



## The Role of Smes in the Economies of the Western Balkans: The Case of Albania

Rexhina Alite<sup>1</sup>

Lindita Milo<sup>2</sup>

Gerald Ceka<sup>1</sup>

<sup>1</sup>Aleksandër Moisiu University Durrës,  
Albania

<sup>2</sup>Universiteti Mesdhetar i Tiranës,  
Albania

Received: 25 December 2023 / Accepted: 25 February 2024 / Published: 23 April 2024  
© 2024 Alite et al.

Doi: 10.56345/ijrdv11n1s139

### Abstract

*The purpose of this paper is to provide a clear picture of SMEs in the economies of the Western Balkans, the case of Albania, the new challenges and opportunities they face in each period. Administrative bureaucracies that hinder or delay procedures from the opening and development of SMEs and changes in policy-making to always come to the aid of new entrepreneurs. What has been the progress of the private sector in the region and Albania. The areas in which the latter encounter more problems and what policies should be drawn up to help the superiors. The contribution made by SMEs in the economy of our country and the comparison with the countries of the region.*

**Keywords:** SMEs; SMEs; Economic Reforms, Slow Progress; Government Strategy; Employment; Added value; Export; PPB

### 1. Introduction

Since the beginning of the 2000s, the countries of the Western Balkans have implemented the most radical economic and institutional reforms. So-called first-generation reforms, including price liberalization, trade reforms and the foreign exchange system, small-scale (and some large-scale) privatization and initial banking reforms have been implemented rapidly, contributing to the liberalization of overall economic activities and the gradual expansion of the private sector. Widespread privatization of enterprises has gradually changed the ownership structure of Western Balkan economies that was previously dominated by state ownership or society, realizing their sale to foreign investors mainly from EU countries. The growth of the private sector in the economy of the Western Balkans led to the creation of micro, small and medium enterprises (SMEs).

Privatization, however, has not always led to deep enterprise restructuring and improved governance, as new owners (other than foreign investors) often lacked the resources, skills, and vision to successfully modernize firms. The private sector has also developed thanks to the liberalization of regulations for entry entrepreneurship, facilitating the establishment of many new privately owned firms. The growth of the private sector in the economy of the Western Balkans led to the creation of micro, small and medium enterprises (SMEs).

Privatization, however, has not always led to deep enterprise restructuring and improved governance, as new owners (other than foreign investors) often lacked the resources, skills, and vision to successfully modernize firms. The

private sector has also developed thanks to the liberalization of regulations for entry entrepreneurship, facilitating the establishment of many new privately owned firms. The growth of the private sector in the economy of the Western Balkans led to the creation of micro, small and medium enterprises (SMEs).

By 2008, the Western Balkans had completed some of the most important economic and institutional reforms of the transition to a market economy, reported by the EBRD transition indicators. Progress has been slower in areas such as privatization rates, enterprise restructuring, competition policies, securities markets, non-bank financial institutions and infrastructure reforms (see EBRD, 2008, p. 4).

SMEs have played a particularly important role during the transition to the market economy in Eastern Europe. From the beginning, the creation of SMEs and their growth has been an essential component in the transition process throughout the region. During the transition, entire economies that had been state-owned for decades, often composed of very large firms, had to be transformed into privately owned market economies based primarily on SMEs. Radical changes in the property regime would be realized through the privatization of state or social enterprises through the creation of new ones, usually of small dimensions (Uvalic, 2003). Privatization of existing enterprises led to mass sales or transfers of properties to new private owners, sometimes to foreign companies, but the private sector has also expanded with the creation of new private firms, most often SMEs.

The process of entry of new firms was facilitated by the liberalization of economic activities and the easing of regulations regarding the establishment of the firm. In this way, SMEs were able to contribute substantially to the development of the private sector which leads to more dynamic and competitive economies.

in the Western Balkans, SMEs have been recognized as the main engine of economic growth and recovery. However, the Western Balkans region exhibits some distinctive features. First, these processes occurred later in the Western Balkans, since privatization, liberalization and deregulation, as key areas of reform for economic restructuring and private sector expansion, were implemented more vigorously mainly after 2000. Second, delays in the implementation of economic reforms have brought structural problems in the economies of the Western Balkans, such as those in the labor market, the persistence of unemployment, income inequality, problems of brain drain and brain loss resulting from skill gaps (Bartlett et al.2016). Third, the current industrial structure in some Western Balkan economies is still biased in favor of large economies, sometimes state-owned and partially privatized enterprises continue to make a significant contribution to the share of value added and exports. Although all countries have established anti-trust agencies, the weak enforcement of competition policy has prevented the entry of new private firms in various economic sectors of the country. These are among the problems that have contributed to the relatively slow expansion of the private sector in most countries, with many adverse consequences: slow productivity growth, limited technological improvement, insufficient innovation. Considering these features of the economies of the Western Balkans, the process of creation and expansion of SMEs has been even more important in this region than in that of Central Eastern Europe. Especially today, given the large development gap that exists between the Western Balkans and the EU's GDP of 27 per capita, the SME sector can play a decisive role in the economy of the region and the achievement of the most developed countries in the European Union.

The European Union (EU) undertook a program to develop a standardized definition for use by SMEs across the EU group of countries. This was first issued in 2003 and is outlined in Table 1. This has been adopted by the OECD in their definition of small firms (OECD, 2004, 2010a).

**Table 1.** Definition of SMEs according to OECD and EU

	Employees	Annual Turnover	Assets
Micro-enterprise	1–9	<€2 million	<€2 million
Small enterprise	10–49	<€10 million	<€10 million
Medium-sized enterprise	50–249	<€50 million	<€43 million
Large enterprise	>250	>€50 million	>€43 million

Source: OECD (2004)

SMEs play an important role in the economies of the Western Balkan countries which:

- Make up 99% of all firms
- They generate 60% of the added value

- Makes up almost 3/4 of employment

Albania is a country with a growing economy. During the transition period, it faced a series of transformations referring to production trends. But, in recent years, the trend of production and economy seems to have started to take a more stable line. But, despite this, we still remain a country that progressively increases the number of small and medium-sized businesses over the years. Currently, 99% of Albanian businesses are SMEs.

According to INSTAT, SMEs in Albania consist of:

- 99.8% of active enterprises are SMEs
- 81.6% of employees are employed in SMEs
- 79.0% of net sales are made by SMEs
- 76.4% of investments are made by SMEs
- 76.1% of the added value is realized by SMEs
- 2.6% of SMEs are exporters of goods

### 1.1 *The main objectives of the paper are:*

1. The study of the reforms undertaken so far for the development of SMEs in the region and Albania and how much they have influenced the progress of the expansion of SMEs.
2. The areas in which SMEs face more problems, which are the concrete problems that have influenced the slow progress of the private sector.
3. The policies that the government should draw up to overcome these problems and ensure a safe environment for a sustainable development of SMEs.
4. Strategies that should be built in such a way that SMEs give the maximum contribution to the development of the economy.

### 1.2 *The research questions can be identified as follows:*

1. Why are SMEs important in the economy of Albania?
2. What are the positive aspects of the creation and growth of SMEs in economic development?
3. How does the business environment in Albania affect the creation of new SMEs?
4. What are the obstacles faced by SMEs during the operation of their business?

## 2. Literature Review

Small and medium-sized enterprise ownership means a greater emphasis placed on: standing alone; operating with limited resources; high levels of uncertainty; high levels of external dependence; facing 'total' responsibility; being closer to the customer; managing a wider range of tasks; greater space for individual dominance; greater individual responsibility and a wide scope for change and flexibility; managing networks with suppliers, customers, accountants, lawyers, bankers, etc.; cultures not systems unite business; continuous strategic awareness, but little strategic planning process form.

It is important for professional advisors and those seeking to help small business owners to be able to identify vulnerable firms and identify the root causes of failure of start-up firms. Vulnerable small businesses are usually found to have some or all of the following characteristics: Low profit margins; External competition; Price sensitive markets; Local markets; Low salary; Poor management.

SMEs are a vital part of thriving business environments and essential drivers of a sustainable and inclusive economy. According to the latest data reported by OECD 2023 (ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT), in the Western Balkans, SMEs make up 99% of all firms, generate about 60% of added value and account for almost three quarters of employment. Given the important economic role of SMEs in the Western Balkans, the EU intervened quickly in the wake of COVID-19 by taking numerous support measures that were important in preventing businesses from going bankrupt and avoiding a long-term economic recession. Meanwhile, EU-funded support packages eased SMEs' access to finance, preventing a massive wave of job losses. However, as recovery from the pandemic remains ongoing, governments in the region are once again being called upon to provide support as the negative effects of the war in Ukraine ripple through SMEs across the region.

Since 2019, green financial incentives available to SMEs have multiplied, albeit unevenly across the region. During

the same period, the regional average share of SMEs offering green products or services increased by 5 percentage points, to 25%; approaching the EU average of 32%. Most SMEs accepted at least one action to become more resource efficient, often by minimizing waste or saving energy or water.

While the role of green funds in supporting the greening efforts of SMEs has increased, through dedicated programs and lines of credit, they remain dependent on external financial support. Environmental aspects have rarely been included in recovery programs after COVID-19, indicating a missed opportunity to improve the greenness of SMEs. Here local governments should design programs and policies that support SMEs in improving business performance by realizing efficiency gains and cost reductions by greening their products, services and processes. This is a new challenge for SMEs in the Western Balkans and can be a very good strategy to benefit from new green markets, such as the circular economy, which can create new business opportunities for SMEs in region and Albania.

As SMEs are receiving more support to help increase exports and move into higher value-added activities, a more systematic approach is needed. With almost 60% of the region's exports directed to the EU, all Western Balkan governments are working to adopt EU standards and harmonize technical regulations, with 94% compliance, 3 percentage points more than from 2019. They prioritize the efforts of SMEs to increase their export volume and improve their complexity and sophistication. Governments should create strategies to increase SME participation in global value chains by fostering SME linkages with multinational enterprises. The support provided often takes the form of educational and training activities rather than being integrated into a wider systemic approach. Here governments can help through trade fairs, export assistance, links to global supply chains and the maintenance of "best practices" and quality assurance.

Another important challenge to be overcome is the improvement of the business environment to provide opportunities for self-employment and start-ups. The region faces high levels of long-term unemployment and unemployed and uneducated youth, women and low-skilled workers. The average youth unemployment rate in the region is 34%, double the EU-27 level (17%) in 2020. Governments should improve the business environment to promote employment, supporting learning skills, entrepreneurial skills of women ; reducing the administrative burden; strengthening innovation efforts and introducing legislation to support venture capital-friendly ecosystems. Business development services that provide SME owner-managers with advice, training and support are also important.

In 2021, after the easing of COVID-19 control measures, the Western Balkans had recorded stable economic performance, supported by strong external and internal demand. GDP in the Western Balkans expanded by 7.6%, boosting employment growth and narrowing the current account deficit. The current account deficit in the Western Balkans stood at 4.8% of GDP in 2021, the lowest level in the last ten years. The average employment growth rate was 1.2%, compared to a decline of 1.5% in 2020 (European Commission, 2022[4]). Domestic demand has been continuously supported by strong credit growth and easing by expansionary monetary policy despite high inflation. Employment has recovered to pre-pandemic levels, helped by the return of economic activities (OECD, 2022[5]).

The recovery from COVID-19 was interrupted by another shock caused by Russian aggression against Ukraine. The economies of the Western Balkans are particularly vulnerable to the economic impact of war due to their relatively small size and dependence on imports. Rising commodity prices will squeeze family budgets by reducing consumption. Amid the uncertain global economic outlook, investments, capital flows in the region are expected to decrease in the short term. Trade disruptions will negatively impact business activity, particularly in sectors more closely integrated into global value chains. All these factors will create pressure on the economic development of the region.

SMEs remain dominant in the region even though the problems and obstacles are constant. In 2020 SMEs accounted for 99.7% of all enterprises in the WBT region with micro-enterprises making up the vast majority (90.1%). Montenegro has the largest number of SMEs per inhabitant, followed by Serbia (Table 2). The SME landscape in Montenegro is dominated by a large number of micro-enterprises in services, commensurate with the large contribution of the tourism sector to the economy.

**Table 2.** Number of SMEs per 1000 inhabitants in the Western Balkans and Turkey (2017 and 2020)

SMEs per 1 000 inhabitants	ALB <sup>1</sup>	BiH <sup>1</sup>	KOS	MKD	MNE	SRB	TUR	WBT average
2017	15.4	8.5	20.3	26.5	48.8	50.9	38.3	29.8
2020	17.3	9.7	23.9	27.8	59.9	58.4	39.1	33.7
% change	12.3%	14.1%	17.7%	4.9%	22.8%	14.7%	2.1%	13.1%

**Source:** Statistical offices of six Western Balkan economies and Turkey.

The data for Albania and Bosnia-Herzegovina are from 2019. For Albania, only SMEs operating in the Statistical Classification of the Economy Activities in the European Community (NACE) Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 and entrepreneurs to ensure comparability with the results of the last assessment. Due to the lack of data at the state level, data for Bosnia and Herzegovina have been calculated by aggregating data from the Federation of Bosnia and Herzegovina and Republika Srpska. The WBT average is a simple average of the seven economies' number of SMEs per 1,000 inhabitants.

The contributions of SMEs to employment and value added vary widely between economies, with 18.5 percentage points and 24.2 percentage points respectively. SMEs in Bosnia and Herzegovina contribute the least to overall business employment, with about 63.1% of total business employment. This testifies to the excessive presence of large state-owned enterprises, which employ approximately 80,000 people and account for approximately 11% of national employment in Bosnia and Herzegovina. In contrast, Albania's SMEs account for 81.6% of the economy's total employment in business. On average, an Albanian SME, excluding entrepreneurs, employs 5.5 people, the highest in the WBT region, which raises concerns about SME productivity.

The share of exports of SMEs in the WBT region suffered a sharp decline of 8.4% during the period of the COVID-19 pandemic, indicating the difficulties of SMEs in exporting goods. This is partly expected, as there is an above-average representation of SMEs in the sectors most affected by the COVID-19 crisis (e.g. manufacturing, wholesale and retail trade), while SMEs in the most affected sectors have relatively more likely to export than larger firms (OECD, 2020[7]).

In the Western Balkans, the limited adoption of digital technologies by SMEs may have hindered their capacity to diversify export markets.

Across the region, the only exception is Albania, where SMEs have increased their export share by 4.5%. Large apparel and footwear exports, mainly from SMEs, have remained relatively resilient during the pandemic, potentially benefiting from supply chain disruptions in Asia. Moreover, of all WBT economies, Albanian SMEs enjoyed the highest share of exports, with 64% in 2020.

Another challenge faced by SME owners-managers is the digitization of their business. Technology offers small business owners an opportunity to improve their firm's production activity, expand its marketing reach, and significantly improve the level of control they have over information and communications within the company. But SMEs generally lag behind larger firms in adopting and using digital technologies such as ICT. This is due to a number of factors including cost, perceived usability and the overall capacity of the small business owner-manager to understand the complexity of the technology and how to implement it. The need for SMEs to embrace technology is recognized by governments, who also understand that failure to adopt digital and online technologies can put many firms at risk. For this reason, governments should design supporting policies that include the promotion of an entrepreneurial culture, for example through courses, information and publicity, start-ups, as well as a range of government policy areas related to science, research and development support (R&D Research and Development), the creation of scientific or technological parks.

### 3. Research Methodology and Instruments Used

The objective of this work is to review the literature to see the problems and obstacles that SMEs face every day, the areas in which owner-managers have more difficulties and the policies that should be drawn up by governments, making it possible to successfully overcome each stage during the growth cycle of SMEs.

To achieve this objective, two approaches were considered: systematic review and narrative review.

We collected publications from different foreign authors and checked them for duplicates, producing a preliminary selection of papers. We then studied the initial selection by manually reviewing the titles and abstracts to align with the main topic, the role of SMEs in developing economies in the Western Balkans, the case of Albania.

After checking the compatibility of the content, the final selection was made with those publications where the economic system resembles the economies of developing countries.

Depending on the findings of the studies, we highlighted and examined the main problems and the supporting policies that should be undertaken.

#### **4. Findings and Results**

Referring to the results from the literature review regarding the main obstacles and problems facing SMEs and their role in developing economies, we provide a clearer picture of the environment in which SMEs develop. We also draw the results related to the regulatory policies of government authorities and the measures that SMEs should take for the efficient adaptation of these policies.

#### **5. Conclusions**

At the end of this economic report for the countries of the Western Balkans, we can say that with all the institutional and economic reforms undertaken, the progress of the development of the private sector in the region has been slow.

The need to increase support for SMEs in digitization and to facilitate their green transition remains to be studied.

A collaborative approach to the design of measures is needed, and their support programs need to be strengthened, in order to ensure that such measures take into account and address the most urgent needs of SMEs.

#### **References**

- Tim Mazzarol, Sophie Reboud *small-business-management-theory-and-practice-.pdf*  
SME Policy Index in Western Balkans and Turkey 2022 SME in Balcan OECD 2022.pdf  
Prospective analysis of the SME sector in the Western Balkans SME BALKAN RAPORT FINAL.pdf  
INSTAT 2021.pdf  
file:///C:/Users/HP/Downloads/Small\_and\_Medium\_Enterprises\_Facing\_Inst.pdf  
<https://journals.uniurb.it/index.php/piccola/article/view/2712/2428>  
[https://www.academia.edu/9956216/Institutional\\_Barriers\\_to\\_Small\\_and\\_Medium\\_Sized\\_Enterprise\\_Operations\\_in\\_Transition\\_Countries?email\\_work\\_card=reading-history](https://www.academia.edu/9956216/Institutional_Barriers_to_Small_and_Medium_Sized_Enterprise_Operations_in_Transition_Countries?email_work_card=reading-history)  
[https://www.academia.edu/1088779/Entrepreneurship\\_and\\_small\\_businesses\\_in\\_Russia\\_A\\_review\\_of\\_empirical\\_research](https://www.academia.edu/1088779/Entrepreneurship_and_small_businesses_in_Russia_A_review_of_empirical_research)  
[https://www.academia.edu/74607381/Exploring\\_the\\_associations\\_between\\_institutional\\_constraints\\_and\\_entrepreneur\\_s\\_perception\\_in\\_future\\_business\\_climate](https://www.academia.edu/74607381/Exploring_the_associations_between_institutional_constraints_and_entrepreneur_s_perception_in_future_business_climate)  
[https://www.academia.edu/74607404/How\\_Optimistic\\_Are\\_Entrepreneurs\\_Concerning\\_Institutional\\_Constraints\\_Evidence\\_from\\_a\\_Balkan\\_Country](https://www.academia.edu/74607404/How_Optimistic_Are_Entrepreneurs_Concerning_Institutional_Constraints_Evidence_from_a_Balkan_Country)  
[https://www.academia.edu/42890910/Defining\\_censuring\\_and\\_resolving\\_the\\_EBRD\\_collective\\_organic\\_intellectuals\\_and\\_the\\_global\\_financial\\_crisis\\_in\\_Eastern\\_Central\\_Europe](https://www.academia.edu/42890910/Defining_censuring_and_resolving_the_EBRD_collective_organic_intellectuals_and_the_global_financial_crisis_in_Eastern_Central_Europe)  
<https://www.oecd.org/corporate/ca/corporategovernanceprinciples/31557724.pdf>  
<https://op.europa.eu/webpub/com/general-report-2022/en/>  
[https://www.oecd-ilibrary.org/search?value1=balkan&option1=quicksearch&facetOptions=51&facetNames=pub\\_igold\\_facet&operator51=AND&option51=pub\\_igold\\_facet&value51=%27igo%2Foecd%27&publisherId=%2Fcontent%2Figo%2Foecd&searchType=quick](https://www.oecd-ilibrary.org/search?value1=balkan&option1=quicksearch&facetOptions=51&facetNames=pub_igold_facet&operator51=AND&option51=pub_igold_facet&value51=%27igo%2Foecd%27&publisherId=%2Fcontent%2Figo%2Foecd&searchType=quick)  
[https://link.springer.com/chapter/10.1007/978-3-031-06112-7\\_15](https://link.springer.com/chapter/10.1007/978-3-031-06112-7_15)