

SMALL MEDIUM ENTERPRISES, THE AXLE OF THE ECONOMY OF THE OPEN STATES TOWARDS THE PRIVATE DEVELOPMENT

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Abstract

The development of the private sector is essential in the safety of the continuity of the economical increase. Naturally, since the major part of the private sector is composed of small and medium enterprises, it is understandable that the multidimensional support of their development is in the center of the philosophy of the development of this sector. The development of the small and medium enterprises is primary element in the creation of a stable economic development, reduction of poverty and the softening of social problems, bringing a more equal distribution of the income and an increase of the employment. Valuing maximally the importance of the small and medium enterprises in the economic and social development of the state, this operation tries somehow to explain the difficult conditions that the small and medium enterprises are facing in financing of their businesses and the supportive politics of the Albanian government in order to help this sector. During this operation, we will be introduced with the difficult conditions in which the private sector was "born" and it's big part in economy. Below, the operation introduces us with entrepreneurs' problems on their way, in the financial view. In the future will do research on the labor market of the small and medium enterprises.

Keywords: SME, business, development, market, private, Albania

INTRODUCTION

The development of SME

The development of SME and their contribution in the long-term economic stability depends on their size and structure that in conditions of well-developed markets, allows them to have flexibility and abilities to adjust in conditions of a severe competition (Acs, Z. J., Audretsch, D. B.

1993). SME are more flexible compared with the biggest enterprises and as a result, have lower capital cost regarding with the creation of job places. Therefore, SME play an important role in the economic development and employment. The modern economies operate like a complex network of enterprises in which the competitive position of an enterprise partly depends in the efficiency of their supplier (Kolodko, G.,W., 2000). For this reason, SME competition affects the competitive position of economy in general.

In addition, SME improve the efficiency of internal markets and use the human and financial sources in a more effective way. Since the high costs of transaction are one of the most important barriers of their development, their reduction is going to urge the expansion of SME and especially, is going to encourage the microenterprises to expend. In this context, for the advantages they represent against the big enterprises, their development and performance, in the framework of markets' opening constitutes a real challenge (Tora I. G, 2009). In economic literature of developed countries, are picked out some factors of the contribution of small and medium enterprises in the market economy (Kaser, M., 2001):

- It is the backbone of the market economy
- It produces for the internal market
- It affects the employment increase
- It brings economic flexibility
- SME are the most dynamic enterprises

In most of the European countries, businesses with less than 50 employees constitute 90-99% of the general number of registered businesses (Sturm, R., Muller, M.M. and Dieringer, J. 2000) (they are businesses of microenterprises and enterprises). Indications in the increase of SME mostly come from the increase in heft of the sector of service, sector of construction and information technology. According of Bitzenis, A. and Nito, E. 2005 the increase of the number of small businesses inside an industry affects the economic development through the channels:

- a) Increase of competitiveness, which improves the economic performance
- b) Novelty and improved products/services
- c) Increase of the percentage of small enterprises in the market.

Problems that Albanian entrepreneurs encounter (Shahu, A. and Liperi, O. 2003):

- a) A considered activity is developed from SME, but the Albanian entrepreneurs have their own capital as a financial source, when they create new enterprises and as it is also noticed above are more focused on the trade and service sector, not expanding in the agricultural, farming, or industrial production,

- b) SME start up as small and continue their activity like this or in the worst case, they bankrupt,
- c) The stability and expansion of SME especially in the sector of productions is difficult because there are found a lot of barriers such as: the credit sources, the insufficient qualifications, employees' level of training, the bad technical state of machineries and equipment, legal limitations, bad infrastructure, etc.
- d) It is noticed the lack of big financial sources for credit in some localities of the country from the banking institutions
- e) The small level of the quality of management inside the company
- f) The small participation of women and minorities in business
- g) Absence in the best coordination of work between public and private institutions,
- h) Unstable, legal framework and misapplication of administrative principles and laws.

THE NEEDS AND DEFICIENCIES IN THE AREA OF SUPPORT IN ALBANIA FOR SME

SME are an important sector in the economy of Albania. Most of these enterprises lack the required abilities of management for an effective performance in the managing system. Consequently, they have deficiency in monitoring, analyzing and introduction of changes in the process of business, renovation of technology, identifying the new tendencies of the buyers behavior, which could touch the position of the products or their service, enabling a continuous improvement on quality and efficiency of production, etc. To conclude, enterprises are not able to have the ability to treat the affairs of the competing abilities and globalization in an appropriate manner, or to profit from arising opportunities (Paul Wymenga, Dr Viera Spanikova, Dr James Derbyshire, A. Barker 2011). Many SME are reluctant to pay for services offered from the local operators, such as management or technical support for the reinforcement of the capacity of their organization. The cause of this is the lack of trust in the quality if their service, often done by planned trainers-consultant, poor modules of training, sporadic verbal advice, all these minimize the trust of the operators which offer consulting in the community of business. Furthermore, the lack of trust for businesses in an measured impact and a profit from such technical help, often supported in the donations benevolence against the operator if these services, which have some capacity, but lacking in ability of technical and industrial specifics required (Nicolescu, Ovidiu, Nicolescu, Ciprian 2008), as well as the lack of the involvement and representation evolution of the reality of clients. Such services often do not fully identify the special needs of the business to learn. Hence, they fail the development or adapting to reachable training for a specific audience, leaving aside the demonstration of the value of the

service offered, the direct measurement of the impact of their advise and- or the raise of a long term interaction with the client while having their supporting. The market of consulting, being more centered on donators rather than orientated at their business clients, it does not offer the necessary challenges for his operators of services, to add in a continuous way their professional abilities and to show their competing advantages on the market. Sporadic training of the trainees and other non-coordinating programs for the improvement of their abilities for the operators of the business offering services, without integrated commitment based on a system of requires knowledge, do not give a stable and measured impact of the abilities of trainees and consultants (Roman, Angela 2010).

CHARACTERISTICS OF SME FOR ALBANIA

Stability of the economic growth can not be secured without a continuous stability of the macroeconomics indicators, can not be secured without the development of the private sector where priority would be the development of micro business, small and medium. All these correspond with the need of increased productivity and competitiveness of the economy of Albania, improvement of image of the country and the improvement of the business nature to grow the activity of the country for foreign investments, clear politics for the development of the private sector, further development of the economy of the country which is lawfully based on the process of integrity of the country. According of Strauss-Kahn D. (2009) the factors which develop suitable grounds for informalities which are: 1- overpower, 2- hidden negotiations, 3- subjective interpretations

1. **Overpower** ids one of the illnesses that needs to be resolved quickly in the offices of Albania. There is a need to know well the code of behavior and to define clearly all the duties of the clerks. A person who has a high position in administration should not have the opportunity to make arbitrary decisions.
2. **Hidden negotiations** is another factor that makes the essence of overpower. The clerks of the taxes have the opportunity to create "hidden negotiations" with the subjects they control. If this happens them misinformation starts and favoring some parties comes to life. It is worth mentioning that in this direction some things are moving in the right direction.
3. **Subjective interpretations** is one of the most debated cases, which is expected to be lighten up with the application of the SKK. In it is clearly set out how the evidence is found, how is valued and how is shown on financial accounts. This means that everything is made standard, in contrary is self-made, which leads the optional events that could happen in reality.

4. **The growth of transparency-** transparent information is one of the main conditions for business. Data and information is like the main food for business and if it misses we will not have a healthy business. An information served in a transparent way will help the business itself and its development in the future, will have more investors that will show interest towards them. A similar thing is being recognized in our country with the foreign investors, because of the information not much transparent that exists, their investments are relatively low or are missing in many areas.
5. **The growth of control-** The control in the business section is very difficult especially in the conditions that Albania has where the infrastructure of checking taxes physically is missing. It is impossible to check thousands of businesses especially now that small businesses are added to the taxes scheme. With the continuous improvement that are being done to the economic legislation and infrastructure of the taxes in Albania.
6. **The application of SKK and SNK-** The adaption that businesses need to show the financial statements and paperwork, the adoption with the national and international changes.
7. **Political factors** – The biggest freedom in business is when the hand of the government is not noticed, but the majority of changes in the economic legislation, often to fulfill interests of certain groups, has made for this freedom not to be felt and businesses to be under the affect of politics.

Its own financial resources

Financing with their own resources as is shown above makes the vast part of the finance for businesses in our country (Gramoz, P. 1993):

- **Reinvestments of the profit**, its normal the initial recourse to make up the investment for the growth of the enterprise to be the periodical profit. Reinvestments of the profit is a very important resource for the funds of the enterprises in Albania bearing in mind the fact that the level of financing from the other sources has been in low levels.
- **A part of its own capital is made of remittances from emigrants** out of the country.
- **A part of its own capital for the business**, for the sake of the truth must be admitted, is financed by the illegal funds of the owner who invests them, to be classified as an illegal business. There is no official data for such things but when you think that some part of the money circulate outside the bank accounts and that almost half of the economy is informal leads to assume that the income is illegal.

Informal loans

For the small business it often happens that one of the forms of investment is the informal loans, which means that they borrow money without the financial lawful institutions. These loans are borrowed in general from unknown people. This way of financing having known that is easier to be taken makes it an important source to finance the investments especially for rural or new enterprises (Khrystyna Kushnir, Melina Laura Mirmulstein, Rita Ramalho., 2010).

Although the economy has a growing tendency towards being lawful, it could be said that securing the funds usury still exists. Being that not all businesses can secure funds from financial intermediates raises the need of using this kind of investment. Today through this method of business makes up 5 per cent of their need for funds.

Investors

This mean of financing is more used in the construction sector. More than 2 per cent of the funds of all businesses are secured through the investors (Hasset, Kevin A. 2008). This percentage is higher for the construction sector. Investors are those who offer considerable funds who do not ask for certain interest of the yearly profit, but for a percentage of the total profit from the whole project independently when it finishes. This reduces the economic burden for the construction companies.

Trade credit and financing from customers

Trade credit has to do with the delayed payments of the businesses for the goods and services that they buy from their furnishers. This means of financing is quite spread in the businesses in Albania. Are known the phenomenon of delayed payments (Acharya, Viral, V.And Ouarda Merrouche,2010). This has created a big credits volume in the country that creates options to hide enterprises who have financial difficulties or are close to bankrupt. It should not left untouched the fact that enterprises that miss liquidity trade credit is one of the efficient means of financing. Seen in this viewpoint of the people who finance, we could say that exist the possibility of not paying the debt.

Financing from the clients is also an important source that secures funds for the business in Albania. A typical way are the construction companies which through the late payment finance their growth. So a part of the price of an apartment or a shop is given initially and in another later time the client becomes the owner. Actually a lot of companies finance a considerable amount of the construction projects with funds secured from the clients paying upfront.

Klering (exchange)

Exchange is a trading method almost legal and it does not cause problems unless every action is done according to the agreement (it has to do exchanging goods with goods). The sector that uses it the most this means of financing is that of construction but this is a known mean for other sectors such as farming services etc. so the owner of the land give the land in exchange for a certain area given for construction. So a land owner gets 25 - 33 per cent of the area of construction that will be built in his-her land. This is a means of financing for the construction firms which have to find funds for the purchase of the land. It's a financing after the lands is taken in beforehand while the compensation happens at the end when the construction of the building has finished. Apart from the construction sector financing through exchange is noticed in other sectors. So, often companies in order to buy assets like cars, letter, payment for printing etc exchange it with the service of advertising.

THE ROLE OF THE INTERMEDIATE IN FINANCING GROWTH OF BUSINESSES

The credit in economy has marked a growth this year was characterized from the global economic crisis. According to the report of the bank of the world, Doing business 2010, Albania is ranked the fifteenth in the world for an improvement in securing loans. The loan given from banks or other institutions covers over 13 per cent of the need of businesses to finance the growth. Lacking an active exchange of securities has orientated the businesses towards other forms of financing. In Albania the role of the banks and micro-credit institutions like creditors of the enterprises has began to show affect after 1999, when the liberalization of the systems of the bank began. At the moment in Albania 3 official levels for financing businesses function

- 1. Micro-credit**
- 2. International Financial Organizations**
- 3. Loans from Banks**

The institutions of micro-credit

Microcredit can be considered like a pre-financing for AME (Admati, A, DeMarzo, P, Hellwig M, and Pfleiderer P. 2010). The level of finance from these institutions, have had an obvious increase especially the recent years. The number of the businesses that require loans from these institutions is growing. The aim of these funds is to develop the private sector in Albania and to secure finances for the SME that function in Albania. These funds are lead more from the big and medium enterprises. These services include loans, saving, tax paid to the government and remittances.

Microcredit's are given for a wide range of purposes and more for the development of small firms. The micro financial services compared with the financial services in general are low financial services.

CONCLUSIVE REMARKS & RECOMANDATIONS

- Albania has advanced a lot in the free competition so it has had a positive effect for SME even though in crises liquidity continuous to consolidate and to move forward successfully.
- Microeconomic development in Albania has had a positive effect in the business climate.
- SME having been close to the populated areas shows that growth of the population and its needs raise clearly the effect of SME
- It exists a contradiction connected to the development of SME in Albania. This contradiction is based on the fact that a considerable activity is done by the SME and the people who donate, but Albanian enterprises are supported on their capital and invest mainly in the trade, where it is easier to lead a business. Most start their activity like small firms and continue the same or fail.
- The reduction of the budget deficit during recent years has substantially improved the credit of private sector of the economy with a straight forward effect on the development of SME.
- The bank views the SME like an attractive segment with a successful future they offer not only credit but also financial advice.
- Loans from the bank are more orientated from the big businesses rather than SME, there exist big differences between the interest rate of a loan that banks give to medium business and SME this is a cause of this sixe.
- Banks have created special departments for SME, sale of financial products is decentralized in their branches, but loan decisions, management of risk, and some other functions that cover loan are still centralized.
- It should be continued to maintain microeconomic security and new reforms to be developed from the government in support of the small and medium business.
- New politics should be raised for the support of the SME sector in Albania for the importance this sector has in Albania.
- The politics about the SME must have an effect in a stable development in the region.
- Detailed analyses should be done to see the flow of the obstacles for investments for SME

- Information to be secured in details for the difficulties that encounter SME for fiscal legislation and informal trade.
- The bank of Albania must take indirect politics to help financing the SME sector.
- Financing from the banks not to be concentrated only in one part of the SME, like the one of the services of the trade, but to offer credit for the agriculture and livestock sector.

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