



SME in Albania: A Descriptive Analyses of Business Environment Based on SME Policy Index

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Abstract

Micro, small and medium enterprises make an important contribution to the economic development of Albania. Due to globalization and EU integration process, business environment in our country is becoming more and more complex and SMEs have to undertake proper actions in order to compete at national and international markets. Under these circumstances, more attention should be paid to innovation as the main tool to remain competitive in a globalized world. This paper aims to provide a descriptive analysis of SMEs sector in Albania focusing on their contribution to the national economy as well as of the environment where this type of businesses operates. Analysis is based on secondary research and the majority of data used are mostly retrieved SME Policy Index, a benchmark tool designed to assess policies that support small and medium-sized enterprises (SMEs) in emerging economies and monitor progress in policy implementation over time. Over the last years, significant progress is made toward the establishment of the proper business environment for SMEs in Albania Government policies and initiatives seem to have produced concrete results with regard to some specific indicators institutional and regulatory framework for SME policy making; operational environment for SMEs; public procurement; standards and technical regulations; and internationalisation of SMEs

Keywords: SMEs, business environment, policy index

1. Introduction

SMEs plays an important role in global economy as their role in economic development is already recognized. According to Bayraktar & Algan, 2019, there are two types of SMEs: the small traditional enterprises that make goods inherited from past generations and the modern enterprises which use high technology, search of new markets to maximize their efficiency. The success of an economy depends on number and dynamic of SMEs. SMEs serve as a source of entrepreneur skills, innovation and employment also they stimulate competition for prices, product design and efficiency. SMEs also help big enterprises such as supplying raw materials and parts and distributing products made by them.

1.1 SMEs definition

There are several definitions on SMEs from International Institutions based on the economic size of countries. Different countries define SMEs differently. However, number of employees and turnover seems to be main factors determining SMEs. Small and medium-sized enterprises (SMEs) are well defined in the European Union (EU) recommendation 2003/361. According to the European Union the category of micro, small and medium-sized enterprises is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro¹. Small and medium enterprises are thus defined as firms with 10 to 250 employees, and more than 10-million-euro turnover or annual balance sheet total. (Table 1).

Albania is an EU candidate country from 2014. In its way to EU integration Albania revised the Law on SMEs, in order to bring the SME definition closer to EU standards. According to this law (article 4): "Micro, small and medium enterprises (SMEs) includes those entities which employ fewer than 250 people and have an annual turnover that does not exceed 250 million Albanian Lek (ALL) (approx. 2,500,000 Euro). Small enterprises are those entities which employ less than 50 persons and have an annual turnover that does not exceed 50 million ALL (approx. 500,000 Euro). Micro enterprises are entities which employ less than 10 persons and have an annual turnover that does not exceed 10 million ALL (approx. 100,000 Euro) (Table 1).

Table 1: SMEs definition in EU and Albania

Company category	EU		Albania	
	Employees	Turnover	Employees	Turnover *
Medium sized	< 250	≤ € 50 m	< 250	≤ 250 ALL m
Small	< 50	≤ € 10 m	< 50	≤ 50 ALL m
Micro	< 10	≤ € 2 m	< 10	≤ 10 ALL m

^{*1} Euro approximately 100 ALL

Differences between small and large firms

There have been many debates about the role of the size of enterprises in the efficiency and effectiveness of the production. SMEs, observing the market closely, understanding the requirements of customers better and having intimate relations with its employee, have more elasticity than the large ones in terms of manufacturing, marketing and service (Schumacher, 1973). According to Xhepa (2006), there is significant difference between small and large firms related to marketing, management and communication and so on. Among advantages of SMEs we can emphasize: i) opportunity to fast reaction to changes, because of single structure, ii) SMEs are the manufacturer of intermediate goods and inputs of large industrial enterprises iii) SMEs reflect small savings and family savings directly to the investments. In this regard the small firms are too important, have a significant impact on creating the future business generation. However, SMEs have also some disadvantages. These are: i) lack of general administration, especially the lack of total participation of low level workers to the decisions taken by the owners or partners, ii) lack of capital and financial planning, not taking enough support from the banks and other financial corporations, iii) lack of product development, iv) lack of coordination between production and sale, not showing the activities of modern marketing, risk of bankruptcy and losing its independency, etc.

2. Methodology

The methodology applied in this paper is the secondary research. Secondary research is often used when the researcher is trying to understand the current landscape as well as when a lot of knowledge on a topic is required from different angles. Since the primary objective is to understand the current situation of SMEs in Albania as well the environment where this type of companies operates the implementation of such a methodology is quite acceptable.

In order to fill gaps in knowledge on SMEs sector in Albania, a set of both qualitative and quantitative data are gathered from external sources such as government and non-government agencies including international ones as well as journal and research sites.

3. Results

3.1 The importance of SME in Albanian economy

During the years of transition, SMEs have played a significant role in the economy. SMEs contribute around 75% to the GDP of the country, 11.3 % of SMEs turnover was exported in 2022, while only 2.6% of SME do export. Medium sized enterprises account for the highest percentage of exports with 18.9% of the turnover. (INSTAT, 2024). SMEs constitute the vast majority of businesses in Albania (99.8%). SMEs include 90 % of employed people, compared to the EU with 65.2%. In 2023, SMEs contribution in value added in Albania reached 78% while in EU countries their contribution was about 53%. Micro-firms are the backbone of the Albanian economy, providing 41 % of employment, and 25% of value added. As for small and medium sized enterprises, contributions to employment and value added are at higher levels than in EU average (Table 2).

Table 2: SMEs related to added value, employment and number (Albania vs. EU)

Class size	Number of enterprises			Number of persons employed			Value added		
	Albania ¹		EU ²	Albania ¹		EU ²	Albania ¹		EU ²
	No.	%	%	No.	%	%	MIn ALL	%	%
Micro	106,132	93.5	93.6	206,598	41.0	30.0	217,221	25.6	19.8
Small	5,842	5.2	5.4	115,007	22.8	19.7	218,460	25.7	16.6
Medium	1,306	1.1	0.8	128,026	25.4	15.5	230,536	27.1	18.2
SMEs	113,279	99.8	99.8	449,631	89.2	65.26	666,206	78.4	53.1
Total	113,460	100	100	503,986	100	100	849,581	100	100

Source: ¹INSTAT, 2024; ²European Commission, 2024

The number of SMEs has increased continuously during last years. In 2022, the number of SME registered was about 14 % higher compared to 2016, while employment and value added increased by nearly 28 % and 50% respectively during the same period.

3.2 Business environment and public private dialogue

The Albanian government has always paid attention to SMEs development a catalyst for rapid increases in domestic production and employment. Strong and dynamic development of private sector is considered a priority of the government since the beginning of economic reforms. The creation of a suitable business environment and the support of the sustainable development of SMEs, are basic conditions for the economic development and the increase of social welfare as an employment source, innovation and productivity. For this reason, Business Development and Investment Strategy 2021-2027 is approved by Albanian Government. It focuses on attracting investment, SMEs and innovation, and human capital development. The Business Development and Investment Strategy (2021-2027) ensures a strong strategic framework for the provision of both public and private support services for SMEs. The Strategy is in line with the principles of the Small Business Act/ SBA. The primary objective of this strategy is to transform Albania to a country that has developed and improved the business climate, an open competitive market, development of industrial SMEs and an attractive investment destination and an inclusive and sustainable growth.

According to the Small Business Act policy findings Albania has made good progress in implementing the Small Business Act (SBA) since the publication of the previous report – the SME Policy Index: Western Balkans and Turkey 2019). The economy continues to provide an environment conducive to business and is receptive to the needs of small and medium-sized enterprises (SMEs). Albania has achieved its highest average scores in the following areas: institutional and regulatory framework for SME policy making; operational environment for SMEs; public procurement; standards and technical regulations; and internationalisation of SMEs, where it also outperforms the Western Balkans and Turkey (WBT) average. (Figure 1).

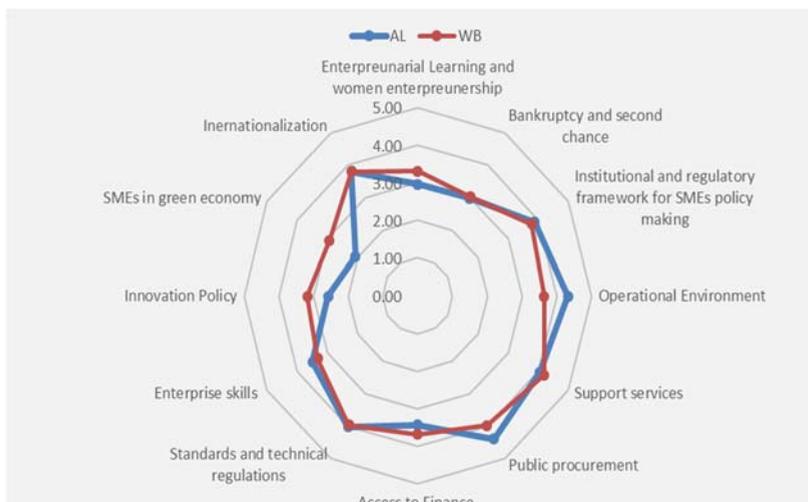


Figure 1: Assessment of SME policy in Albania and Western Balkan
 Source: OSCE, 2024

The government has continued implementing digital reforms under a whole-of-government approach and made progress in both increasing the availability of digital government services and streamlining them to better fit users' needs. Albania is the only WBT economy that has streamlined company registration and licensing under its one-stop-shop (the National Business Centre, NBC) and introduced digital distribution of licensing officials, which speeds up the process, increases transparency and lowers administrative burdens and costs for SMEs. On the other hand, assistance programmes for SMEs are in the process of being redesigned by the Albanian Investment and Development Agency (AIDA).

The new Public Procurement Law (PPL) contains provisions that are, to a very large extent, harmonised with the 2014 EU Directives and the first comprehensive National Public Procurement Strategy (2020-2023), adopted in November 2020, foresees measures and activities aimed at increasing the participation of SMEs in the public procurement market.

With a number of new support programmes implemented, additional advancements are expected regarding SME integration into global value chains. Furthermore, cluster formation and development has steadily been progressing. Through newly introduced programmes and extensive stakeholder consultations (with business associations and academia), the government established a wood cluster to facilitate technology and knowledge transfer within the industry.

4. Conclusions

This analysis underscores the essential role of SMEs in Albania's economic landscape, where they contribute substantially to GDP and employment. Albania has made considerable progress in developing a supportive business environment for SMEs, aligning with EU standards through policy adaptations and the Business Development and Investment Strategy (2021-2027).

Key reforms, such as the National Business Centre, one-stop-shop for company registration and streamlined public procurement practices, have reduced administrative burdens, boosting SME engagement in the market.

In comparison with Western Balkans and Turkey, Albania has excelled in implementing SME policy frameworks, particularly in regulatory support, procurement accessibility, and internationalization efforts.

Continued policy advancements are also driving cluster formation within industries like wood, facilitating technological and knowledge exchange.

As a result, the Albanian government's EU-aligned strategies and focus on fostering innovation position SMEs as critical to sustainable economic growth and deeper integration into global value chains.

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