

“PRIVATE SECTOR PRESPECTIVES ON THE FRAMEWORK OF THE NEW INITIATIVES”

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Brief profile of Albania

All agree that **SME** development can be seen as one of the corner stones for overall economic growth in Albania. If successful it should be able to increase local value added, result in rapid job creation and generate income for important segments of the population.

Albania has a population of 3,4 million inhabitants and a surface area of 28,750.0 sq. km.. The forest area is 9,910.0 sq. km.

Main economic indicators (World Bank, Albania Data Profile, 2002) are as follows:

Year	1 996	19 99	20 00	20 01	200 2
GDP (current USD	2	3,7	3,8	4,1	4,7
GDP (growth annual	,7 billion	billion	billion	billion	million
%)	9	7,3	7,8	6,5	4,7
Inflation	,1	2,5	-	3,5	2,1
Agriculture (%GDP	1	52,	1,2	34,	33,
Industry (%GDP)	4,6	6	51,	2	3
Services (%GDP)	5	25,	0	13,	12,
Export of goods&	1,5	3	26,	2	8
services, %GDP	2	22,	3	32,	32,
Import of goods and	3,4	0	22,	2	5
services	2		7		
Foreign direct	5,1	16,			
investments (USD)		1	18,		
	1	39,	9		
	3,0	1	40,		
	4		4	20	153
	0,3			7 million	million
		41,			
		0 million	14		
	9		3,0 million		
	0,1				
	million				

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For year 2001 Albania has a GDP growth (%) of 6,0 and an inflation rate of 5,0%. Albania is still the poorest country in the South –East Europe. Disparities across regions in terms of social and economic development are visible.

The SME sector has led recovery in many eastern European countries but this has not been the case in Albania to date. Foreign investment has been limited and the vast majority of enterprises are small and new. Inconsistent enforcement of regulations has encouraged many firms to remain informal. According to official statistics there were 63,155 private companies in year 2000 out of which 59,482 were domestic companies, 2.164 joint ventures and 1,509 foreign companies.

Almost all enterprises in Albania can be defined as micro and small, with 87% of all enterprises having just one employee. Most enterprises are in the trade because barriers to entry are low. Only 10% of enterprises are in industry and more than half of all enterprises are concentrated in the Tirana-Durres-Elbasan triangle.

The adverse environment for SME-s is due in part to the series of crises, which affected the country starting with the crack in 1997 of pyramidal schemes.

The biggest constraints to growth and formalisation of SME-s are the failure to implement laws in a consistent and reliable manner, undeveloped capital market, poor infrastructure, unresolved property rights and an underdeveloped judiciary system. Political instability, corruption and inconsistent legal framework are constant barriers for the SME development.

Private sector is considered very vital for Albanian economic development and the privatisation process of remained state own enterprises & strategic sectors such as Alb Telecom, KESH, and Saving Bank etc, will make more dynamic it. So, the privatisation plans of the government include selling the fixed line telephone provider Alb telecom, the petrol distributor, a number of hydroelectric generating stations, and two large hotels in Tirana and Durres. The sale of Savings Bank is re-projected for 2004, but it may be held up by its poor profitability. The electricity utility, KESH, is also to be privatised, but this also would certainly be delayed because of its still poor performance. However, the stability of Lek, continued strong GDP growth and very low inflation should make privatisation more attractive to foreign investors

The SME-s in Albania during their way to grow have been developed and passed frequently difficulties. So private sector is dominated by SME-s (only 2% of them have more than 100 employees. Non-agricultural private sector employs around 113.128 people. The agricultural private sector employs-761.000 people and contributes at 33-34 % of GDP. Private sector in Albania realizes around 75 % of the GDP and 66 % of employment. SME-s are focusing on new technologies contributing on employment of new qualified workers.

Private sector in Albania is dominated from trade/services, construction and transport compared with production which need to be in focus. Private sector is being self-developed by reasonable levels as well as passing through secure steps.

During the transition period (years 1990-2003) Albania faced changing trends in the development of the SME sector, and at the same time there were a lack of financial instruments which were very much needed to support it. This happened because of a low application of new financial instruments and a business environment that was unprepared to absorb new financial services. So, the SME sector in Albania seems to be very strange. Its not well organized or developed and somewhat regional in its focus, with a lack of support from financial institutions and banks. Also, until now there has been no evidence of support from any leading business's themselves within Albania. Crediting access of the private sector is assessed 18-20% with a grow 5% this year compared with the last year.

In fact, there is an increase of Albanian products that replace import (water case, egg, sausage, herbs etc). The businesses affect a higher regional access thanks to free trade agreement in the region).

But what are the main constraints regarding the SME-s?

- Weak infrastructure that indicate the business environment.
- The legislation, which change often. Not consistent law implementation regarding SME-s.
- Low level of crediting of the economy and misbalances regarding the regional distribution. Still high and commercial interest rate applied and campaigned with bureaucratic approach by banks.
- Not well-developed stock market.
- High grade of informality and corruption etc.
- Low level of education/qualification of entrepreneurs.

In response to this development the business environment is summarised as follows:

Fiscal policy	Improving
Privatisation	Positive steps (slow progress at strategic sectors)
Banking sector	Needs improvement
Import & Export	Needs drastic changes (ratio is ¼ in favour of import)
Foreign direct invest.	Low level
Procedures for start up businesses	Still complicated
Labour market policy	Needs improvements
Legal & institutional environment	Needs further improvement
Advisory services	Not qualitative
Informal economy	Around 40 %

The tables below show in more details some of the related SME developments in Albania compared with the other countries of South Eastern Europe through indicators. The information is result of surveys supported by OECD & IBRD.

Enterprise information of South Eastern European countries

	2002 ALB	2001 BHI	2000 BUL	2002 CRO	2000 MAC	2001 MOL	2000 ROM	2000 EU-19
Number of SME-s	56,23 7	30,00 0	224,21 1	63,13 5	32,759	22,13 8	306,17 3	20,415,00 0
Share of SME-s in total number of enterprises	99,5	99,3	99,0	99,3	99,0	90,0	99,7	99,8
Average size of enterprises in term of employment	1,9	8,5	4,8	6,8	5,9	5,9	4,8	4,0
SME-s per 1000 of inhabitants	18,2	17,9	28,7	14,3	16,4	5,2	10,3	52,8
Private sector share in GDP	75	50	70	60	60	50	65	52,8
Export/ Import (Mil USD)	330 -1485		5,688 -7,280	10,71 4 -4,899			16,482 13,869	
FDI 1989-2002 per capita \$								

Informal economy of South Eastern European countries

	ALB	BHI	BUL	CRO	MAC	MOL	ROM	SA&MO
Informal economy (as % of GDP)	33,4	34,1	36,9	33,4	45,1	45,1	34,4	29,1
Percentage of companies making bribes frequently.	36,4	22,4	32,8	12,9	22,7	34,3	36,7	5,9
Average bribe taxes as % of annual company revenue	3,3	0,9	1,9	0,6	0,8	2,1	2,6	1,5
Corruption Index (10 highly clean to 1 highly corrupt) & rank out of	2,5		4,0	3,8		2,1	2,6	

102	(81)	n/a	(45)	(51)	N/a	(93)	(77)	N/a
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Advisory service indicators of South Eastern European countries

COUNTRY	ALB	BHI	BUL	CRO	MAC	MOL	ROM	SA&MO
Business advisory centres	50	25	24	21	12	25	50	42
BAC-s per 1,000 SME-s	0,9	0,3	0,1	0,3	0,4	1,3	0,2	0,4
Regional Development Agencies	10	2	33	6	6	0	8	15
Science/technology parks	0	0	0	2	1	1	0	0
Business Incubators	2	1	8	11	8	2	5	0

What is the role of SME-s in the process of transformation & integration in EU?

The role of SME-s in process of transformation is really high. So, looking to be integrated in EU the most well developed Albanian SME-s must build & implement their ambitious plans with efficiency. The SME-s regularly are the main private entities that generate continuous employment force and give contribution to sectoral restructuring (clusters) and development of services (particularly new enterprises). They contribute to increase the competition aiming the increase of Albanian product presence in European markets.

The SME-s contribute to development of more flexible economic structure as well as to development of a supply base. In the same time the SME-s contribute to a greater social inclusion/cohesion and thus to greater security as well as to continuous democratisation to respective countries.

In mature market economies, supplying other firms is a key role for many SME-s. Adequacy of the local supply base influences the potential spread effects of inward investment. FDI represent a potential market opportunity for local SME-s as suppliers, as well as offering scope for technology and knowledge transfer. Very crucial is the need to build supply capacity of local SME-s through training and other business support programmes.

How can SME-s improve the competition role and what are the integration challenges in regional & European markets?

The SME-s compete through quality standard products & competitive prices and not through custom and taxation. Custom and taxation for sure have an outside role, but not direct role. In order to achieve best results SME-s must invest to be more specialised in producing traditional products less sophisticated based on competitive advantages. Further investments should be done on typical Albanian products with export potentials such as dairy, winery, carpets, eggs, herbs and agricultural processing products.

The case of herbs and oil extracts processed in Albania present in American markets through intermediaries companies from Austria, Germany and France show the potentiality of Albanian firms on such a kind of products. Albania has always been a significant producer of botanicals, with sizeable export flows. Over the last decade, conditions in the herbs sector have somewhat declined, due to the disruption of the collection system in place before 1990. However, some Albanian products such as sage still enjoy excellent reputation in the international market. Export sales are currently estimated at about US\$ 15 million. The main foreign player in the sector is Albducros, the Albanian subsidiary of Ducros (France), followed by a small number of local companies. As there is no domestic processing and packaging capacity of botanicals, the Albanian market is being supplied either by low quality imports, or by homemade products. Although still somewhat underdeveloped, the domestic market has shown significant signs of growth.

The focus can be on marketing channels & export strategies to a concrete impact. Better use of Albanian communities abroad might push the process. Returning of FTA in the area in Win-Win situations remain one of the challenges of export-oriented companies aiming to be part of western Balkan clusters combined with domestic market. Additionally the Albanian companies are making new investments in HTech aiming to replace the old technologies & anonym import products present in market. More FDI-s, technology transfer, know-how aiming of better access to foreign markets remain the challenge of the future.

Shortly, some of the main domestic & export potential industries in Albania are as follow:

Domestic market

- construction industry
- dairy industry
- wood industry
- meat processing industry
- marble industry
- tourism / hotels
- flour mill industry
- Printing industry

Export

- Medicinal plant industry (collection & processing)
- Beverage industry
- Garments/confection
- Fruit & vegetable processing industry

What was the efficiency of supporting funds in last decade and what are the main financial supporting instruments available in Albanian market?

SME-s got some 150 million US\$ during 92-97 (some 105 \$ million were internally generated). 97 to date, some of SME-s were closed, actually there could be something in range of \$150 million available for SME sector development, but still the crediting access through different sources is still lower.

Main banking institutions that supporting SME-s are: Pro Credit, ABA, BKT, BIA, Tirana Bank, Alpha Bank, etc. Non-banking institutions supporting SME-s are: BESA, Rural Financial Fund, PSHM, IFAD, SBCA Credit Union, etc;

Preferable financial schemes through taxes systems can be considered as future option Credit guarantee funds (Albanian Government- ETF, SBCA-BKT, etc.)

The main SME support project & programs actually operating in Albania are as follow:

SEED/IFC&WB; SBCA/USAID; GTZ/DEG-SME PROJECT; INWENT/GERMANY;
ETF/ITALY; LAND LAKE – USAID; IFDC; ACIT/ISB/USAID; UNOPS; WORLD VISION
(MICRODCREDIT PROGRAM); EDEM/USAID etc.

What can be the role of the education and training institutions that could stimulate the entrepreneurship in Albania and prepare companies to be present in foreign markets?

The SME-s focus some of energies into financing of activities, but lack education and training to their staff. Entrepreneurship education at secondary and tertiary level can contribute to potentially productive opportunities for young effective labour forces. Education creates the human capital needed to build a business and also a supply of skilled employees. Entrepreneurship encourages young people to do things for themselves. Increasingly recognised in mature market economies that the education system is a key element in building an entrepreneurial society, particularly with regard to influencing attitudes.

Promoting entrepreneurship at the regional / local levels is a key element of the organizations and institutions or consulting offices and is necessary because in most countries the level of SME development varies spatially. Role for local / regional authorities with respect to SME support policies need to be in focus. Practical measures can includes, promotion for linkages between large and small enterprises, increase access to public procurement contracts, business incubators, public – private partnerships and social dialogue, cross – border co – operation e. g. tourism.

Increased poverty in many eastern countries during 1990s associated with falling output & greater inequality in income distribution (World Bank 2002). Entrepreneurship can: unlock personal potential and offer a means of self-fulfilment, including women ethnic minorities, young people, although groups often have distinctive support needs, offers a means of regenerating disadvantaged areas, communities e. g. rural, mining, conflict affected.

Some of the common and required topics that institutions and consulting offices should deliver to full fill the demand by enterprises can be as follow:

- Corporate management,
- Financial management and accounting,
- Use of Information Technology (IT),
- Human resource management,
- Selling techniques and art of negotiations,
- International trade rules
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More specific modules

- AutoCAD R-14,
- Hygiene, standards & codification of products,
- Procurement and regulatory system,
- Marketing of export oriented products such as: wood, agriculture, marble, alcoholic drinks, carpets etc.

Orientations & suggestions for SME development

- New policies for integration of businesses on western Balkan markets and more.
- Incentives for SMEs that create new job places and look for export must be in drafted. Increase & improvement of the dialog between state and SMEs.
- Support of business associations as facilitators of SME development.

- The legislation should be more flexible, simplified & disposal (soft and manual).
- Businesses should start thinking & operating as clusters and not individually.

What should be the role of government in relation to SME development

SME promotion and development in Albania at present operate within the framework of the government's "Medium term Strategy for the development of small and medium size enterprises SME". The implementation of this strategy is being coordinated by the Ministry of Economy's Department for Business and very recently by the Agency of Small & Medium enterprises. Various donors have agreed to support the government's SME development policy and strategy and have established various SME support programs.

The SME Development Strategy was approved by the Council of Ministers in February 2001. The Albania SME Development Strategy is intended to gradually cover all the identified needs of the SME sector in Albania, going from institution building to entrepreneurs' training and providing appropriate finance to SME-s. It is also intended to provide guidelines in programming, cohesive structuring of support services as well as co-ordination of the various SME support activities provided by public authorities, private sector, donors and NGOs.

Overall objective of the SME strategy is to create a positive business development climate to allow for sustainable SME growth. Special characteristics of the new strategy are the fact that it was based on identified needs of the small business community in Albania, as a result of two surveys funded by **GTZ** and **ETF** (bottom-up approach) and the emphasis on a decentralized structure. The latter concerns the involvement as key players of regional SME support services to be supplied by existing networks of Service Providers in the regions, in close collaboration with local governments and efficiently supported by government and donors via the new SME Agency "SBA" created in July 2003.

The Ministry, once these structures have been created, will only be concerned by policy matters, for which task it will get inputs from the SBDA, that will get constant information from the basis via regional service providers and SME associations. Channelling information to government and funds on the basis of sub-contracting arrangements (from donors and government) to the service providers, together with quality control of these services should be the Agency's main but essential tasks, of vital importance for quality support to the SME sector. It will also contribute – with the Ministry's SME department – in improving the legal framework, as well as supervising surveys and other global activities, of interest to the SME-s as a whole. Although setting up, operating and developing businesses results from the creativity, drive & commitment of individuals, government can be a major enabling / constraining influence. Government policies and action can influence both the number of private enterprises and their qualitative characteristics and thus their contribution to economic and social development.

Strengthening Regional Service Providers Networks could be an important way to improve SME support

This essential function should be carried out on the basis of a detailed needs assessment of the present potential of Regional Service Providers Networks. It should be done in close collaboration with the NCRDA-s and the Union of CCI-s, via successive field trips to observe and discuss present operational potentials and needs. It should result in concrete recommendations and costing of certain priority support activities deemed essential for upgrading the existing system to provide quality services as well as to cover the whole of Albania.

Potentials and needs may vary from one region/local institution to the other. In some case it may be a matter of providing a certain RDA with better office/communication equipment or transport, in other cases (e.g. for selected CCI-s) providing special training on SME support matters to selected staff members etc. It may also include the establishment of one or two more RDA-s in certain mountain areas that because of long distances/logistic problems cannot be served by the present RDA-s, which nominally should cover those areas too. This needs assessment survey should prioritise the needs and provide adequate justification and costing on the basis of a case-by-case analysis. Once government would have a clear picture of the overall needs situation it may want to request specific assistance in that respect from certain donors, some of whom already made suggestions in this field themselves.