agriculture	1	2	6	3	1
Industry	11	26	40	59	12
Construction	4	27	21	7	5
Services	22	15	18	17	22
Transport	10	5	5	11	10
Trade	52	24	10	3	50
Total	100	100	100	100	100

Source: INSTAT, 2008.

Initially, businesses have operated in an inappropriate environment, starting with the pyramid scheme crisis of 1997, political instability, corruption, constant changes in legislation, etc.. The main obstacles to the growth and formalization the businesses are related to the inability of law enforcement, underdeveloped capital markets, poor infrastructure, lack of property rights and an underdeveloped judicial system.

It has been noted that most enterprises are established in the commercial sector, because the barriers are lower in this sector. The majority part of enterprises is growing in the sector of industry and services, while the sector of transport has been a decline.

Table. 3 The classification of enterprises by size and year of creation.

Size of enterprises/ Year of creation	Micro	Small	Medium	Large
2008	19.248	196	79	15
2007	12.616	502	394	42
2006	12.992	348	169	34
2005	8.434	294	250	139
2004	8.125	383	138	22
2003	35.991	2.076	1.773	490

Source: INSTAT, 2008

The geographical distribution of SMEs, varies by region and by urban or rural areas that are dominated by the first. Similarly, the highest concentration of businesses is in Tirana and Durres, Elbasan has a heavy industry and the commercial business are concentrated in the south.

Table. 4 The distribution of domestic production by sector (in percent).

Economic Activity	2004	2005	2006	2007	2008
Agriculture, hunting, forestry	27	26	24.7	15	24.4
Industry	11.2	10.5	10.2	17.1	14.5
Construction	8.6	7.8	9.1	9.8	12.2
Trade, hotels and restaurants	20	21.8	34	23.3	19.3
Transport and	12.4	11.4	10	10.4	10.2

communications					
Other services	24.2	25.8	46	48.6	49.5

Source: Bank of Albania, 2008.

According to statistics in general, SMEs are not only dominant in the economy, but they have the ability to be dynamic in the economic development. SMEs provide a unique contribution as an integral part of the economic structure. They are also a supplier to large enterprises and contribute to the increased competition in the markets.

The rapid development of sustainable businesses requires considerable resources. During these years many donors have supported this development as EBRD, IFC, UNDP, GTZ, World Bank etc..

IV. The expansion of the banking system, a support factor for SMEs.

The economic development in Albania was conditional on a large scale from the needs for technology and capital, and the need for an alternative that leads to increased production, which relates to the need of opening the country to the international market especially to the EU Community . (Uruçi & Tukaj, 2000)

Financial support of small and medium enterprises is to particular importance for the development of initiative and to enable release management capabilities of enterprises. For the small developing economies, the financing of small enterprises is a good opportunity to boost employment and economic activity based on initiative, ideas and production skills to small groups or individuals who have the courage and knowledge to generate goods and to increase the welfare of society.

The finance business in Albania is characterized by three main sources (other than family funds), which can be classified as follows:

- Loans to businesses through the formal banking system and partly through micro-credit institutions.
- Equity Funds for SMEs.
- Micro-loans for family businesses through foundations.

The large number of banks operating in Albania has made the banking system to becomes even more efficient, by bringing also improved banking services in the country that affecting the business performance.

In September 2008, the loan portfolio was dominated by lending to the trade sector (nearly 25 percent), construction (approximately 15 percent) and industry (over 15 percent). According to the Bank of Albania, the credit for small and medium enterprises in November 2008 presented about 60 percent higher than year-end 2006, representing to over half of credit report given by business banking⁵ .

V. Credit

Rules relating to the process of lending standards are mandatory to be implemented by all banks. The lending policies are defined and are determined by the Board of Directors in accordance with the development strategy of the bank. The purpose of loan is the financial support of the economic activity of its clients, the realization of an acceptable profit for themselves and the loan insurance. It should be emphasized that the duration of the award of credit is consistent with the purpose for which credit is given. This is determined depending on the type of business, earning income from the sale of products and services and depending

⁵ Ibrahim F., (2009) Speech at the launch meeting of the Programme for the Development of Small and Medium Enterprises, Economic Bulletin, Volume 12, Number 1, Tirana, pg.80.

on the funds committed for the purpose of bank lending and insurance at the right time of the expected profit.

To gain a more competitive position in the interbank market is of a particular importance to know the needs of customers and businesses, that they develop. This would be done through collection, analysis and scheduling information, which creates the possibility that at the time of applying bank be able to operate more quickly and qualitatively in terms of lending.

VII. National policies on development and support of small enterprises and medium enterprises.

One of the main supports for SME development is to create a favorable political environment, which means the drafting of laws, rules and taking appropriate measures. The most developed countries have appropriate legislation and a set of rules to support their development.

The beginning of this century coincides with the first statement of the acts in support of SMEs, such as American Act in 1953, the Japanese act in 1963, and the German in 1975. Earlier there was also the Netherlands in 1910 and the Japan in 1912, which featured a special program of financial support to farms and small industry and medium.

Even in Albania was approved legislation to develop and support small enterprises and medium enterprises. This aspect should be viewed in three perspectives:

Financing SMEs is considered as one of the main obstacles from SMEs. Economic stability is essential in improving access to finance of SMEs, as well as creating a business-friendly financial sector.

Measures to be taken to improve SME financing are:

Increased levels of lending and the creation of the Albanian fund loans.

- Creation of credit guarantee funds. There is a growing demand from SMEs to finance through borrowing. For this reason there is a need for a sequel and regional expansion through the branches of commercial banks or even some donors who contribute to the financing of SMEs;
- Establishment of new institutions, such as funding and the development of SMEs;
- The use of schemes that don't guaranteeing the loan.

Increase funds for microcredit.

It should be supported by the non-financial institutions of micro-credit, by foreign donors and by the government of Albania.

The strengthening the capacity of microcredit institutions.

The improvement of business environment. Costs that are burden on SMEs are higher than those in large businesses. SMEs can have a major benefit of establishing a non-discriminatory investment framework. The creation of consultative councils of business, provided by the Stability Pact will contribute to this process. The establishment of a transparent tax system and a regulatory framework that allows SMEs to benefit from the opportunities offered by the process of privatization, can contribute significantly to the development of this sector.

The strengthening of the networks for support SMEs. SMEs have conditioned the relations with other firms and this is an unfavorable condition for them. They have different

requirements for support in various stages of the business cycle such as the finding of partners to reach out to the market, how to transform the ideas into business plans, etc..

VIII. Small and medium enterprises in Shkodra.

The city of Shkodra is estimated to have 3 percent of all active businesses in Albania. In 2012 in Shkodra has been registered about 2625 businesses, where the main place is occupied from the private sector with 2512 businesses. SMEs have a major role in the economic development in the city of Shkodra.

Case study: Progress Metal G

The company, Progress Metal G was registered with the status of a legal person as a Limited Liability Company on 17.03.1995, with the trade name "Progress Metal-G, sh.pk and the number Nipti J66703022B. This firm is made up of four partner, which began their joint ownership with an initial capital of 100,000 Albanian lek. The firm started its activity first in 1993 with these four partner whom were also its first employees. The first activity was the production and installation of of shutters for doors and windows in shops and industrial objects. Since its beginning the firm was focused on the improvement of the technological process. Thus was born an another technological process: production of aluminum doors and windows. This led to the necessity of creating the necessary space for their production. Therefore the firm seek the privatization of a building and in 1996 bought an industrial object with 1,000 sqm area⁶. The growing demands for aluminum products increased further the intensity and labor productivity, which of course was accompanied by increased profits. The expansion of the construction sector, made the demands for doors and windows also increased. These profits were used to increase production to improve the added the work environments and to introduce modern technology. With its business activity expansion, they always thought to be turn their private undertaking in an undertaking to be stand in the market economy. So, they decided to create a a production area enterprises. Thus, began the painted aluminum profiles in their factory. Most importantly, of this idea was the development of the domestic production. It was decided to create a coloring plant for aluminum profile. Now, the firm Progress Metal-G operates in an area of 8780 sqm, 4780 sqm of which is a covered area and 2,525 sqm a production area and this year the number of employees in the firm reaches 31. Since the the middle of 2008's until today is working on to introduce a series of new production and assembly of aluminum internal doors, which will employ 10 workers and others. Since 2005, the firm belongs to the category VIP Albanian business and is managed by the large taxpayers unit in Tirana .

Some data for the years 2011-2012.

Balance Sheet Assets / Liabilities		2012		2011
B.	<u>Stabile Assets</u>	2	66.356.845	63.411.098
C.	Current Assets	22	121.326.899	154.824.469
A.	Own Capital	51	162.157.038	154.902.251
B.	Liabilities	71	25.526.706	63.333.316

Income and Expenditure Statement

⁶ Uruci E.&Beqiri M. (1998), "The effectiveness of privatization and restructuring (Experience by the Shkodra district), "Economy in Transition, No. 3 (17), Tirana, Albania.

I.	Income falling turnover	327.237.959	362.365.533
II.	Other Income (other than financial)	2.578.460	235.250
III.	Financial Income	661.761	420.645
II.	Costs of Production	10.919.955	9.164.560
III.	Financial Costs	792.920	740.138

Tax outcome

	Result From Ordinary Activities		
IV.	Extraordinary expenses		
	Extraordinary result		
V.	Profit before tax	17.034.637	18.313.168
VI.	Profit Tax and Similar	1.779.849	4.034.521
	a. Tax on profit	1.779.849	4.034.521
VII.	NET PROFIT (OR THE BALANCE) V - VI	15.254.788	14.278.647

Based on the fact that the company has resulting with a good profitability, it meets the quality standards that Western market requires. The administrator of the company has decided to invest in a new product line that will bring its effect on increasing revenues for the company and the employment growth for the city. A major problem arising from the application of the Albanian legislation is the reference prices on some products, the most important ones, in their import. This reference price varies from 1.5 to 1.8 within the margin of price / product, making the company also after the sale of products to have again a VAT credit balance as a result of high paying VAT on the the entrance of goods. Therefore, it brings an open problem with the tax office about the excess of the VAT credit. According to the directors of the company, the greatest risk encountered in the course of the business, has been the change in value of the currency. This is because all exports, credits and payments to suppliers are been made in European currency Euro. The company's activity has affected the economy of the city of Shkodra. This society has a significant impact in alleviating the social problems that are in the city of Shkodra and mainly in the employment and in various promotions or donations to the layers ever need to help alleviate their poverty.

Also, another goal of the company is the application for certification of their products according to the international standards.

Conclusions

- SMEs has an important impact in economic development, by contributing to new places of work, by contributing to the technological innovations, such as stimulating economic competitiveness and the influential in the development of large enterprises.
- The banking system is an important factor that supports SMEs, as for the diversity of services that the business offers, and with the help that provide banks through the credit system.
- Progress Metal G, as a SME has an important contribution in several aspects in the economy of Shkodra: in the labor market, increasing revenue to the state budget, innovative new products with modern technology and standards.
- SMEs are the most vital part of the economy, while they are developing strongly day after day, while large businesses are few in number, and generally they are not subject

to competition, because very few banks have had the exclusivity to have them like clients.

Recommendations

- It would be important that the state review the financial policies with impact on business performance, for example, references in the application of imported goods.
- A flexible fiscal policy and tax incentives for individual branches will help to increase the number of enterprises.
- It should be viewed with importance of the role of the municipal in the economic development of the project in Shkodra and local policies to promote increased productivity and competitiveness of local businesses, entrepreneurs and employees by creating new opportunities.

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