

AN ANALYSIS OF THE FACTORS INFLUENCING THE SMALL AND MEDIUM ENTERPRISES FINANCING IN ALBANIA.

Ermira Kalaj¹, Flora Merko²

¹Aleksander Moisiu University, Durres, Albania. Email: ermirafoxha@uamd.edu.al

²Aleksander Moisiu University, Durres, Albania. Email: floramerko@yahoo.it

Abstract

Small and medium enterprises ensure market diversification, promote innovation, and provide employment opportunities. Yet, small and medium enterprises are credit deficient and vulnerable to credit crunches during financial crises. In this paper, both demand and supply side factors influencing small and medium enterprises' financing conditions in Albania are examined. Some arguments are significant to small business lending, which include financial liberalization, financial regulatory reform, and institutional development. Financial consolidation increases market concentration. The market power may cause lenders to manipulate supply and raise prices. However, lenders with greater market power also have greater motivation to acquire expensive borrower information and are more effective at viewing borrowers, since they can extract a surplus in the long run. This helps alleviate information asymmetry. The data used to give answer to the research questions are the European Bank for Reconstruction and Development-World Bank Business Environment and Enterprise Performance Surveys of 2013. The dependent variables include both the financing obstacles of access to finance and the cost of finance, variables measuring financing sources for fixed investment and working capital, variables measuring obstacles to accessing bank loans, and different dimensions of bank loan structure. Other variables are included to control for the performance, transparency, and foreign origin. The bank regulatory variables included measure four aspects of bank regulatory practices: restrictions on bank activities and ownerships, capital regulation, supervisory structure, and market monitoring. Empirical results show that enterprises using fair accounting standards have easier access to credit. This reflects these enterprises' advantage in competing for foreign bank loans. Similarly, enterprises with external auditors also come across fewer financing obstacles. Moreover, firms with more foreign ownership benefit from informational advantages and have eased financing access.

Keywords: *small and medium enterprises, bank loans, bank regulation.*