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**INTEGRATION OF ALBANIAN SME^S WITH THE GLOBAL
MARKETS AND POLICY RESPONSES TO MINIMIZE THE
NEGATIVE IMPACT OF CRISIS ON SME^S SECTOR.**

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Abstract

The history of private enterprise in Albania started in 1990, but significant growth in their number took place between 1992 – 1995 followed by a period of declining start-up rate. Small enterprises are considered the main moving forces of the innovations, employment and the economic and social integration to Europe. They are the main force which will increase the competitiveness of the Albanian economy in the regional market. Albania is developing with constant rates on an average of 6% per year, and the most important part of this development consists of the SME, which according to the INSTAT data, in the year 2009, counted about 78 thousands businesses or 98 % of the total private enterprises in the country, giving a total contribution of 65% of GDP and where are employed over 66% of the employees in the private sector. Albanian SME are playing an important role in the development of the country's economy, however, the constant development is faced with a number of challenges such as: lack of the total legal framework, informality, unfair competition and rivalry, the lack of access of the alternative resources of financing, etc. About 70% of the enterprises that have been interviewed, they underline the lack of the alternatives of the financial resources which remains a serious actual problem. Statistical analysis of data received from the survey of a sample of SME selected randomly in Korca region, shows that the main problem that the SME face in crisis situation, is the decrease of the demand for the services and products that they offer, and the inability to face the competition. Orientation to services and poor financial structure, the technological level, the subcontract position of SME and the low level of security for employees are some of the main factors arising from the statistical situation of the surveyed data. The method used is a deep analysis accompanied by a comparative analysis in order to identify, and then to analyze the factors in the field of the small business development in crisis periods. Analyzing the key constraints, raised from business, this

document tries to argue which is the best way to cope with the crisis in the context of Albanian climate of business.

Key words: small enterprises, crisis, impact, financial services

Introduction

Micro, small and medium enterprises, constitute the backbone of the Albanian economy contributing to over 65% to GDP. The SME have an important contribution in economic growth, job creation, innovation and poverty alleviation. Despite the fact that enterprenuership and SME are very important part of the Albanian economy, sufficient political and social attention has not been directed to this sector. The institutional framework for enterprise development and SME support in Albania is weak and underdeveloped compared whith international best practices. The Albanian economy suffers from the rate of growth of the business, by the evolution level of the small businesses that go towards the midle and large businesses.

It is very difficult for our economy to become a competitive economy, because of the structure of the business where 96 % of it are micro-business character firms, therefore taking into account the real situation, the main problem for them remains the increase and the extention of the small businesses, and within this framework, of great importance is, the role which has to play the support of their increase for reaching the objectives. In realizing these objectives, it takes a special place the improvement of the policies that stimulate business, the legal improvement for creation a better and suitable climate for the investors giving a better contribution to all groups who influence upon, and are influenced by the business. This paper presents reflections on the problems and potential of public SME support programs based on case studies of SME that operate in Korça region.

1. Characteristics of SME^{-s} sector in Albania

- Speaking about the structure of the SME, the trade and service sector is predominant in about 75 % on the enterprises in the whole country, and this is a characteristic for the region of Korce, as well, where this group consists of 73 % of the enterprises.
- The number of the new settled enterprises of SME is quite large. Only during the year 2008 about 93 % of the new establishe enterprises are small and middle.

- Prevailing enterprises with self-employees less than 10 workers. 90 % of the enterprises in the region of Korce has less than 10 employees.
- In organization and functioning of these undertakers it is noticed that:
 - The lack of the tradition and culture of the private business management.
 - The undeveloped managerial structure, the lack of partnership (it dominates the family links for settling new enterprises).
 - Lack of strategic plans, the business plans and their visions.
 - High level of the political and not commercial risks during the time of exercising the activity.
- It is characteristic the high percentage (about 20%) of the activities which stop their activity especially the micro-enterprises that deal with services sector. About 60 % of the businesses that have been closed during the year 2006 are due to the services sector such as : transport, retailing, bars and restaurants.
- The frequent change of the activity, a change that in most cases is stimulated from the great greediness for high gains. Having evaluated these characteristics we can provide a sufficient information for the fact that how to assess the procedure in this sector, where “the creation of a positive climate of the business development, in order to open the ways for the increase and consolidation of the SME” make up the main strategic objective..... while the specific objectives include:
 - Encouragement for the extension of the existing businesses
 - Creation of the new businesses
 - Transformation of the trader into investors in the field of production, and
 - The support of the production for export and the stimulate the joint-ventures in the level of SME.

These objectives must be looked through the context of the economic profile of the country and of the region, information which is given in the following tables concerning the region of Korce (Albania).

The place that the main sectors appear in the economic activities for the year 2008 for the Korce county are presented in the following table as it is published in the INSTAT documentation.

Table 1. Active enterprises by the economic activity and employment in Korça Region (2008)

Main sectors	Enterprises		Employment	
	Number	%	Number	%
1. Agriculture	93	1.36	632	3.84%

2. Industry	719	10.5	5848	35.6
3. Constuction	97	1.42	2320	14.12
4. Transport	620	9.12	1261	7.7
5. Trade	2866	42.14	3212	19.54
6. Services	2405	35.36	3154	19.2
Total	6800	100	16427	100

For te year 2008 according to the information picked up at the income tax office of Korce it results that there are 5350 small business divided in the sectors as they appear in the table 2.

Table nr.2

Main sektors	Small businesses in korça region	
	Number	% of total
1. Agriculture	74	1.38 %
2. Industry	470	8.78
3. Construction	16	0.3
4. Transport	620	11.6
5. Trade	2219	41.47
6. Services	1951	36.47
Total	5350	100 %

Except the fact that the weight of the trade firms is predominant in the Albanian economy in general, (and this is linked with the small capacity production and with the impossibility for quality and the product prices of the region, with the lack of the state policy for the stimulation of the area producers, etc) the trade in the area of Korce is favored from the geographical position and the presence of the cross-border points with countries that our country develops an important part of its market activity.

It we refer to the data of the table 2, it is obvious in a paradoxal way , the small number of the farming businesses, although Korca district has been one of the main districts in the country for the production and the elaborating processes of the farm products, and the second district in Albania concerning the cultivated land as a whole. The number of the studies and researches that have been undertaken in the rural area of Korce, it appears that in the region of Korce there is a population of 102624 inhabitants and 70% of the population live in the rural areas, but undertaking a farming business is minimal. The main reasons according to the research are:

- Migration of the population capable for work in these areas
- The small land market and farming inputs.

- The family ownership of the land which makes it difficult to cultivate and plant it intensively.
- The small incomes being realized by the farming business
- The lack of infrastructure in the rural areas.
- Strong rivalry with the imported farming products.(Today Korca is a pure importer of the farming products for ¾ of the year).

2. Why are SME^s vulnerable to financial and economic crises?

Yet across the world, policymakers look to the SME sector for resilience and innovation in the face of these challenges – to lead their economies out of the current situation for this crucial sector. They will also highlight the ways in which finance professionals can assist SME^s to emerge from the recession and be in a position to capitalise on the increased demands which the EIU findings predict for 2010/11. Many entrepreneurs are facing an economic downturn for the first time – and it is crucial that they be given the support and skills needed to get through it.

The small scale combined with close owner–management organizational structures allows SME^s to respond to external changes faster than large enterprises, they are also among the most vulnerable groups in face of the current financial and economic crisis. Their dynamism and greater flexibility often goes hand in hand with weaker financial and management structures which makes them particularly vulnerable in cases of market downturns.

SME^s are often disadvantaged due to their shallow financial structure, and limited access to local, national and international financial services. Furthermore, albanian SME^s suffer from the asymmetric distribution of businesses information such as available financial services, government procurement, training and market opportunities.

The absence of financial resources and their limited access to business services and technology, especially in time of crisis, reduce the SME^s potential to innovate. Reductions in aggregate demand and risk aversion in time of crisis contribute to a fall in formal and informal capital, making it impossible for firms to develop new products, services or to deploy new production or marketing strategies.

Another important feature of SME^s is their position in subcontracting and global and national value chains. Many SME^s tend to be deeply embedded in complex networks of firms and often rely on only one or a few key customers or suppliers. Their high level of dependency on other economic players and their limited capacity to access new markets also weaken their position in face of the crisis.

Greater flexibility can also be associated with a lower level of security for workers. There is evidence that jobs in small enterprises are less remunerated and less secure than jobs in larger enterprises. Thus the rate of job loss is likely to be higher among SME^s than among large enterprises when there is a credit squeeze and fall in demand for their products.

3. The variation of impact across countries.

The effects of the crisis on SME^s and their workers are very uneven, and vary greatly between and within countries, and even different types of enterprises. The underlying transmission mechanism of the crisis to SMEs is twofold.

Firstly, SME^s are affected if they have difficulties in accessing credit and other financial services. Credit plays an important role in financing investments and in some cases is indispensable in meeting operating costs.

Secondly, SME^s will be affected if they experience a shortfall in demand for their goods and services. The latter includes both the fall in aggregate demand and the decrease in activity of global supply chains.

Thus the different degree to which the SME^s and their workers are affected by the crisis as it moves to the real economy largely on:

- the SME^s reliance on financial services from banks and other sources;
- the extent to which SME^s are integrated with the global markets;
- commodity prices and their impact on rural and agro-industrial supply chains
- SME^s ability to take advantage of new opportunities.

3.1 SME^s reliance on financial services

One of the constituent element of the success is to know how to be oriented by the capital resources and unfortunately this situation brings up a number of problems. Which is actual situation of the business creditation in Albania. During the years 2002-2009 the creditation of the albanian economy has been increasing sensibly, the credit for the private sector at the end of the year 2008 was above 20% of the GDP or about 290 mld leks.

- Above 98 % of the bank credits portfolio are credits that belong to privat sector - About 60 % of the businesses credits belong to the SME, which are increasing rapidly every passing year.

- The long term credit for the year 2008 consisted of the 37 % , and every passing year there is a tendency towards improvement of this sort of credit. (Let's remind the year 2003 when the long term credits occupied only 20% of the total bank credits).

- About 55% of the credits are used for financing the purchase of the machinery and different kind of equipment.

But which is the actual situation concerning the structure of the resources, used for financing the small business?

The studies shows that:

- About 67 % of the businessmen have invested in their the business money from their personal savings and about 30%-40% of the funds have come from immigrants.

- 12% have borrowed the money from their relatives and their friends.

- 15% have been financed by micro-credits and different bank credits - 5-6% are funds that have been saved from the informal trade.

The thing that is evident everywhere is the fact that the presence of a minimal support of the new businesses from the institutions which give the credits, although the needs for credits are great.

Table 3. Structure of the funds resources for financing SME^s

Funds resources	% of financing
Personal saving	67
Friends and family	12
Microcredit by foundations	8
Bank credit	7
Informal market	6

Problem remains the big amount of funds ensured in the informal market which passes over 6% of investment funds in business, this is a problem linked with the presence of this trade in the Albanian economic environment and it deals directly with the financial cost as well as with the safety in exercising business activity.

According to the information taken from the questionnaire we can give a judgment for the low capacity of financing from our businesses.

When we speak about financial possibilities, two obvious possibilities are noticed: - The limited amount of financing that can be afforded

- High cost of existing financial resources.

In spite of the efforts done by the government or main financial institutions in order to create a stimulated business climate, the reality is totally different. A businessman, who finds funds in the Albanian trade, is obliged to cope with additional cost from 40 to 60% higher than in other regional countries, this is argued in a paradox manner with the high political and economic risks in Albania.

If we refer to the concrete situation, it is noticed an interesting phenomenon which needs to be discussed, that is, financial structure of small businesses. The fact that over 65% of invested funds on small business are personal savings, it shows a high percentage of low term financing in the financial structure of these businesses, but in reality this information is dis-orientated for two reasons:

Firstly, personal savings are invested in such percentage for the beginning of the businesses, and then the incomes of these businesses, year after year over 60% have been withdrawn from the business recycling, being used for the fulfillment of the other needs gainers.

Secondly, the rate of increase of small businesses has been very low, and only in the last two-three years the business has begin to be seriously pre-occupy for the importance of the growth of ambition for extension of their business. This will bring a big difference in financial structure of the small businesses because of the tendency to forcibly usage of financial resources from outside.

The current financial crisis has led to a dramatic contraction in credit. This has resulted in increased delays of payments that have been spread throughout supply chains. Albanian SME^s are particularly vulnerable to shortfalls in payments since they frequently do not have large cash reserves. If the delay in payments is accompanied by a squeeze in short term credit they become increasingly vulnerable to payment defaults.

Generally, larger enterprises and corporation have easier access to credit through equity or other debt-related mechanisms. However, financing SME^s is more difficult due to higher transaction costs and risks. The negative impact of the financial crisis tends to be higher if the SME sector is dependent on external financing. In contrast, sectors which obtain relatively less external financing experience lower risk. In addition, SME^s may also experience a high degree of late payments or defaults that can push otherwise sound SME^s into bankruptcy.

One of the major sources of innovation and productivity is a dynamic SME segment. Longerterm policies that promote venture capital endeavours and angel investor networks are an essential component of innovative financial instruments to strengthen and develop small enterprises and quality employment in them.

In Albania, remittances provide an alternative means to finance investment and therefore play an important role in the funding of SME^s. Taking into account the research realized in the region of Korce for the year 2008, the remittances from immigration is about 20 % of the total incomes of the population and about 69 % of the remittance is in monetary form, and less than 30% have passed through bank system. As in the whole country about 60% of the remittances are transferred through bank system. We can say the same thing about the destination of the remittances: If we take the year 2000, nearly 80% of them were used for consume and for improving the living conditions of the family, while 20% were deposited in the banks. Nowadays tendency is an increase of the remittance percentage for business destination. A large % of these funds are used randomly without having any orientation and are very risky in the informal market (it is thought that these funds are 15% to 20% of the remittances).

4.2 SME^s and their integration with the global markets

The impact on SME^s will also depend on the extent to which the local economy, in which they operate, has been affected by the crisis. This in turn will depend on the level of the country's geographic isolation and connectivity with the global markets. Those enterprises in economies that are more integrated with the global economy are likely to be more adversely affected.

Furthermore, those firms providing low-end products and services which are more demand inelastic may fare better than those that cater to high-end consumer products and services.

SMEs that are embedded in the global supply chains reliant on one or few key customers in most affected sectors are likely to be severely impacted when the larger companies, for which the SMEs are suppliers, undertake production reductions. This can for example be well illustrated in the konfeksion sector in Albania, where is a noticeable downturn in SME production and employment with a corresponding decline in economic and social welfare.

4.3 Commodity prices and their impact on rural and agro-industrial supply chains

Large segments of the population and numerous SME^s in Albania deal in agricultural or primary products and, as such, tend to be closely involved in international supply chains. Enterprises in these sectors are particularly vulnerable to rapid changes, and this limits their planning horizons thus increasing financial risks – which are already large because of

their inherent activity.

The variability of prices is cause for particular difficulties for SME^s both in the rural sector and in agricultural related supply chains.

Return migration might worsen the conditions of work for populations in these areas by increasing labour supply in times of great employment precariousness.

4.4 SME^s ability to take advantage of new opportunities

The economic crisis may also open the way for new business opportunities that SME^s can take advantage of as for instance, when larger enterprises restructure their operations through outsourcing, and as broader economic stimulus packages provide new or expanded opportunities.

However, the negative impact can also be considered as a driver for positive change and can help the SME^s become more mature, efficient, and dynamic. Decreasing margins may push many SME^s to better utilize existing resources. For instance, there will be a need to implement new technologies in a more efficient manner to differentiate them and to improve production and service delivery processes. This in turn will improve their competitiveness.

However, in the short-term they may need assistance to survive the crisis. The challenge is to ensure that support is directed to those sectors and enterprises that are likely to be sustainable in the longterm.

5. Policy responses to minimize the negative impact on SME^s sector.

Generally there are some types of national policy, which are most likely to have an impact on SME^s:

5.1 Policies to improve market liquidity and improve the access of SME^s to finance

Specific measures must be adopted to help small firms. It is essential to ensure the greatest transparency possible in financial institutions to bolster trust across the system. There is thus a great urgency to revise national regulatory systems and, probably, strengthen and adequate existing capital reserve and risk provisions. Furthermore, consideration should be given to

longer term measures that restore the stability of the financial system and make it more inclusive. For instance, dealing with bad loan provisions,

accounting rules on assets, leveraging and determining the real value of “toxic” assets is essential in regaining financial stability.

A well-functioning financial system provides the lubricant for a growing and dynamic private sector. Making it easier for SME^s, including cooperatives and start-ups, to access financing, for example, credit, leasing, venture capital funds or similar or new types of instruments, creates appropriate conditions for a more inclusive process of enterprise development. It is also important to reduce barriers to SME financing.

Among the financial instruments that have been adopted to confront the crisis, credit guarantee mechanisms appear to be one of the main responses used so far. The main reason for government-backed credit guarantees is that while cash injections to banks may help alleviate the overall credit crunch, lending to SME^s may not improve unless policies are directed specifically towards their needs.

Furthermore, policy measures such as lower interest rates, credit lines and direct access to government loans can be considered to restore liquidity.

The possibility of establishing inter-bank guarantee systems should also be considered.

Some key SME related questions that policy makers should ask, include:

- Are there sufficient policy and regulatory incentives to encourage financial institutions to lend to SME^s?
- Are there financial instruments (venture capital) to develop innovative enterprises?
- Are the financial products adapted to the needs of SME^s?
- Is there support targeted to SME^s such as advisory services and programmes to assist them in preparing bankable loan proposals?
- Is the information about financial services well disseminated to SME^s?
- To what extent are SME^s affected by the instability of the financial system and how could this be taken into consideration when repairing the (financial) system?

5.2 Policies to ensure that SME^s fully participate in public expenditure programmes

While the financial market policies are providing important support, many governments are finding it necessary to stimulate aggregate demand. Mechanisms should be adopted to ensure that SME^s fully participate in public expenditure programmes. Public authorities and social partners can

develop strategies to improve both the performance of firms and their access markets:

- National measures should comprise policies to stimulate demand, particularly for those products and services provided by SME^s. This can be achieved by decentralising stimulus expenditures and packaging public procurement in small bids so that SME^s can participate in the tendering process. The decentralisation of infrastructure expenditures can also promote the growth of SME^s.
- Creation of services for SME^s: This requires access to information, credit, business development services and explicit local level strategies to promote entrepreneurial activity to enter such markets competitively.

5.3 Policies to strengthen an environment conducive to SME^s growth

Policies to strengthen an environment conducive to SME^s are now more important than ever before. A better business environment for sustainable enterprises largely focuses on macro and meso-level interventions. Improvements at these levels enhance the performance of other kinds of interventions, including for example, programmes that improve opportunities within global value chains, efforts to make markets work more favourably for the poor, the promotion of socially responsible enterprise practices, local and regional economic development initiatives, and financial services.

6. Final considerations

In most Albania, SME^s are responsible for most existing and new jobs as well as a substantial portion of GDP (about 65%).

Unfortunately many of their characteristics make them vulnerable to the negative impacts arising from the latest financial and economic crisis.

- Increased difficulties in SME^s accessing credit and financial services
- Reduced demand for goods and services provided by SME^s.

As a result of these factors, there is already been an observed increase in SME closures and bankruptcy, with a corresponding increase in employment insecurity, downward pressure on wages, and job losses.

The distribution of these negative impacts is very uneven, and varies greatly between and countries and within countries. Regions and territories that are reliant on a few key industry sectors that are deeply embedded in global supply chains.

The challenge for policy makers is to design and implement measure that protect entrepreneurs in existing SME^s and support the new firms, by strengthening their capacity to compete and take advantage of the new economic opportunities.

The Albanian economy suffers from the rate of growth of the business, by the evolution level of the small businesses that go towards the middle and large businesses. It is very difficult for our economy to become a competitive economy, because of the structure of the business where 98 % of it are micro-business character firms; therefore taking into account the real situation, the main problem for them remains the increase and the extention of the small businesses, and within this framework, of great importance is, the role which has to play the support of their increase for reaching the true objectives. In realizing these objectives, it takes a special place the improvement of the policies that stimulate business, the legal improvement for creation a better and suitable climate for the investors giving a better contribution to all groups who influence upon, and are influenced by the business.

The free undertaking aims at reaching new levels and stages, and requires involvement which may lead to:

- The growth of the financial capacity for the business.
- Creation of new alternatives for supporting SMS, influencing upon them for the reduction of the disportion between demands and offers on credit.
- Application of new schemes and experiences in the financial supporting process of the small businesses.
- The increase of the investments in infra-structure make less difficult the heavy burden of the Albanian enterprises, which from time to time invest large number of tools and equipment in infrastructure, as one of their ways to develop their own trade and business.
- Promotion and the support of their export activities, including the possibility of the Albanian SMS in order to collaborate with foreign partners, based on their common investments.
- The increase of the efforts in order to stimulate their undertaking and the new capacity created, in comparision with the previous periods; it requires an increase of the efforts for the education and the training of the businessmen, and perhaps this idea is necessary and has to be considered as primary issue in our school curriculum, starting from the lowest level of their education up to the highest.

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