



Ministry of Economy



SME Development Agency

SME-s in Albania

Annual Report – 2004

Tirana, October 2004



Contributors

SME Development Agency wishes to thank the Raiffeisen Bank of Albania for the financial support, as well as the Centre for Research and Development, Tirana for preparation of this report. The working team wishes to thank Ms. Milva Ekonomi INSTAT Director and Krisafgjia Stefa Director of Business Statistical Survey Department for providing in time data derived from Structural Business Surveys. Two previous SEED's programs on developing the methodology for SME performance indicators contributed also for preparation of this report. Finally, we wish to extend our thanks to Mr. Elinor Bajraktari for his inputs in drafting this Report.

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ISBN

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The bank currently enjoys a return on equity around 60% and has the lowest cost income ratio of any Albanian bank.

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Centre for Research and Development

CRD Tirana is a non-profit organization. The aim of CRD is to undertake deep economic analysis and studies to help public institutions and business community to designate good policies for private sector development. CRD is a corporate member of CIRET. The members' work is assisted and coordinated by EC (DG EC-FIN) and OECD.

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Printed

Alb-paper, Tirane

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Abbreviations and Acronyms

BAC.....	Business Advisory Services
BSP.....	Business Service Providers
CPI.....	Consumer Price Index
CRD.....	Centre for Research and Development, Tirana
GDP.....	Gross Domestic Product
ETF.....	European Training Foundation, Turin
EU.....	European Union
FIAS.....	Foreign Investment Advisory Services
IFAD.....	International Fund for Agriculture Development
IFC.....	International Finance Corporation
INSTAT..	Albanian Institute of Statistics
Lek.....	Albanian currency (1 Lek = 103 US \$)
MAFF... .	Mountain Areas Finance Fund
OECD....	Organization of Economic Cooperation and Development, Paris
SBS	Structural Business Survey(s)
SBCA.....	Small Business Credit and Assistance Program
SEED....	South East Enterprise Development
SME ...	Small and Medium Enterprise(s)
USAID..	United States Aid Program
VAT....	Value Added Tax

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Dear readers

I have the pleasure, on behalf of the Ministry of Economy, to present to you the Annual report of the SME-s in Albania

This report, which is the first one in the series of the such publications, brings evidence about the actual situation of these enterprises on the basis of the performance indicators according to the European standards and, at the same time, convey a detailed information for further particular analyses in the field of SME policy design and implementation.

In this report ,you will find quantitative indicators based on INSTAT as well as qualitative ones resulted from the business survey.

The conclusions of this report, which result from the facing the indicators with the program support systems of the government, could open new horizon and extend new ambitious goals for an European vision of the SME-s in Albania.

With a high emphasis on the importance of the SME-s in the social and economic development of Albania, this project literally develops an evaluation and monitoring system in the frame of intensifying and deepening the legislative and institutional reforms in support of private sector in general and SME-s in particular

Since the SME-s became the dominant majority of the private sector, it is quite understandable to conceptualize a multi-dimensional support in the development philosophy of this sector.

The development of SME-s is a principle element in creating a sustainable economic development, poverty reduction, and smoothing social problems bringing an equal income distribution and employment growth.

The implementation of EU Charter for Small business makes an important agreement in the agenda of EU for western Balkan and in this regard also for our country.

The principles of EU Charter for Small business in relation to the SME legislation and regulatory framework improvement, a better tax and financial system, reduction of the start-up cost, upgrading the training system for entrepreneurship development, improvement of electronic

communication for businesses, increasing of the business representation effectiveness stand on the core of the Albanian government policy in support of SME-s

Actually, we are working to monitor the progress of EU Charter in order to determine policies, strategic directions, visions, opportunities and capacities of our countries in achieving the level and standards of EU market for SME-s

In accordance to the enforcement of the Law for SME strategy, we have created the SME Agency, which has started its operation from the September of 2003.

This Agency has taken the support of the ministry of economy as well as the other government structures in fulfilling its mission to carry out and monitor the development policies, coordination of the main actors of this development process throughout a better cooperation among policy decision making structures and SME community representatives to design and implement a concrete and efficient program.

Finally, I wish to thank the Center for research and development and “Reiffeisen” Bank for their contribution in realization of this report.

Prof Dr Anastas Angjeli

Minister

Ministry of Economy



Dear readers

It is with great pleasure that I present to you the first Annual Report on Small and Medium Enterprises in Albania. This Report will give you a great deal of information about the most important and vibrant part of the Albanian economy.

The primary objective of this Report is the assessment of SME performance through the use of a variety of indicators constructed in accordance with European standards. This general overview of SME performance will become the foundation of future in-depth analyses in specific areas of SME policy support and institution framework.

Since the beginning of its operation, the SME Agency (SMEA) has tried to become a significant player in the development of SME-s in Albania. Modeled upon Europe's most successful SME agencies, SMEA is, on one hand, promoting a healthy policy environment, and on the other providing direct support to entrepreneurs.

SMEA strives to anticipate, identify and address the needs of 99 % of the total number of private businesses in Albania. As a result of this we expect an increase in the number of start-ups, enhanced business growth opportunities and an internationalized and well-connected Albanian SME sector.

To better serve policy formulation and implementation, SMEA has focused on the SME strategic priorities and is assisting the Ministry of Economy in transforming those priorities into an operational program.

The EU Charter of Small Business represents a strategic guide for SME development in accordance with our country's goal for European integration. Therefore, we believe that this

Charter will be widely used to shape the future of the SME sector. The final chapter of this report deals exclusively with the goals and targets of the EU Charter for Albania.

Lastly, I wish to thank the Center for Research and Development which was contracted for the production of this report and Raiffeisenbank for its financial support. In addition, I would like to thank everybody else who made this publication possible

Gavril Lasku

Executive Director

SME Agency

Key findings and Recommendations for Future Action

1.1 I. Main conclusions

i. General Business Development

- ü The ambition and comprehensive macroeconomic programme undertaken by Albanian Government after 1997 yielded quick results in macroeconomic stability followed also by increasing real GDP at satisfactory rates.
- ü Over the period 1998-2002, contribution of private sector in GDP growth is obvious. In the Report this is demonstrated by increasing share of service sector (where dominate private firms) to GDP formation, as well as in increasing the number of employment in private enterprises compared with those in public enterprises especially in construction and trade sectors. Private sector's contribution to GDP became more important. It's contribution to the employment increased within 5 years from 62% to 75%.
- ü Satisfactory business development is distinguished also for the period 2002-2004, where in particular, manufacturing sector shows real signs of improvement in business climate.

ii. SME-s contribution in economic growth

The assessment of business development based on Structural Business Surveys of INSTAT over the period 1998-2002 revealed the following peculiarities in SME-s development:

- ü Business development for small and medium size enterprises have been quite satisfactory. In particularly the very good performance the SME-s sector has shown in construction and transport sectors.
- ü Small and medium size enterprises in industry and construction are the main generators of employment growth in comparison with other non-agricultural sectors.
- ü Over the 1998-2002 period labour productivity for small and medium size enterprises have been almost doubled . The biggest increase in labour productivity are shown in construction, transport and services.
- ü Increasing the volume of investments for small and in particular for medium size enterprises during the 2002 year is an indication that SME-s will increase their impact on economic growth and employment in general.

iii. Recent development in SME sector

Taking in consideration assessment of business development based on qualitative business surveys for manufacturing and construction sectors there are the following development about SME-s in these two sectors:

- ü Over the period 2002-2004, medium size enterprises in manufacturing sector have the best business performance in comparison with two other size groups of enterprises (micro and small). For this reason it is supposed that the contribution of these groups of enterprises have been increased during this period.

- Ü Over the period 2003-2004, small enterprises seem to have passed the difficult situation showed in the year 2002. But this is not noticed for micro enterprises, which are still showing a pessimist business climate. The main factors constraining micro enterprises are insufficient demand and unfair competition.

The year 2003 seems to be the best year for all size groups of enterprises in construction sector. In 2004 there seems to be some administrative barriers for this sector.

2 II. Recommendation for the future

i. In designing policies

Taking in consideration the main findings in this Report, the design of future policies for SME-s should aim:

- Ü Promotion of SME's development in all regions of Albania.
- Ü Promotion of micro enterprises' start ups.
- Ü Promotion of SME-s to increase the number of employees, as well as eliminating the phenomena of hiding the real number of employees (informality) and informal economy.
- Ü Promotion public and private investment for improvement of physical and social infrastructure, such as roads, energy etc, and investment for education and health.
- Ü The coordination and monitoring of the programs related to the European Charter of Small Business remain as very important objectives. Focusing on improvement of legal framework that will facilitate SME financing approaching to European standarts, increase SMEs access in the banking sector, developing training programs, reduction of administrative barriers, measures that will influence the growth of competitive capacities of SME towards international markets.

ii. Legislative changes

Possible future legislative changes should aim:

- Ü Improvement of legislation in order to speed up procedures for firm's registration, especially for micro enterprises.
- Ü Approximation of Albanian legislation in the filed of SME-s with European standards.
- Ü Reviewing fiscal legislation in order to increase the transparency in the work of tax inspectors, as well as easing the tax burden for micro enterprises.
- Ü Reviewing legislation in the filed of territory administration and procurement rules.
- Ü Building up the supportive program on the field of financial and technical assistance in order to increase the competition of Albanian SME in regional market as well as European and international ones.

Chapter One

An overview of business environment in Albania

1.1 Introduction

Since the late 1990s, Albanian Government has undertaken several structural reforms, involving land reform, financial market liberalization and privatization. During this time, almost all Small and Medium-sized Enterprises (SME) have been privatized and significant progress has been made in the privatization of strategic sectors, like telecommunications and banking. The banking sector has gradually increased the amount and quality of loans and financial services to SME-s. The Government has adopted a new bankruptcy law and established a new Agency for supporting the deposit insurance scheme. Moreover, on October 2002 a new Law on SME-s was adopted, followed by a broader strategy on SME-s, which subsequently led to the establishment of the Agency for SME Development in June 2003.

These actions enabled the private sector in Albania to become the driving force for economic growth. However, recent publications and studies on administrative barriers to investment conducted by FIAS (March 2003), the OECD Investment Compass (2003-2004) and the World Bank (2004) emphasize that despite the considerable progress made in South Eastern Europe in establishing an environment for the formation and operation of private enterprises, much more needs to be done for boosting domestic and foreign investment – thereby accelerating growth, reducing poverty, and strengthening the region’s integration (World Bank, 2004).

The Albanian Government has signed the European Charter on Small Enterprises, and the SME Agency is carefully monitoring all targets laid out in the Charter. The newly established SME Development Agency seeks to be the promoter of SME Development in Albania by developing policy guidance for the Government. This work is crucial to Albania’s development, precisely because SME-s play a vital role in the economy. According to the 2002 Statistical Business Survey (SBS) data, in Albania:

- Ø Micro and small size enterprises comprise 99 percent of firms’ stock;
- Ø Micro and small size enterprises make 71 percent of total turnover in non-agricultural sectors.
- Ø SME-s (including micro) provide about 75 percent of employment in non-agricultural sectors;
- Ø Small and medium size enterprises in Albania are the most dynamic enterprises.

The aim of this Report is to give an overview of the state of the SME sector in Albania, including the main policy guidelines of the Albanian Government for supporting SME development, as well as concrete future actions. The report contains four chapters. Chapter One provides an overview of business development in Albania. Chapter Two describes the SME situation in Albania based on SBS data provided by INSTAT for the period 1998-2002. Chapter Three focuses on the SME business climate and the main factors that limit SME business activity. This chapter is based on short term business survey data provided by Centre for Research and Development (CRD) Tirana. Chapter Four gives an overview of the institutional framework in support of the SME sector and main policy recommendations for encouraging SME development in Albania.

Box 1: SME Definition in Albania

Taking in consideration the number of persons employed in a firm, Albanian Law No. 8957, "Small and Medium Size Enterprises" date 17.10.2002 uses the following criteria for SME classification:

- Micro enterprises: up to 5 employees;
- Small enterprises: 6 - 20 employees;
- Medium-size enterprises: 21 - 80 employees;
- Large enterprises: over 81 employees.

EU Member's States and Candidate Countries use the following classification for SME-s:

- Micro enterprises: 1 - 9 employees;
- Small enterprises: 10 - 49 employees;
- Medium-size enterprises: 50 - 249;
- Large-size enterprises: over 250 employees.

INSTAT's SBS data are processed based on EU harmonized standards. For this reason, in this Report is used the EU classification of SME-s.

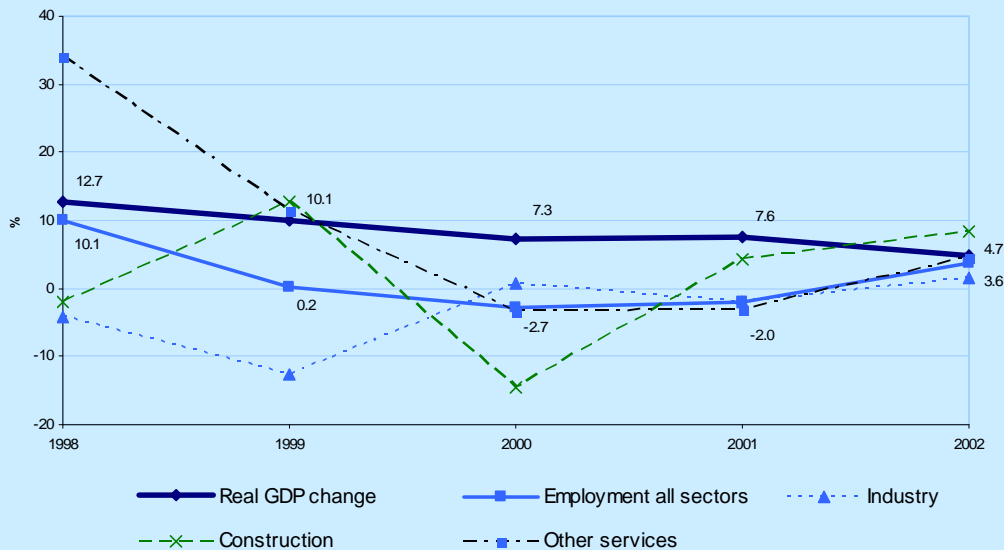
1.2 GDP and employment

The transition period in Albania, as in other Central and Eastern European Countries, was highlighted by substantial reforms that led to major economic, social and political changes. Price liberalization, distribution of land to family farmers and quick privatization of most retail trade activities and small size enterprises were major reforms that allowed the private sector to flourish in Albania. After a sharp contraction in the early years of transition (1991-1992), GDP grew at range 5-10 percent annually in real terms over the 1993-2000 period.

After the collapse of the pyramid schemes in 1997, GDP slumped by about 7 percent, but in response to measures undertaken by the Government it bounced back in 1998 at increasing rates (see Figure 1).

The strong economic performance continued in 2000 and 2001, as GDP marked a growth rate in real terms over 7 percent. GDP growth declined in the fourth quarter of 2001. This slowdown continued in 2002 and GDP marked a growth rate of 4.7 percent. According to a World Bank analysis this slowdown was mainly related to power shortages and the slowdown in the world economy after September 11 (World Bank, 2003, p.1).

FIGURE 1: GDP and employment change by economic activity: 1998 - 2002



Note: Employment in all sectors does not include sole traders and farmers

Source: INSTAT, General results of annual structural survey of economic enterprises, year 1998, 1999, 2000, 2001, 2002
Ministry of Finance, Macroeconomic Department

Figure 1 shows that employment in non-agricultural sectors does not follow the same trend as GDP. After a 10 percent growth in employment in 1998, mainly a result of increased employment in the construction sector, employment in 1999 remained almost unchanged and slumped in 2000 and 2001 by 2.7 and 2 percent respectively.

In 2002 employment in almost all non-agricultural sectors grew at a rate above 3 percent. This could be explained by the measures undertaken by the government to reduce informality, particularly in construction sector.

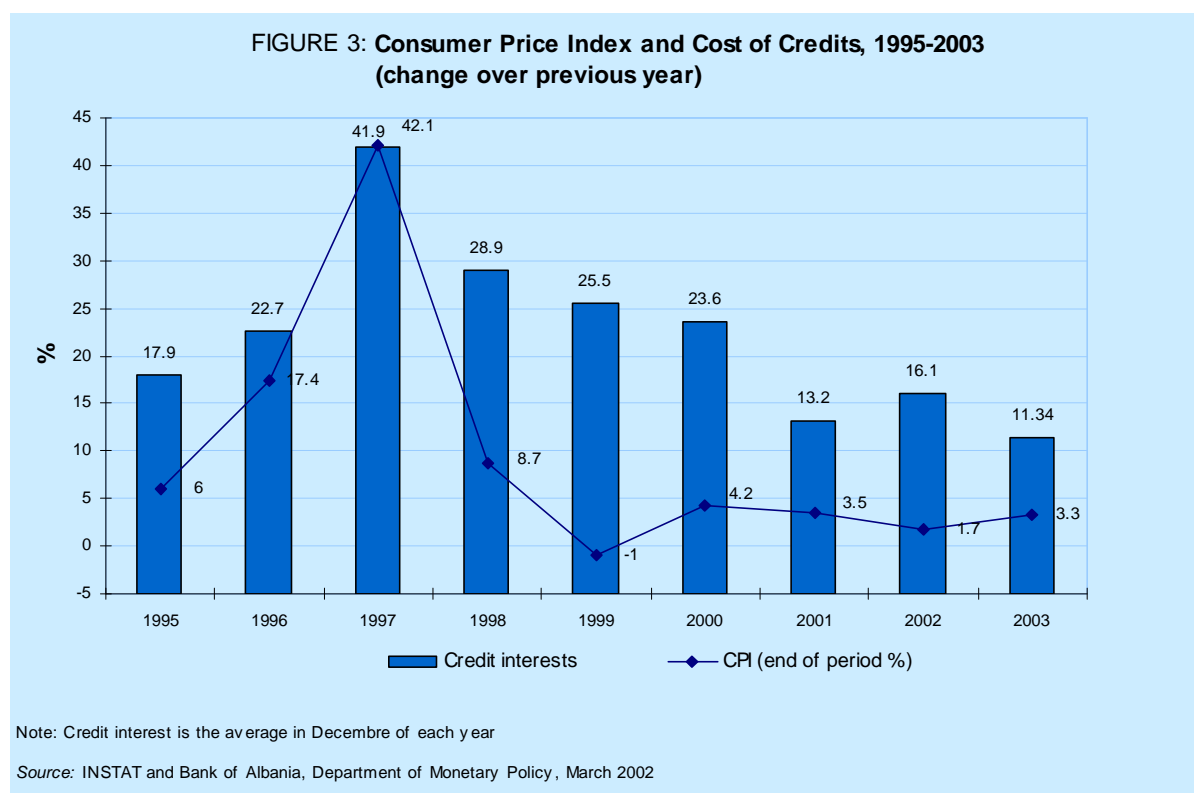
Over the years, the development of a market economy in Albania has led to changes in the contribution of various sectors to the GDP. According to INSTAT (2003), agriculture activity in 2000 contributed to 28 percent of GDP formation, from about 50 percent in 1995-96.

Figure 2 indicates that services in total contribute to about 54 percent of GDP, followed by industry with 12 percent and construction with 6 percent. However, in 2000-01, the construction sector has recorded the highest growth by about 17 and 14 percent (World Bank, 2003, p.4).

1.3 Monetary policy

One of the key aspects of economic policy in Albania has been the tight fiscal and monetary policy. The budget deficit has been declined from 9 percent of GDP in 2000 to 6.6 percent in 2002. In addition, Bank of Albania has played a conservative interests rate policy by keeping its key interest rate well above CPI. Figure 3 shows that in 1996 and especially 1997 the economy lost its momentum, reflected also in the increase of CPI (end of period) by 22.7 percent in 1996 and 41.9 percent in 1997. Inflation pressures were kept well under control in 1998 and CPI stayed in a narrow band between -1 and 4 percent in recent years.

The favorable macroeconomic environment allowed the monetary authority to decrease the key interest rate for Lek. Consequently, the interest rates for credit have fallen over the period 1998-2002. In 1998, the average credit interest at the end of period was 28.9 percent, down from its peak 42.1 percent in 1997. At the end 2003, the average credit interest reached a lower level of 11.34 percent, which contributed to a boosting of credit to the economy, a reduction of the cost of capital and an improvement of banking credit performance.



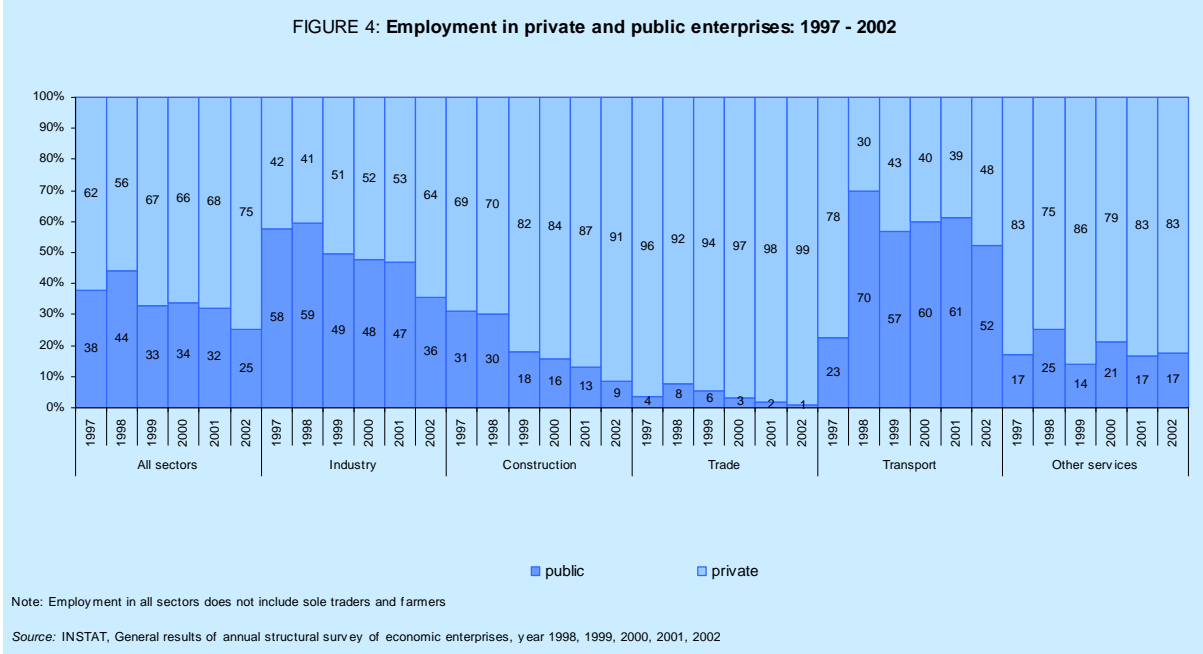
1.4 Development of private sector

The development of the private sector is crucial for maintaining a sustainable path of economic growth. The dynamics of private sector development in Albania can be observed by looking at changes of employment in the private and public companies for the non-agriculture sector. Figure 4 shows the shifts among private and public sector for the period 1997-2002, in non-agriculture activities such as industry, construction, trade, transport and other services. In 1998, there is an increase of employment in public firms in almost all sectors. As a result, the share of employment in the private sector shrank from 62 percent to 56 percent. Figure 4 indicates that the most significant increase in employment in public firms occurred in the transport sector (involving about 13,000 employees) and other services. Such changes can be explained by the deterioration of the business climate in 1997, which forced a shift in employment from private to public enterprises.

After 1999, employment in private firms increased much faster than in public firms. This phenomenon was particularly stark in 2002, when the employment share of public firms

decreased by 7 percent in 2002 in comparison with 2001. One explanation for such a development could be the acceleration of the privatization reform in early 2000.

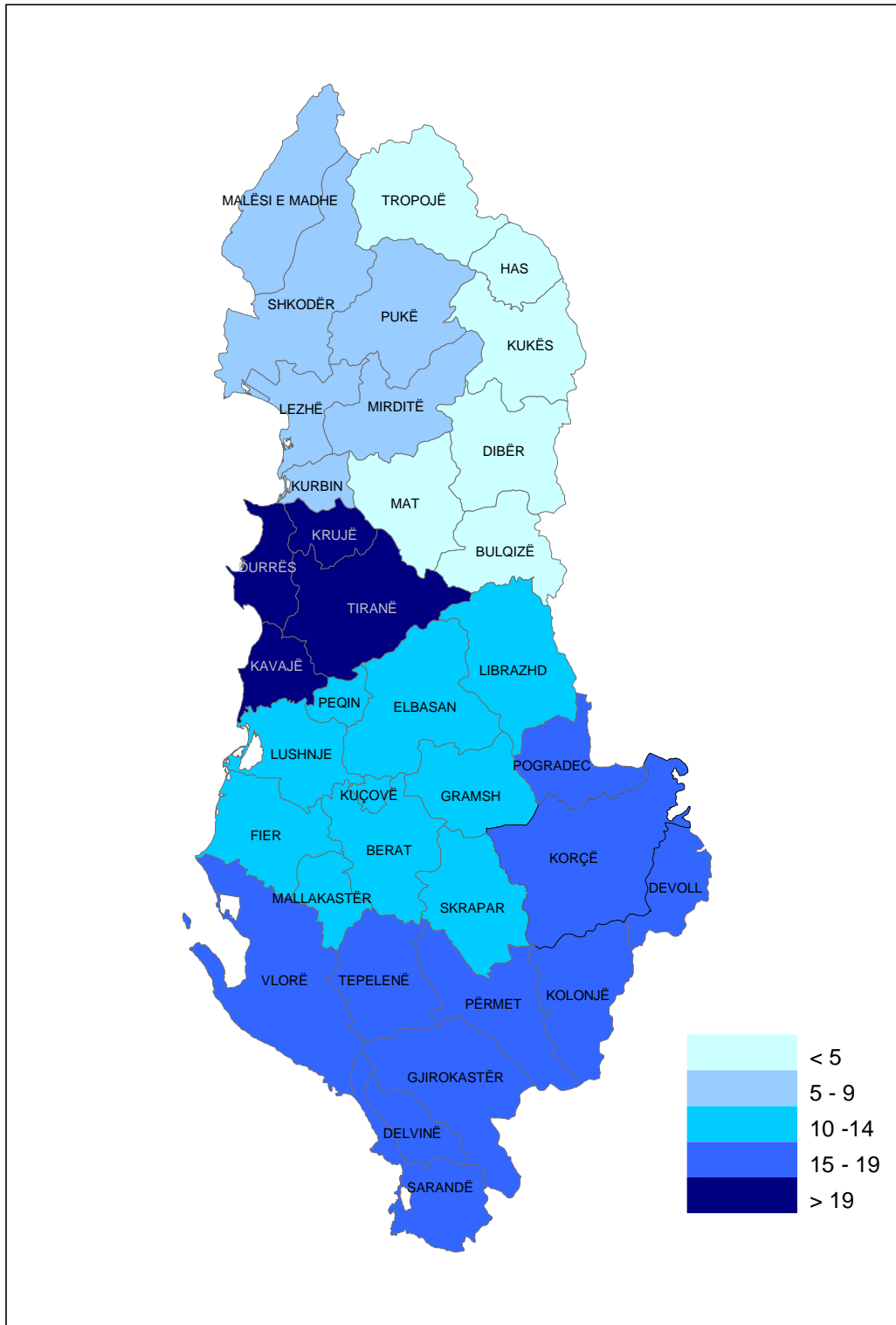
Figure 4 also shows that in 2002 almost all trade activities were provided by private firms, while in the construction sector the share of employment in private firms increased from 69 percent in 1997 to 91 percent in 2002. By contrast, in 2002 transport activities were equally split among private and public firms.



1.5 Distribution of firms across territory

The distribution of firms across the territory indicates that there are huge geographical differences. Figure 5 shows the number of firms for 1000 inhabitant. The numbers show that there are major differences in market development across the territory. Tirana region has 33 firms for 1000 inhabitant, the largest ratio in the country. Durres ranks second, with 26 firms for 1000 inhabitants. The poorest areas have the smallest ratios - Kukës with 3 firms, Dibrë with 4 firms and Lezhë and Shkodër with 6 firms for 1000 inhabitants.

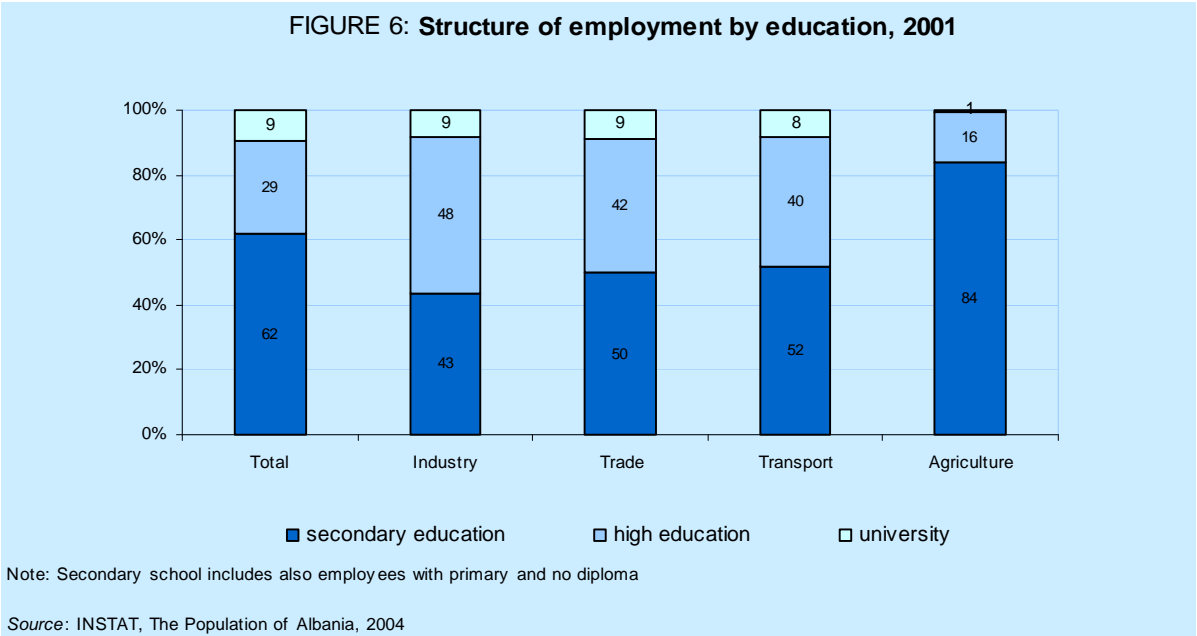
FIGURE 5: Number of firms per1000 inhabitants in Albania by Prefectures, 2002



Source: INSTAT

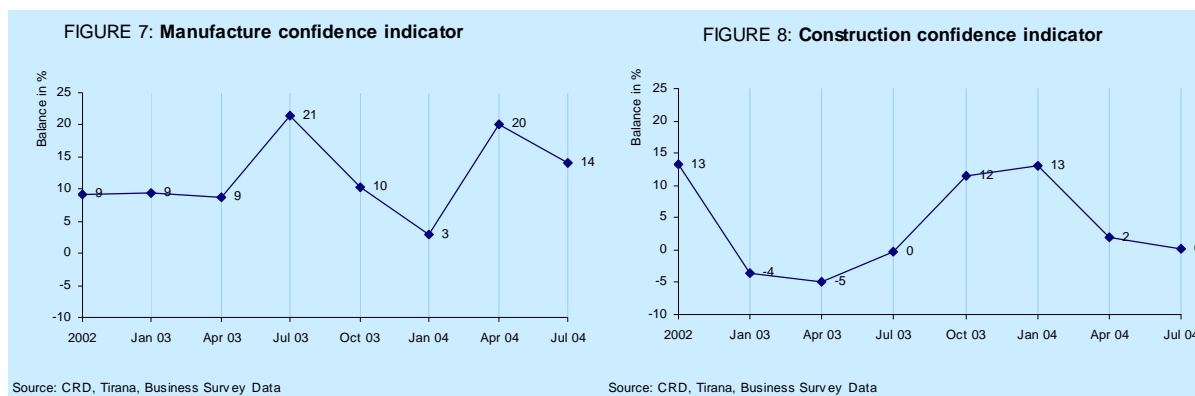
1.6 Employment and education

The experience in other emerging markets has shown that investment in education is correlated with high levels of labor productivity and sustainable economic growth. Census data for 2001 showed that 9 percent of the employment force had a university degree (see Figure 6) and 29 percent had completed higher education. The situation varies by sector. For instance, in the manufacturing sector 48 percent of employees had a higher education degree, compared with 16 percent in the agriculture sector.



1.7 Business climate in manufacturing and construction sectors

Business survey results indicate that over the period January 2002 – July 2004, entrepreneurs in manufacturing and construction sectors seem to be satisfied. This is corroborated by business confidence indicators in both sectors (see Figures 7 and 8). Section 3.1 of this Report and Box 3 provide general information about the use of short term business indicators for analyzing business environment in a particular sector of the economy.



Confidence indicators in the manufacturing sector over the period January 2002-July 2004 have marked always positive values, meaning that the managers of interviewed firms have been optimistic about their business activity. Moreover, Figure 7 shows that the confidence indicator in 2004 is above the average levels of 2002 and 2003, indicating that the business climate of 2004 is more favorable for firms that are operating in the manufacturing sector.

Entrepreneurs in the construction sector are not as optimistic as those in the manufacturing sector. Figure 8 indicates that for the first 6 months of 2004, business confidence in the construction sector was gradually deteriorating.

1.8 Obstacles to businesses

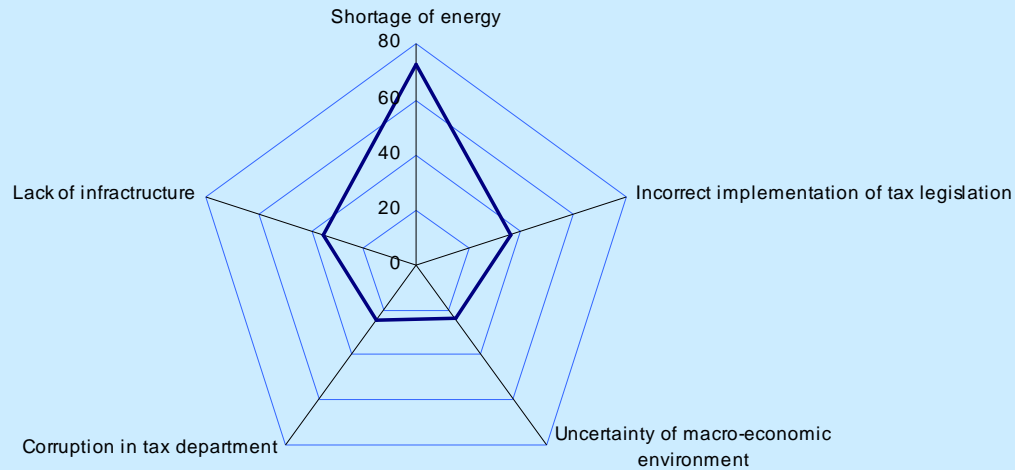
In their business activities, entrepreneurs face several obstacles that limit production. For the purposes of this report, these obstacles will be classified into three groups:

- Ø Factors related to the business environment in general, such as supporting infrastructure, energy, enabling legislation, administrative corruption, etc.
- Ø Supply-side factors, such as availability of inputs, access to credit markets, etc.
- Ø Demand-side factors, such as consumer demand, import competition, etc.

Figure 9 shows the distribution of enterprises in the manufacturing sector that face the first type of obstacle. Shortages of energy is the most important constraint to production activities by emphasized on average for the period January 2002-July 2004 by 73 percent of the interviewed entrepreneurs. The second most important factor of this type is incorrect implementation of tax legislation, identified by 36 percent of interviewees, followed by lack of infrastructure, which was chosen by 35 percent of entrepreneurs. Other relevant environment obstacles to business development are factors such as macro-economic uncertainty and corruption in tax departments, pointed out respectively by 24 and 25 percent of interviewed entrepreneurs.

FIGURE 9: Distribution of enterprises in manufacturing sector with perceived environment type difficulties (January 2002 – July 2004)

Question: *What main factors are limiting your production activity (more than one choice is allowed)?*

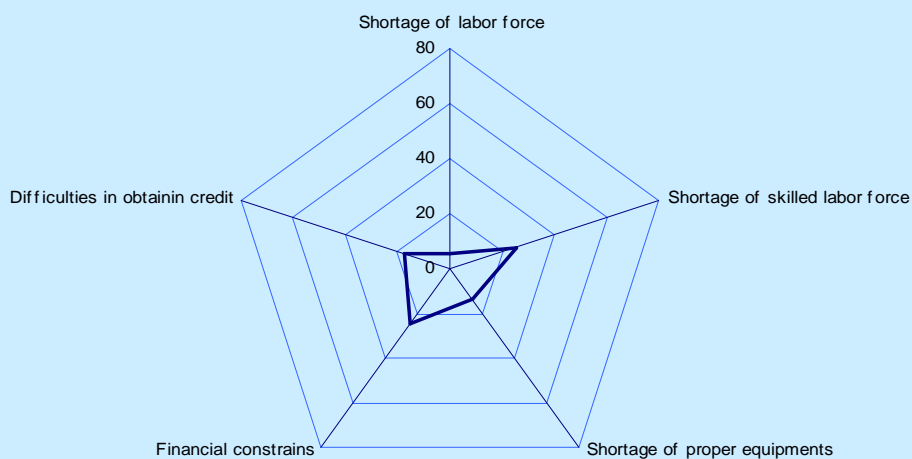


Source: CRD, Tirana, Business Survey Data

Supply-side factors seem to be less of concern to entrepreneurs than business environment obstacles. Figure 10 shows that shortages of skilled labor and financial constraints are perceived as obstacles by respectively 26 and 25 percent of managers, while shortages of labor in general do not seem to be a real constraint for production activities. Figure 10 also indicates that only a relatively small number of entrepreneurs (17 percent of respondents) perceive access to credit markets as a real problem.

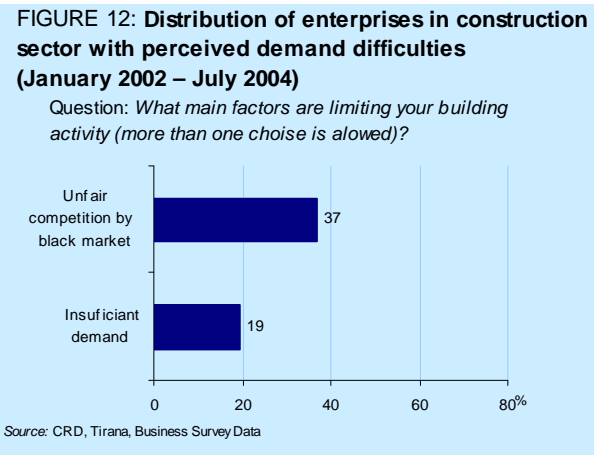
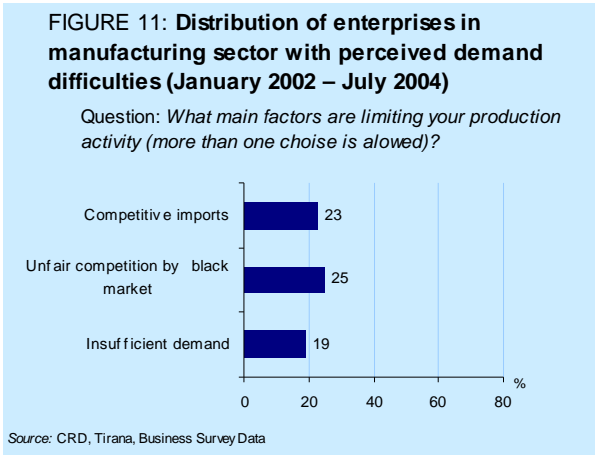
FIGURE 10: Distribution of enterprises in manufacturing sector with perceived supply difficulties (January 2002 – July 2004)

Question: *What main factors are limiting your production activity (more than one choice is allowed)?*



Source: CRD, Tirana, Business Survey Data

Figure 11 shows that unfair competition by businesses operating in the black market are more worrisome phenomena than the other two factors that affect the demand side of the market (import competition, mentioned by 23 percent of respondents, and insufficient demand, mentioned by 19 percent).

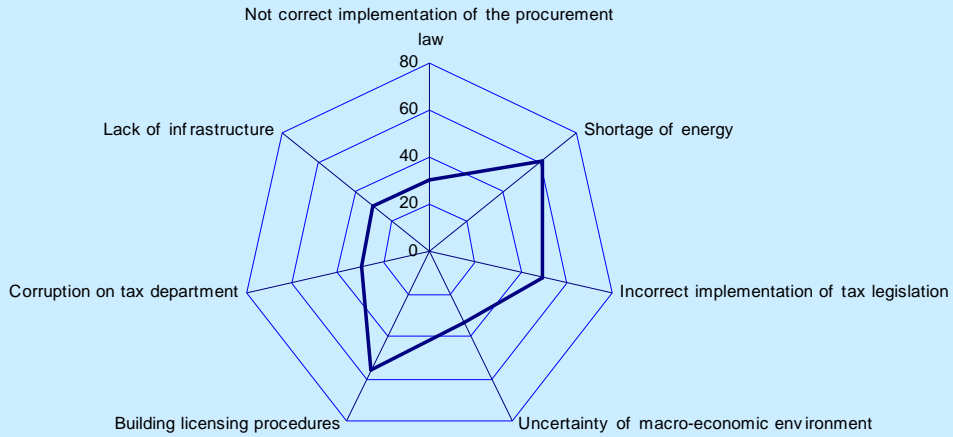


Unfair competition by black market operators seems to be the most important demand-side constraint for firms in the construction sector. Figure 12 reveals that on average about 37 percent of interviewed entrepreneurs in the construction sector have emphasized the black market as a factor that limits their activities and 19 percent think that insufficient demand is a problem.

Shortages of energy and building licensing procedures are the main constraining factors in the construction sector (see figure 13). In addition, 49 percent of managers think that the incorrect application of the tax legislation is a limiting factor. The incorrect application of procurement legislation is identified as a problem by 31 percent of the respondents.

FIGURE 13: Distribution of enterprises in construction sector with perceived infrastructure difficulties (January 2002 – July 2004)

Question: *What main factors are limiting your building activity (more than one choice is allowed)?*

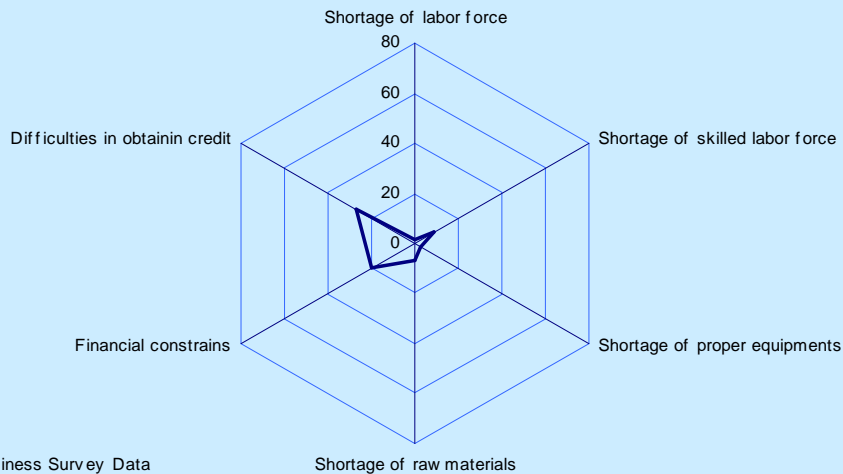


Source: CRD, Tirana, Business Survey Data

Figure 14 shows that entrepreneurs in the construction sector have fewer problems with regards to perceived supply-side factors. However, difficulties in obtaining credit are singled out by about 27 percent of respondents and financial constrains by about 19 percent of interviewees.

FIGURE 14: Distribution of enterprises in construction sector with perceived supply difficulties (January 2002 – July 2004)

Question: *What main factors are limiting your building activity (more than one choice is allowed)?*



Source: CRD, Tirana, Business Survey Data

1.9 Main conclusions regarding overall business environment in Albania

The analysis regarding the overall business environment in Albania leads us to the following conclusions:

- Ø The economic program undertaken by the Albanian Government at the end of 1997 allowed the economy to bounce back at the same rate as before the 97' crisis. The strong economic performance continued in 2000 and 2001. GDP growth declined in the fourth quarter of 2001. This slowdown, which continued also in 2002, was mainly related to power shortages and the slowdown in the world economy after September 11.
- Ø Albania, in the last 5 years, has followed a tight fiscal and monetary policy. The budget deficit has declined from 9 percent of GDP in 2000 to 6.6 percent in 2002. In addition, the Central Bank of Albania has played an active interest rate policy by keeping its key interest rate well above CPI. Inflation pressures were kept under control in 1998 and CPI has moved in the narrow band of -1 to 4 percent in recent years. Interest rates applied by commercial banks for credits in Lek have decreased in the last 3 years.
- Ø After 1999, employment in private firms increased much faster than in public firms. This can be explained by the acceleration of the privatization reform in Albania in early 2000, which was followed by an increase in the share of employment in the private firms in the industrial sector by about 9 percent in 2002.
- Ø The distribution of firms across territory indicates that there are geographical differences among different regions of Albania. Tirana region is the densest in terms of firms for 1000 inhabitants with 33 firms, while Kukes the lowest with 3 firms per 1000 inhabitants.
- Ø Overall, 9 percent of employees in 2001 had a university degree and 29 percent had finished higher education.
- Ø For the period 2002-2004, business survey data in the manufacturing sector show a positive business climate, especially for the first 6 months of 2004, while entrepreneurs in the construction sector were not very optimistic about their business activity as corroborated by the gradually deteriorating business confidence indicators.
- Ø Entrepreneurs in the manufacturing and construction sectors are more concerned about problems related to the business environment, such as shortages of energy, lack of infrastructure, and the incorrect and unfair application of business legislation. Factors that limit the supply and demand side are mainly the existence of the black market and financial constraints.

Chapter Two

SME Status in Albania

2.1 Introduction

The situation of SME-s in Albania will be assessed by using statistical data published by INSTAT in the “General Results of the Annual Structural Survey of Economic Enterprises, Year 1997-2002”. Box 2 gives a short description of structural business indicators and the use of data produced by SBS.

This report combines the available data into a number of performance indicators for the economy, as well as the main sectors, excluding the agricultural sector. Annex 1 provides all the statistical information regarding structural business indicators based on size and sectors.

Box 2: Structural business indicators

Structural business indicators provide information referring to a whole reference year. The aim of structural business statistics is to show the structure of the business sector with regard to economic data. They show changes from one year to the next, and can be used to judge the accuracy of sub-annual data, which is often produced from smaller sample sizes. In EU, the methodological grounds regarding structural business indicators are regulated within the legal framework of Council Regulation (EC, EURATOM) No. 58/97 of December 1996 concerning structural business statistics. The statistical unit is the enterprise. The following economic activities were included in the target population: NACE Sections C to K. The target population was enterprises of all size classes. In general, size classes are measured in terms of the number of persons employed.

In Albania, SBS is part of Statistical National Program. This statistical activity has begun in 1998. The questionnaire is review every year to improve quality and quantity of data and better implementation EUROSTAT requirements. In December users take general information for main variables. On February INSTAT releases the publication “Results of Structural Survey of Economic Enterprises”.

2.2 Structure of businesses by size and sectors

Taking in consideration information generated by Business Statistical Register of Enterprises, in 2002 are accounted about 56159 units, of which 19911 are sole traders and the rest enterprise units. Table 1 shows that in 2002 enterprise stock in Albania are dominated by small size enterprises, as 99 percent of them are employing less than 50 employees. Larger concentrations of micro enterprises (employing less than 9 employees) are in trade and transport sectors. Enterprises with more than 50 employees are predominantly in industrial and construction sectors.

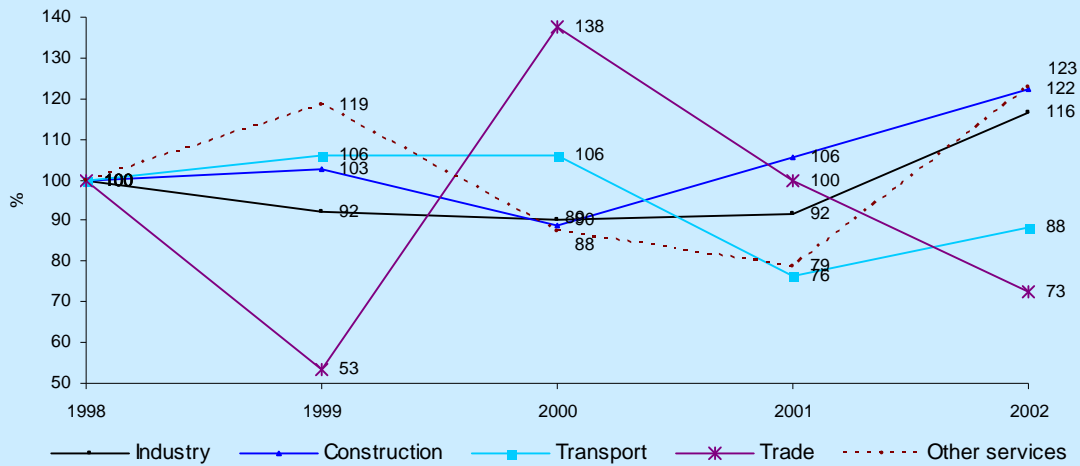
Table 1: Distribution of enterprises by size and economic activity, 2002

	Total	Sole trade	1 - 9 employees	10 - 49 employees	50 - 249 employees	250 and over
All sectors	56159	19911	34938	958	300	52
Industry	6121	2288	3251	338	206	38
Construction	1878	625	913	296	44	0
Transport	8495	3305	5130	36	15	9
Trade	27396	8712	18540	136	8	0
Other services	12269	4981	7104	152	27	5
<i>In % by size</i>						
All sectors		35.5	62.2	1.7	0.5	0.1
Industry		37	53	6	3	1
Construction		33.3	48.6	15.8	2.3	0.0
Transport		39	60	0	0	0
Trade		31.8	67.7	0.5	0.0	0.0
Other services		41	58	1.24	0.22	0.04
<i>In % by activity</i>						
All sectors						
Industry	11	11	9	35	69	73
Construction	3.3	3.1	2.6	30.9	14.7	0.0
Transport	15	17	15	4	5	17
Trade	48.8	43.8	53.1	14.2	2.7	0
Other services	22	25	20	16	9	10

Source: INSTAT, Labor Market 2002 and Results of Annual Structural Survey of Economic Enterprises, Year 2002

Table 1 also shows that most business units are focused on services related activities. In 2002, about 85.7% of sole traders were in the service sector (i.e. trade, transport and other services). Small and medium size enterprises were more active in the industrial and construction sectors. The increase in the number of medium size enterprises in industry and construction has begun to happen after 2000 (see Figure 15). Figure 15 shows that in comparison with 1998, the number of firms in these two sectors in 2002 had increased by 22 and 23 percent respectively. For the same period there is a decrease in the number of medium size enterprises operating in trade and transport services.

FIGURE 15: Number of enterprises change by economic activity, 50 - 249 employees (1998=100%)



Source: INSTAT, General results of annual structural survey of economic enterprises, year 1998, 1999, 2000, 2001, 2002

Table 2 shows that a large size enterprise (employing more than 250 employees) is the least common form of enterprise in the economy. As shown in Table 2, the number of firms employing more than 250 employees has declined from 63 in 1998 to 52 in 2002, a period during which the total number of enterprises increased by 19 percent.

Table 2: Number and structure of enterprises by size classes, 1998-2002

	1998	1999	2000	2001	2002
1 - 9 employees	29464	34477	34270	34313	34938
10 - 49 employees	663	891	900	914	958
50 - 249 employees	272	258	249	246	300
250 and over	63	52	58	48	52
Total	30462	35678	35477	35521	36248
In % by size					
1 - 9 employees	97	97	97	97	96
10 - 49 employees	2.2	2.5	2.5	2.6	2.6
50 - 249 employees	0.89	0.72	0.70	0.69	0.83
250 and over	0.2	0.1	0.2	0.1	0.1
Total	100	100	100	100	100

Source: General results of annual structural survey of economic enterprises, year 1998, 1999, 2000, 2001, 2002

Table 2 also shows that in 2002 in comparison with 1998, the number of firms employing 10-49 employees have marked the biggest increase. This increase has lifted the share of this category in the total number of enterprises from 2.2 percent in 1998 to 2.6 percent in 2002. Small relative changes have occurred in the share of medium-size enterprises which accounted for roughly 0.8 percent of enterprise stock in 2002. Consequently the size structure of enterprises has remained almost unchanged for the period 1998-2002.

2.3 SME contribution to employment

Employment generation is one of main contributions of the SME sector. This section will take a look into this issue by grouping enterprises by sector and size for the period 1998-2002. Figure 16 shows the distribution of employment by size classes of enterprises for all sectors together and for individual non-agricultural sectors. In 1998, enterprises that employ 1-9 employees accounted for 37 percent of total working force, while in 2002 they contributed to 42 percent of total employment. An increase in employment contribution can be attributed to small enterprises, which in 2002 accounted for 13 percent of total employment from 9 percent in 1998. The employment share of larger enterprises (employing more than 250 employees) has substantially decreased, from 35 percent in 1998 to 25 percent in 2002.

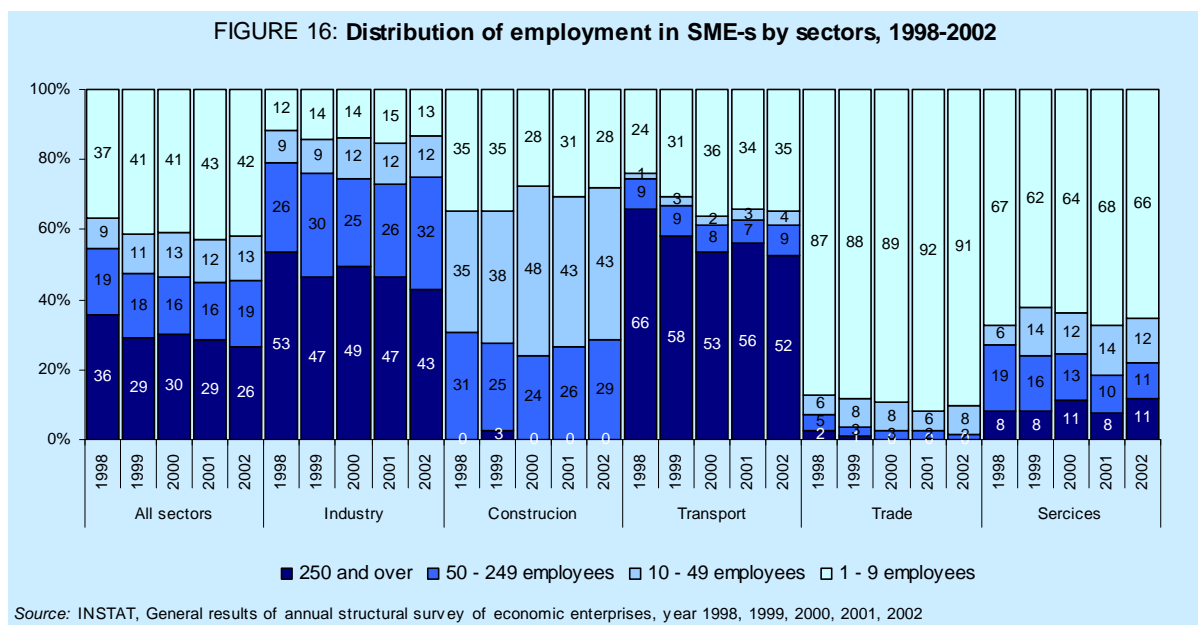
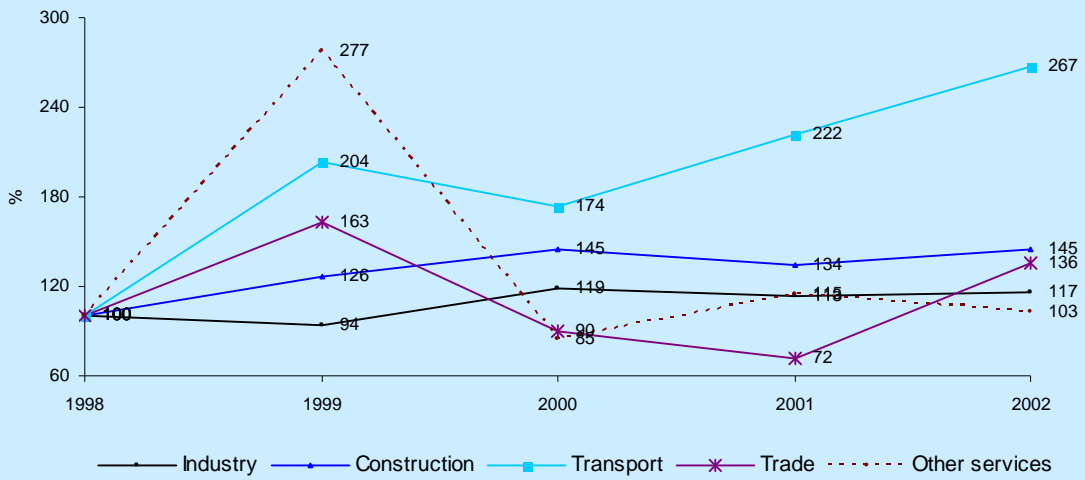


Figure 16 shows that in the industrial sector medium size enterprises have contributed much more to employment generation than the other two groups of SME-s (1-9 employees and 10-49 employees). Employment share for this group increased to 32 percent in 2002 from 26% in 1998. Small enterprises have created more jobs in the construction sector. From Table 1 and Figure 16 we can see that in the construction sector small enterprises (10 – 49 employees) are the most preferred and the most dominant structure of enterprises.

Figure 17 and 18 show employment changes by sector for small and medium size enterprises.

FIGURE 17: Employment changes in enterprises with 10-49 employees by sectors (1998=100%)

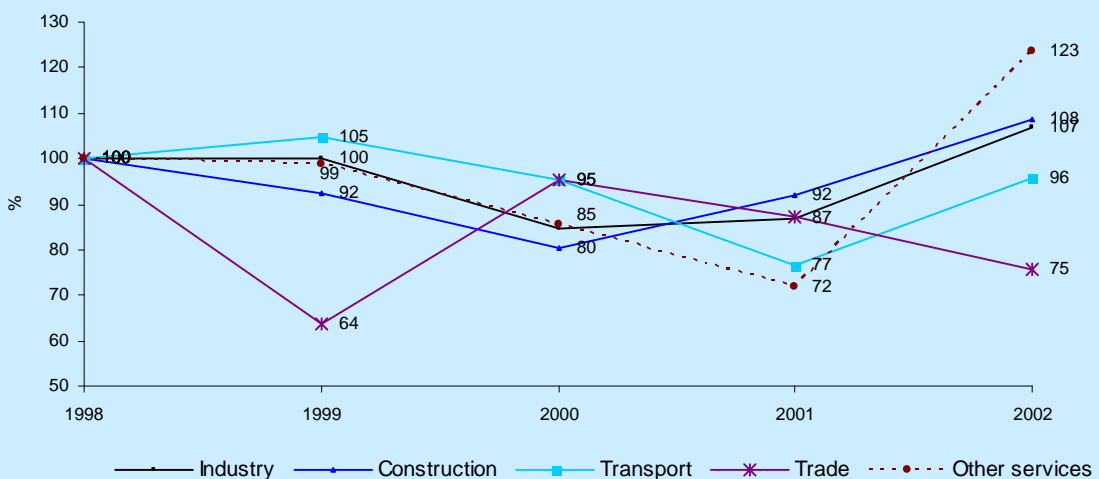


Source: INSTAT, General results of annual structural survey of economic enterprises, year 1998, 1999, 2000, 2001, 2002

Employment in small firms in the transport sector has increased in 2002 by about 167 percentage points. This increase is due to a very low employment base for this sector in 1998. Employment in small firms for the construction sector has increased by 45 percentage points, while in trade sector is increased by 36 percentage points.

Employment in medium sized firms has marked an increase only in 2002 and this is more evident for firms in other services, industry and construction sectors.

FIGURE 18: Employment changes in enterprises with 50-249 employees by sectors (1998=100%)



Source: INSTAT, General results of annual structural survey of economic enterprises, year 1998, 1999, 2000, 2001, 2002

2.4 SME contribution to investment

Investment by size of enterprises is an important indicator which provides perspectives for future growth for various enterprise classes. This is an indicator of business stability and future prosperity, as investments are made if managers feel that business will be expanded. Increasing investment in one particular year is a strong indication that businesses will deliver a bigger output in the coming years followed also by an increasing demands for new labour force.

Figure 19 shows that in 2002 the investment share of large enterprises is about 39 percent of total investments, which is a lower level in comparison with 1998 (44 percent). Moreover, micro enterprises have also decreased their contribution to total investment, and their share in 2002 is 12 percent lower than in 1998. Increasing percentages of investments is seen in small and medium size enterprises, which together in 2002 accounted for 47 percent of total investment (from 28 percent in 1998). The largest contribution to this development came from SME-s in the construction and transport sectors (see Figure 19).

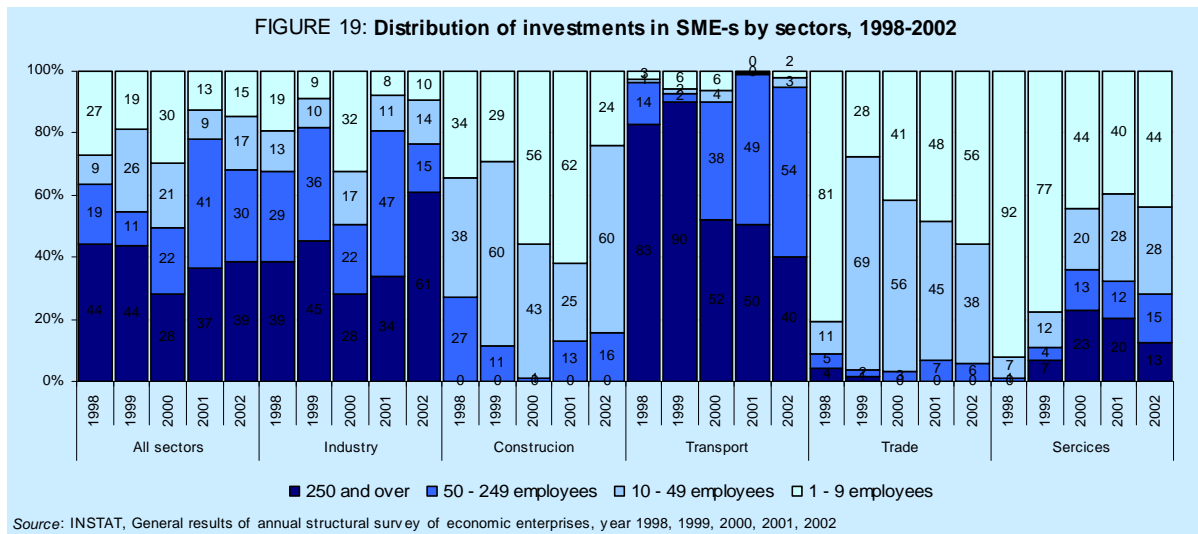
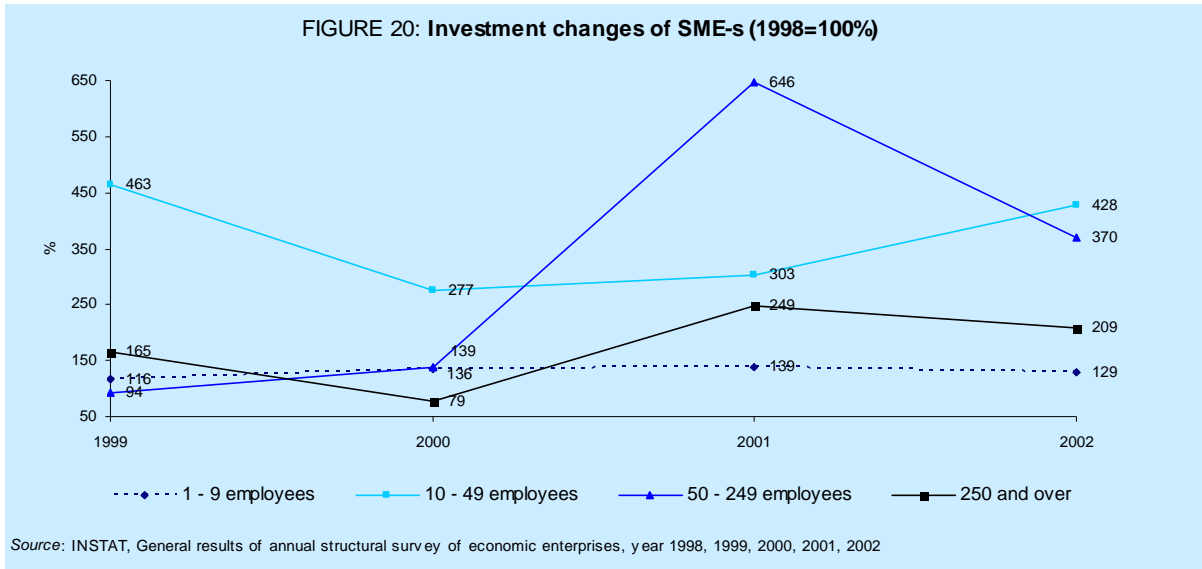
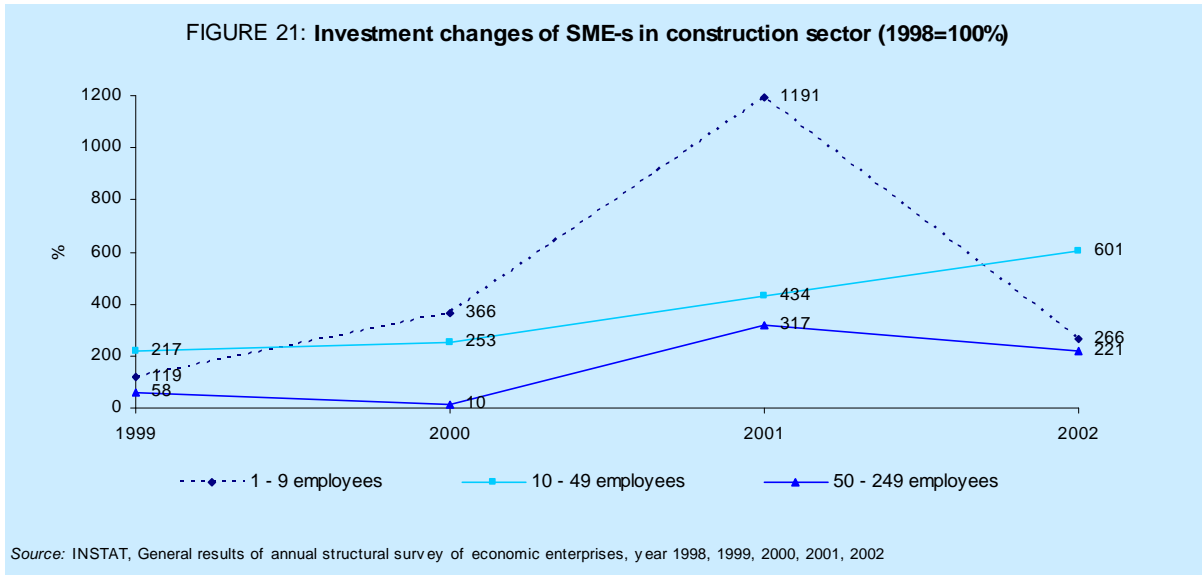


Figure 20 shows that over the period 1998-2002 all types of enterprises have increased investments. However, small and medium size enterprises displayed a bigger confidence in their business activities and consequently increased their investments at a higher scale in comparison with micro and large enterprises.



In the construction sector small enterprises (10-49 employees) have shown a tendency of increasing investment every year and in 2002 investment reached a level 5 times higher than in 1998.



2.5 SME contribution to turnover

Turnover is a measure of market growth. It includes the amounts invoiced by enterprises during the study period and corresponds to the market sales of benefits and services offered by third parties. This indicator shows overall enterprise activity. Since turnover gives a global idea of the sales evolution including the sales of goods and services, it can be an important indicator of activity in general. The business community itself calculates market share based on turnover.

Figure 22 shows that although the share of turnover delivered by micro enterprises in 2002 declined by 7 percent in comparison with 1998, still this group recorded the biggest share (45 percent) of turnover in comparison with other size classes of enterprises. Over the period 1998-2002, small enterprises contributed much more to turnover and their share increased from 13 percent in 1998 to 22 percent in 2002. In 2002, large enterprises contributed with only 20 percent, down from 23 percent in 1998.

Figure 22 also shows that, with more than 70 percent of total turnover, micro enterprises have the largest share of turnover in trade and other services. The impact of small and medium size enterprises has particularly increased in construction sector.

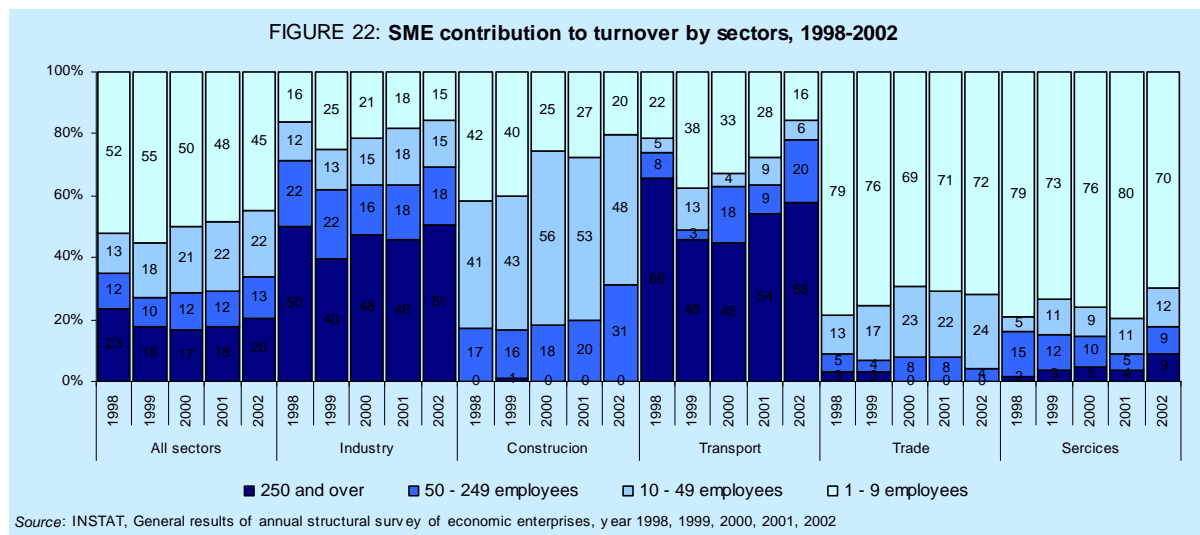
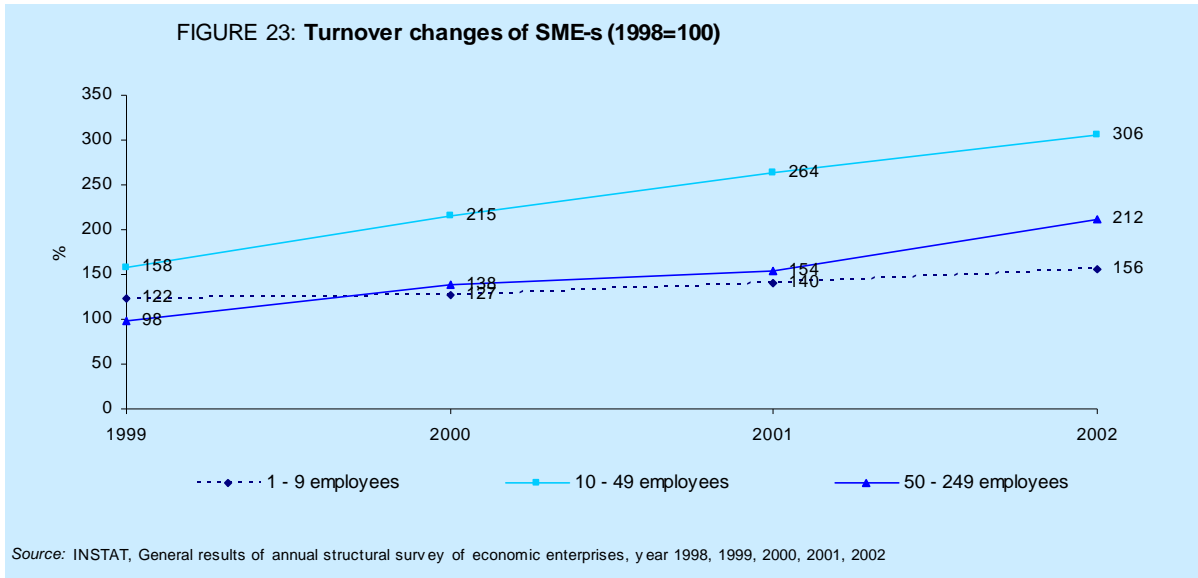


Figure 23 shows that in 2002 in comparison with 1998 all size classes of enterprises have increased their volume of turnover. Small size enterprises have shown the strongest increase by tripling their turnover volume, while medium size enterprises have doubled it. Micro and large enterprises have performed similarly in terms of their turnover indicator.

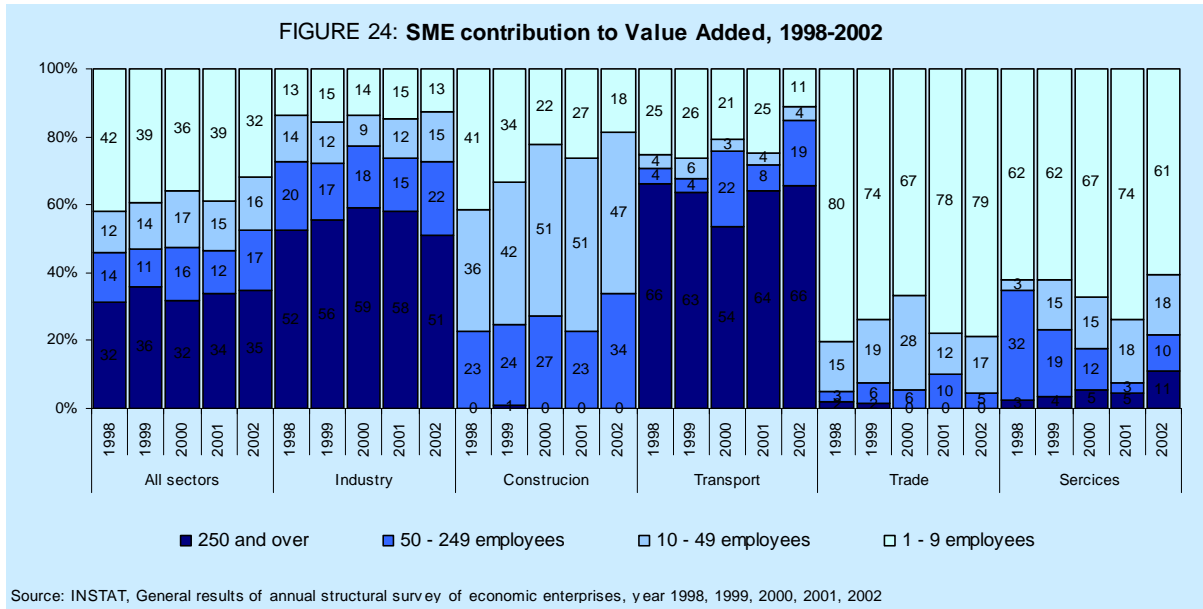


2.6 SME contribution to Value Added

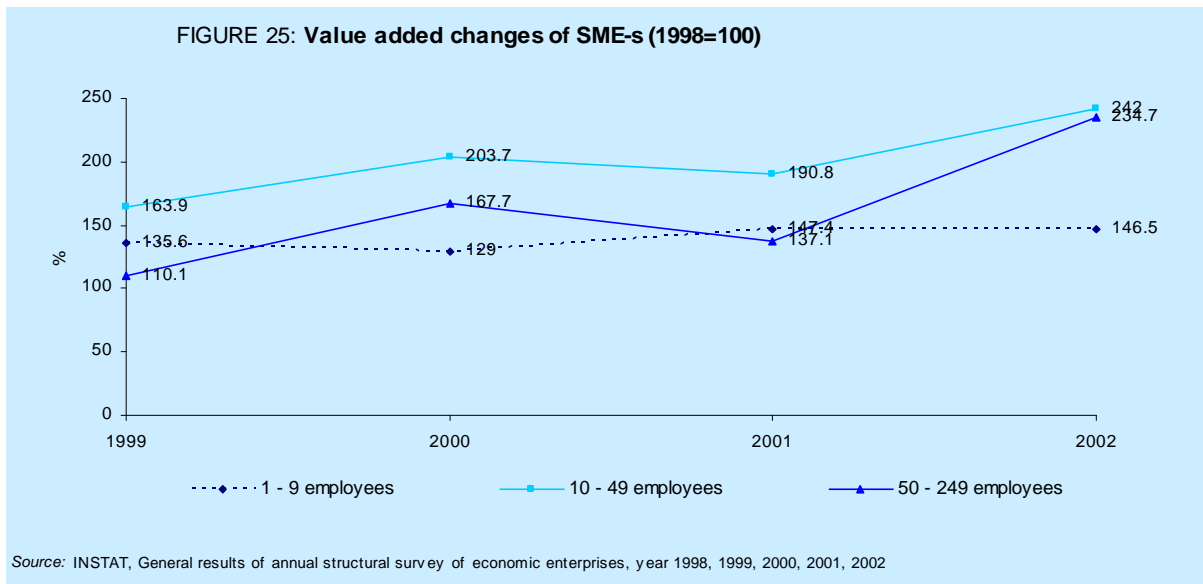
Value added is the contribution of a producer to GDP and is defined as the difference between sales of goods and purchases of goods from other producers. This indicator is similar to turnover, but differs in its exclusion of indirect taxation and the price of materials used. Value added is important in evaluating business performance indicators such as labor productivity and enterprise profitability.

Figure 24 shows that in 2002 SME-s, including micro enterprises, contribute to 65 percent of total value added formation. This level is 3 percentage points lower than in 1998, and the reason for this is a 10 percentage point decrease of micro enterprises' contribution to the formation of value added. Large enterprises have increased their share in the formation of value added by 3 percentage points. Small and medium sized enterprises, respectively, have increased their share by the same token.

Value added indicators confirm, in the same fashion as turnover results, that small and medium size enterprises in the construction sector are the most dynamic firms in all non-agricultural sectors. This is because the share of value added generated by small enterprises in this sector has increased from 36 percent in 1998 to 47 percent in 2002 and for medium size enterprises from 23 to 34 percent. The performance of micro enterprises in the construction sector is less striking. Their contribution to value added has diminished to 18 percent in 2002 from 41 percent 4 years ago.



A comparison of the growth rate of turnover and value added (Figures 23 and 25) reveals that large enterprises have achieved better productivity, since they have had better value added growth for the same turnover.

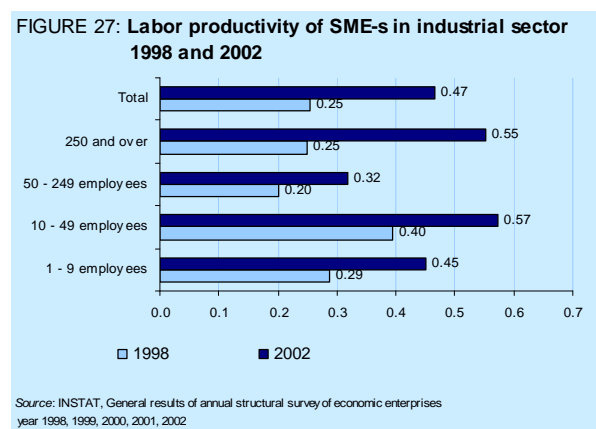
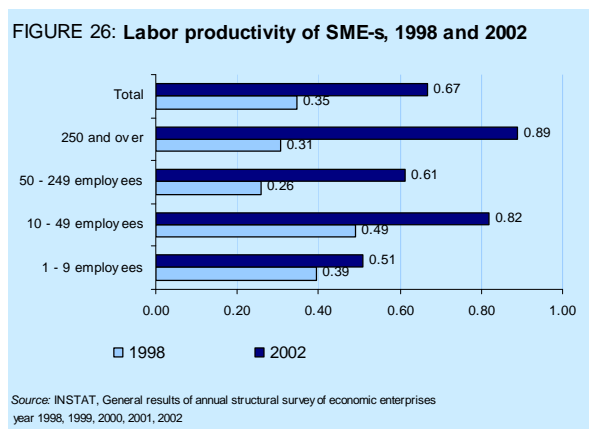


2.7 Labor productivity in SME sector

Labor productivity is measured as value added per employed person. This is a calculated indicator for each size-class and for all non-agricultural sectors as a ratio of value added generated by each sector to the number of employed persons. This indicator is the key

measurement of employee efficiency. The higher the value of this indicator, the greater is the productivity of employees and consequently the better competitive position will have enterprises with higher labor productivity. In normal circumstances the indicator of labor productivity has a positive correlation with enterprise size, the bigger the size-class the higher the labor productivity ratio.

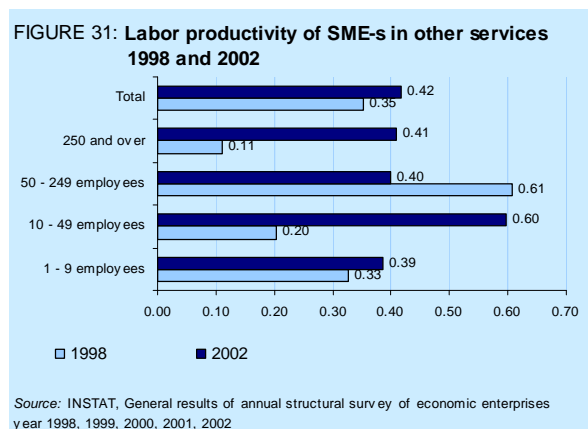
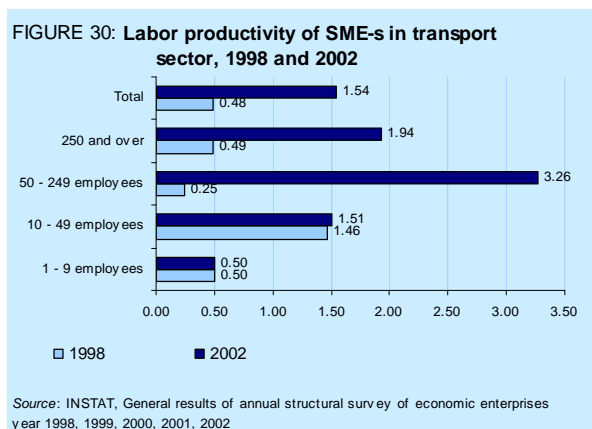
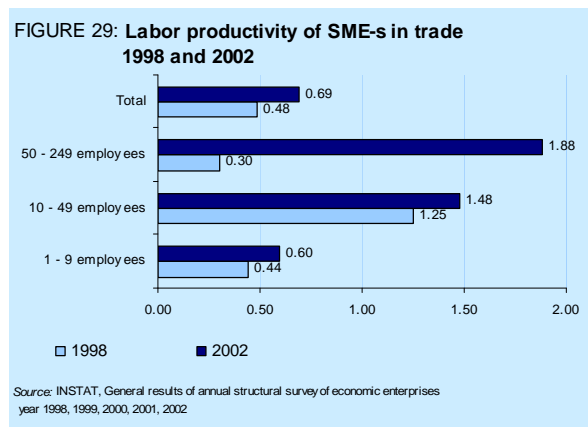
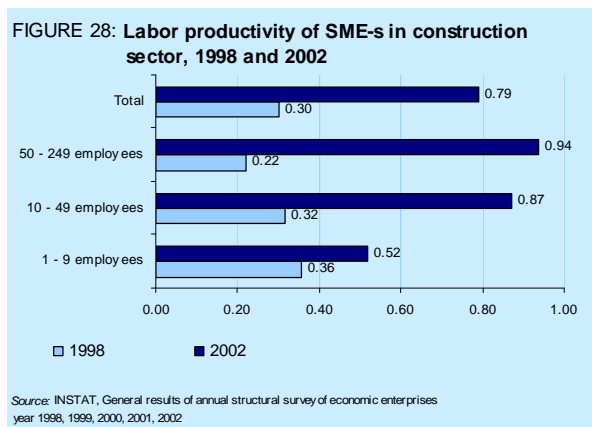
Figure 26 shows that labor productivity for all the enterprises operating in all non-agriculture sectors has almost doubled in 2002 in comparison with 1998. This is a result of the increase of value added at a higher rate than employment (see Figures 17 and 25). Between 1998 and 2002, labor productivity surged for large and small size enterprises, respectively from 0.31 to 0.89 million Lek and from 0.49 to 0.82 million Lek per one employers. Labor productivity increased substantially in medium size enterprises too (from 0.26 to 0.61), but not too much in micro enterprises. In 2002, we can be also distinguished a positive relation between size of enterprises and labor productivity, which have not been seen in 1998.



After the analysis of labor productivity by sectors we can conclude that:

- Ø The labor productivity of the industrial sector is lower than the average of total non-agricultural sectors (see Figures 26 and 27). Moreover, in terms of labor productivity, small size enterprises in the industrial sector performed much better than those of other sizes.
- Ø The average labor productivity in the construction sector is 0.79, which is higher than the average of all other sectors. In 2002, medium and small size enterprises in the construction sector had labor productivity of, respectively, 0.94 and 0.87 million Lek. Micro firms are lagging behind the other size groups in terms of labor productivity.
- Ø The average labor productivity in the trade sector is close the average of all sectors. In 2002 in comparison with 1998, labor productivity for medium size firm in trade sector increased 5 fold, while for micro enterprises labor productivity increased by 36 percentage points in 4 years time in trade sector.
- Ø In 2002, the average labor productivity in the transport sector is the highest of all other sectors, and this is mainly a result of the large contribution of medium size companies. Labor productivity for micro enterprises in the transport sector has remained unchanged at 0.50 during the 4 years.

Ø Other services are the worst performing sector in terms of labor productivity (see Figure 31). Within this sector we can notice that labor productivity for medium size enterprises (50-249) has fallen over the 4 years.



2.8 Conclusions regarding SME situation in Albania

The analysis of the situation of SME-s is based on INSTAT's SBS data for the period 1998-2002. This analysis revealed the following conclusions regarding the SME sector:

- Ø In 2002 the enterprise stock in Albania was dominated by small size enterprises, with 99 percent of them employing less than 50 employees. Most micro enterprises (employing less than 9 employees) are in the trade and transport sectors. Enterprises with more than 50 employees are predominantly in the industrial and construction sectors. Most business units are focused on service related activities. Small and medium size enterprises are associated with the industrial and construction sectors. An increase in the number of medium size enterprises in the industry and construction sectors is a phenomenon that has taken place after 2000.
- Ø In 1998, enterprises that employ 1-9 employees accounted for about 37 percent of total working force, while in 2002 this group contributed to 42 percent of total employment.

Small enterprises have marked an increase in employment, with 13 percent in 2002 from 9 percent in 1998. The employment share generated by larger enterprises (employing more than 250 employees) has substantially decreased over the period 1998-2002.

- Ø Micro enterprises have decreased their contribution to total investment. Increases in investment have been achieved by small and medium size enterprises, that together in 2002 account for 47 percent of total investment (from 28 percent in 1998). The biggest impact came from SME-s in the construction and transport sectors.
- Ø The share of turnover delivered by micro enterprises in 2002 was reduced by 7 percent in comparison with 1998. Still this group of enterprises maintained the biggest share (45 percent) of turnover in comparison with other size classes of enterprises. Over the period 1998-2002, small enterprises contributed much more to turnover and their share increased from 13 percent in 1998 to 22 percent in 2002.
- Ø In 2002, SME-s, including micro enterprises, contributed to 65 percent in the formation of value added. This level is 3 percentage points lower than in 1998, and is mainly a result of the decrease of the contribution of micro enterprises in the formation of value added.
- Ø Value added and turnover indicators confirm that small and medium size enterprises in the construction sector are the most dynamic firms in all non-agricultural sectors.
- Ø Labor productivity for all sizes of enterprises has almost doubled in the period 1998-2002 as a result of the faster rate of increase of value added than that of employment in the respective sectors. The biggest jump in labor productivity happened in large and small size enterprises, where it went from 0.31 in 1998 to 0.89 million Lek in 2002, for large firms, and from 0.49 to 0.82 million Lek, for small firms. Labor productivity increased substantially for medium size enterprises too (0.26 to 0.61), but the same thing did not happen for micro enterprises where labor productivity increased by much less.

Chapter 3

SME Business environment

3.1 Introduction

It is not possible to conduct an analysis of the SME business environment by using SBS data and indicators. This is because:

- Ø Structural indicators are available only once per year;
- Ø The SBS data are available not before 15 months of the end of the period, and in Albania this period goes up to two years.
- Ø Structural indicators cannot capture cyclical movements of businesses, including seasonal factors influencing business activity, as well as factors that are influencing the decisions of managers for increasing/decreasing production or/and investment plans.
- Ø Structural indicators by their nature are backward indicators and they provide almost no information about possible forward movements of business activity.

Short-term indicators complement many of the weaknesses of structural indicators. For this reason short-term indicators are very important in shaping the policy agenda in support of business development, including SME-s.

In addition to the need for detailed information, there are other reasons why business indicators are useful. Decision-makers want to be in a position to analyze several aspects of the cycle of economic activity. The indicators must give different insights into a situation at a given moment, for example, not only the level of production in volume terms, but also the variability of output prices, employment, or sales (turnover). They must also allow for predictions of future developments. In particular, the index of new orders constitutes an essential element of appraisal of foreseeable developments of an activity.

The INSTAT program of short-term statistics is already under the way, but at the time of the writing this report there were no data available based on size structure of enterprises. For this reason qualitative business survey data provided by CRD Tirana have been used to analyze SME business environment, as well as business constraints to the SME sector. Box 3 gives a short introduction about the use of qualitative business surveys, which are also known as business tendency surveys.

Box 3: Business tendency surveys

Business tendency surveys are qualitative surveys. They are carried out to obtain qualitative information for use in monitoring the current business situation and forecasting short-term developments. Information from these surveys has proved of particular value in forecasting turning points in the business cycle. The results are very important and can be used either by themselves as indicators of business and consumer sentiment and short-term economic development, or in forecasting, in conjunction with quantitative statistics. Today, business and consumer surveys following the EU harmonized scheme are carried out in more than 50 countries worldwide, including the EU applicant countries in CEE. Integration of these surveys into the EU program will take place in line with their integration into the Union. Since January 2002, CRD have started to conduct regular quarterly qualitative business surveys in manufacturing and construction sectors. The survey involves firms in the cities of Tirana, Durresi, Shkodra, Elbasani Fieri and Vlora. Annex 2 shows the distribution of surveyed firms by size of enterprise and by number of employees.

3.2 SME-s environment in manufacturing sector

The SME business environment is assessed by using the business confidence indicator. This indicator is a composite indicator, used to facilitate the interpretation of business survey results as they summarize the answers for different variables in a single number and in a simple time series. The confidence indicator for manufacturing sector is defined as the arithmetic mean of the answers to the questions on production expectations, assessment of order books, and assessment of stocks of finished products (the latter with inverted sign). The following assumptions must be clarified beforehand:

- ∅ The combination of these three variables summarizes the business climate accurately.
- ∅ The industrial climate is positively related to increasing balances¹ for production outlook and order books and to decreasing balances for stocks.
- ∅ All three variables have exactly the same significance in the formulation of the industrial climate.

Figure 32 shows that micro, small and medium size enterprises follow slightly different paths. The second observation that can be drawn from Figure 32 is that all size classes of enterprises follow more or less the same business cycle, meaning that factors that are affecting business activity have the same impact on firms regardless of their size. The third observation that can be drawn from Figure 32 is that the level of business confidence increases in tandem with the size category of enterprises. For example, as can be seen in Figure 33, the bigger the enterprise in the manufacturing sector is, the more favorable its business environment will be.

During the surveyed period, January 2002-July 2004, the business climate for micro enterprises operating in manufacturing sector has always been unsatisfactory, as shown by the negative values of the indicator. One implication of this phenomenon could be the reduction in the contribution of micro enterprise to the industrial production during the survey period.

¹ Balance shows the difference between positive and negative percentages of answers

Figure 32 shows that the business environment for medium size enterprises has been always positive. Looking into Figure 7 and 32 it can be distinguished that performance of medium size enterprises determines overall business climate in manufacturing sector. After January 2004, small enterprises are catching up, because their managers are optimist about their business activity.

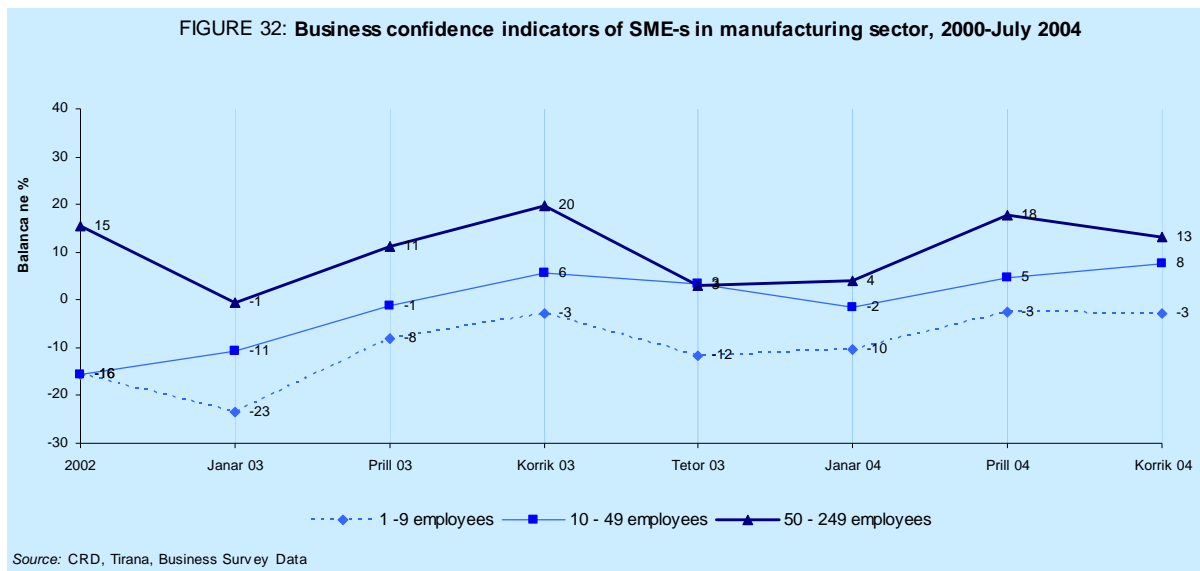


Figure 33 shows the balance of answers to the question of order books. The managers of all three size groups of enterprises think that the level of order books is insufficient. The most dissatisfied are owners of micro enterprises, as evidenced by the very low negative ratios in the graph.

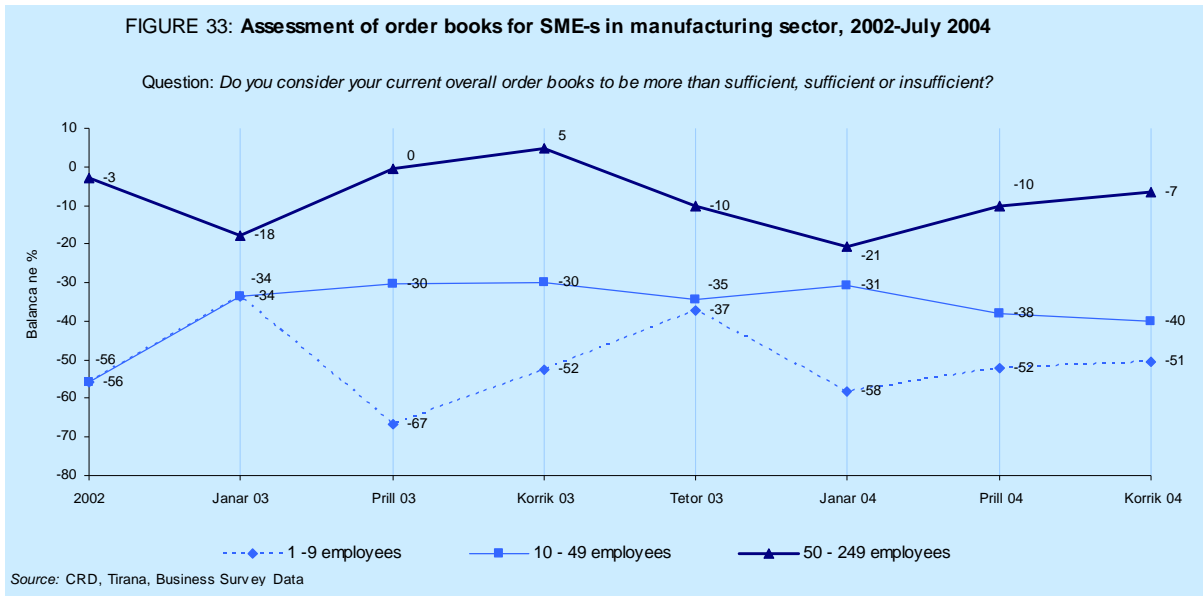


Figure 34 shows that recently managers of small enterprises have been more optimistic about increasing employment over next three months. Business survey results for July 2004 show that all companies are likely to increase their work force, because of their better expectations of business activity.

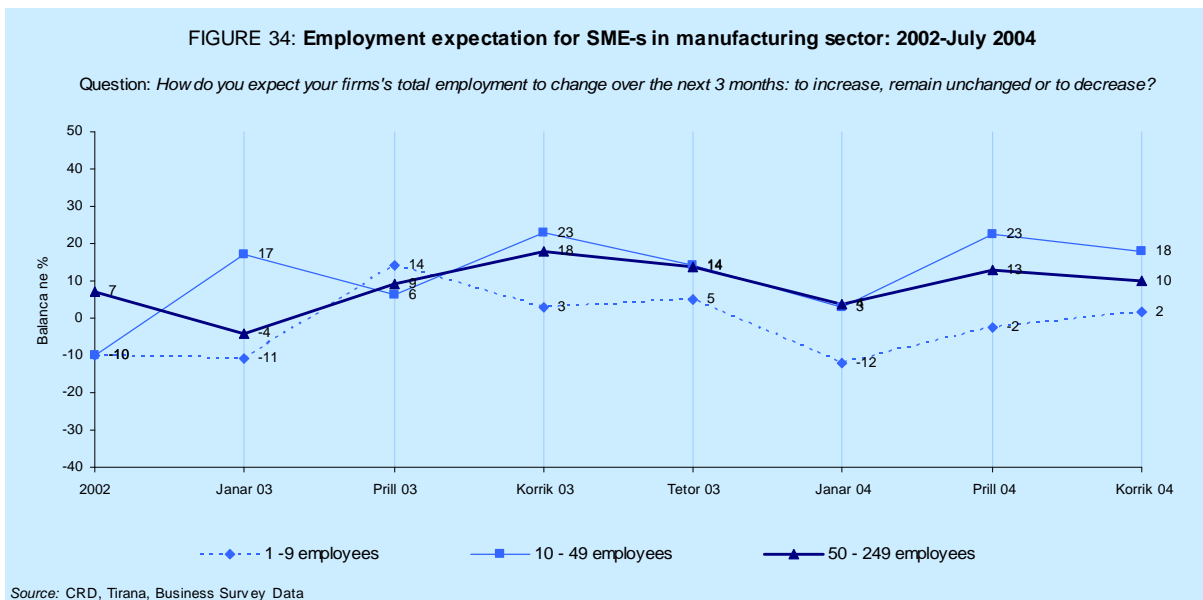
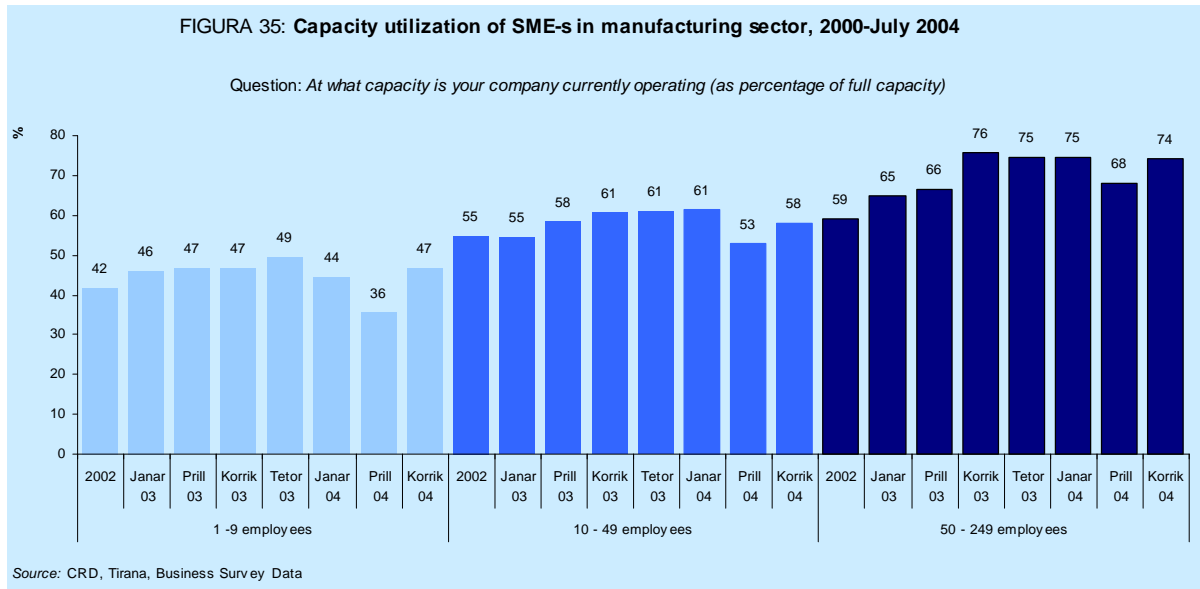


Figure 35 shows that micro enterprises utilize less than 50 percent of their production capacity, small firms use about 60 percent, and medium size enterprises use about 72 percent of their capacity. Such figures show that medium size companies are more able to respond to market demand by extending their number of products, and consequently increasing utilization levels of their production lines.

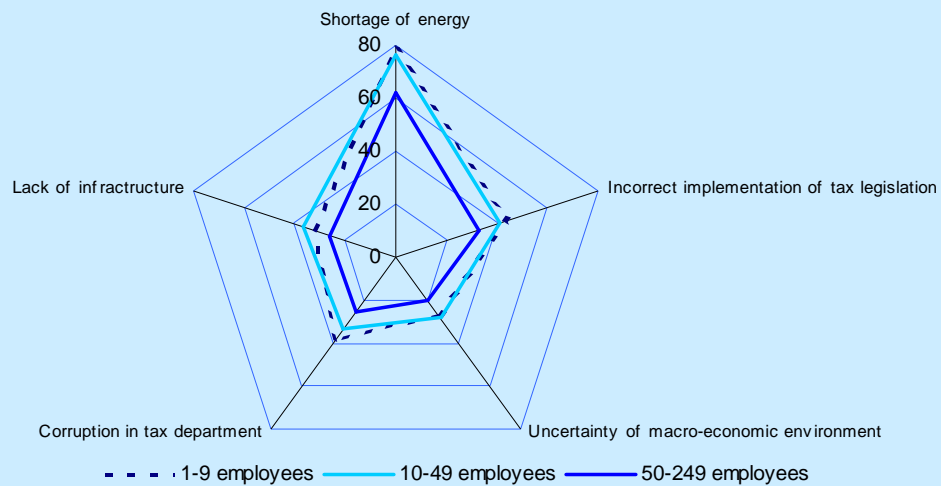


3.3 SME constrains in manufacturing sector

Figure 36 shows the impact of limiting factors with perceived infrastructure difficulties by size classes of enterprises. This Figure shows that on average, for the surveyed period January 2002-July 2004, shortages of energy are perceived to be the most problematic factor mentioned by entrepreneurs. This factor is emphasized in particular by micro enterprises (78 percent) and small firms (76 percent). The response of medium size companies is at 62 percent. The second most important factor is incorrect implementation of tax legislation chosen by 44 percent of micro enterprises, 42 percent of small enterprises and 33 percent of medium size enterprises. The lack of infrastructure and the problem of corruption are factors that are mentioned in particular by owners of micro and small size enterprises.

FIGURE 36: Distribution of SME-s in manufacturing sector with perceived infrastructure difficulties (January 2002 – July 2004)

Question: *What main factors are limiting your production activity (more than one choice is allowed)?*

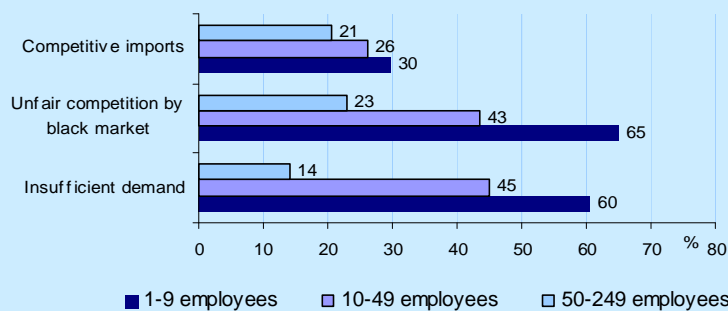


Source: CRD, Tirana, Business Survey Data

Figure 37 shows that on the demand side micro enterprises are particularly hit by unfair competition of black market (mentioned by 65 percent). Insufficient demand is also a limiting factor for micro enterprises. Entrepreneurs of small enterprises are worried by the impact of both these factors, while managers of medium size enterprises seem not to equally concern by lack of demand or the effect of black market.

FIGURE 37: Distribution of SME-s in manufacturing sector with perceived demand difficulties (January 2002 – July 2004)

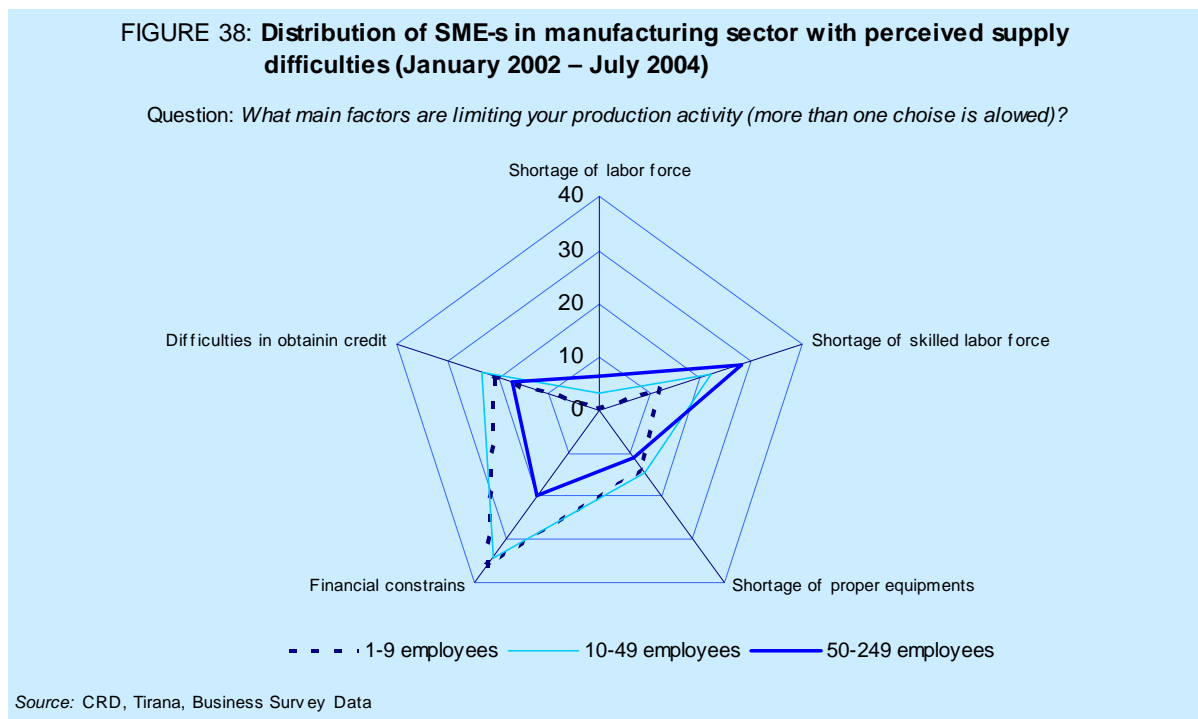
Question: *What main factors are limiting your production activity (more than one choice is allowed)?*



Source: CRD, Tirana, Business Survey Data

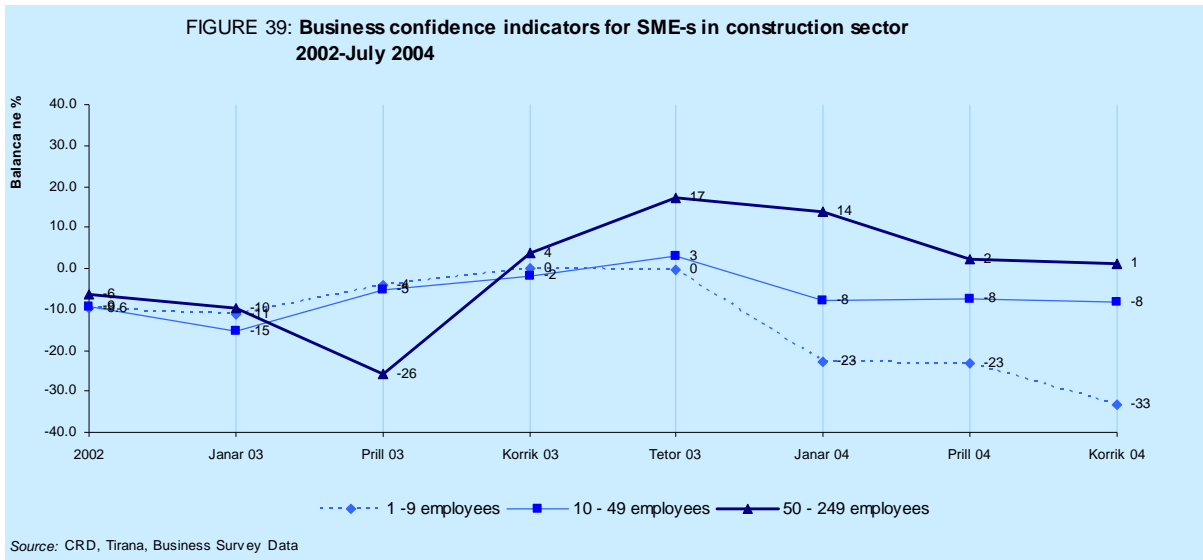
Figure 38 shows that supply related factors are less important to managers in the SME sector. It is worth pointing out, though, that shortages of skilled labor are becoming a concern especially for medium size companies (mentioned by 28 percent of managers). Financial constraints seem

to be a problem for micro and small size companies (mentioned by 36 and 34 percent of interviewees). Shortage of labor force is an insignificant concern for all size classes, meaning that the current pool of available labor force is quite large.



3.4 SME environment in construction sector

Figure 39 indicates that over the period 2002-July 2004 there were two turning points for SME-s in construction sector. The first one occurred during the period January-April 2003, when business confidence bounced back and followed 3 quarters of positive business tendency after a period of decline. The second one happened in October 2003, when micro enterprises slowed down their business activity, as indicated by their business confidence indicator which went down in negative territory for 3 consecutive quarters. The confidence indicator for small enterprises was negative (8 points) in the last three surveys, meaning that business environment for this group of enterprises was not conducive to growth. The confidence indicator for medium size enterprises was at satisfactory levels, but a little bit lower in comparison with one year ago.



The indicator of order books is one of the two indicators of business confidence. Figure 40 shows that insufficient levels of order books for SME sector in the construction sector is a reflection of pessimist business climate for the first six months of 2004.

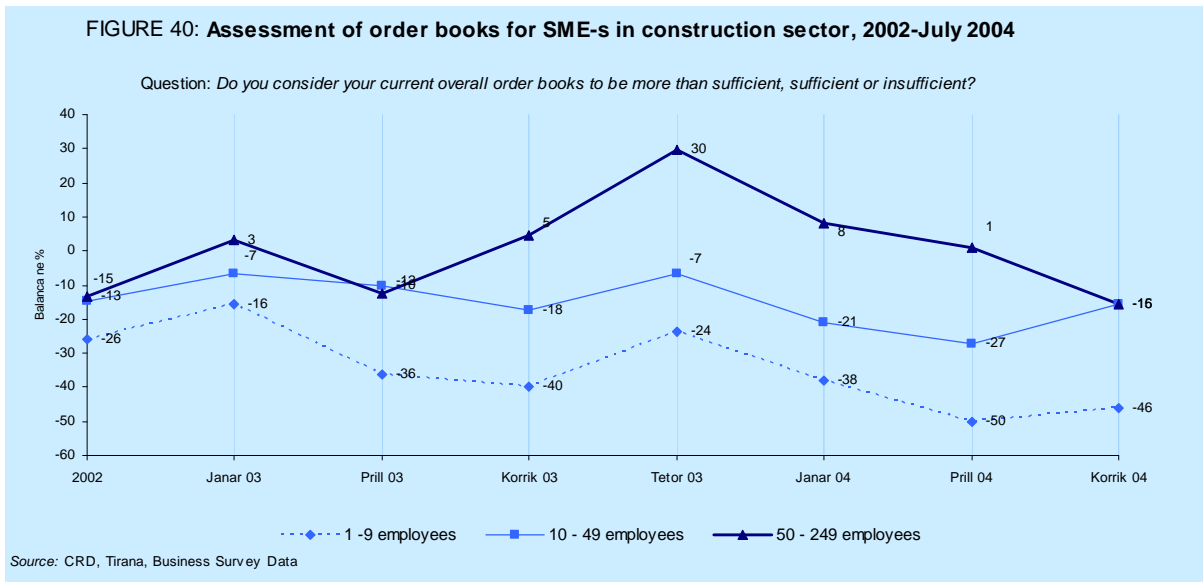
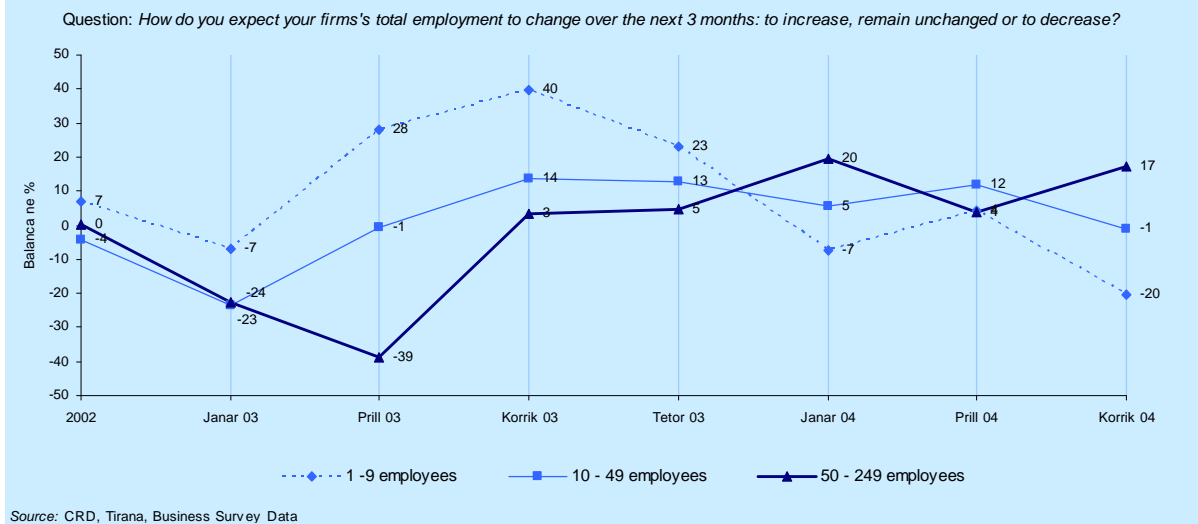


Figure 41 shows that entrepreneurs of middle size construction companies are optimistic about their business perspective. We can deduce this by the fact that they think they will increase employment in the near future. A balance of 17% in July 2004 is higher than one year ago (3%). For three consecutive quarters, owners of micro enterprises in the construction sector have stated that they will decrease employment in their firms.

FIGURE 41: Employment expectations for SME-s in construction sector, 2002-July 2004



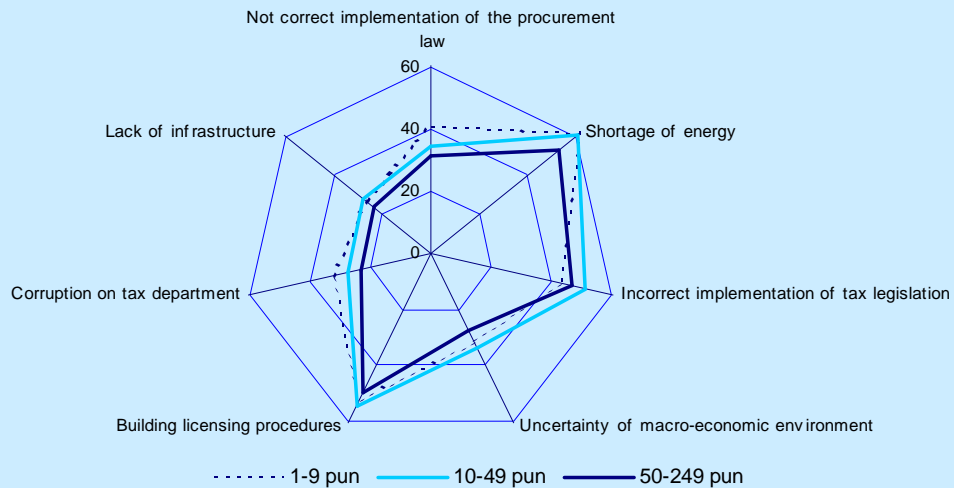
3.5 SME constrains in construction sector

Factors limiting business activity in the construction sector are rather different from those that hamper business activity in the manufacturing sector. However, these factors can be classified into three groups: demand, supply or business environment constraining factors.

Figure 42 shows that building licensing procedures are the second most important constraint for SME-s in the construction sector (after shortages of energy). Business survey data have indicated that only large enterprises does not express real constrain about building licensing procedures (11 percent is the response rate for this group), while entrepreneurs of micro, small and medium size enterprises share more or less the same concern about this problem. Incorrect implementation of fiscal legislation is mentioned by 50 percent of managers of small enterprises, 46 percent of medium size enterprises and 42 percent of micro enterprises. Other factors, such as incorrect implementation of procurement law, lack of infrastructure and corruption, are significant constraining factors (mentioned on average by 25-35 percent of respondents).

FIGURE 42: Distribution of enterprises in construction sector with perceived infrastructure difficulties (January 2002 – July 2004)

Question: *What main factors are limiting your building activity (more than one choice is allowed)?*

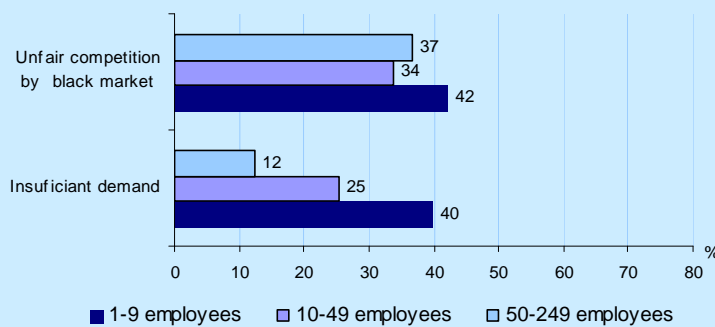


Source: CRD, Tirana, Business Survey Data

Figure 43 shows that micro enterprises are more affected by the activity of the informal sector (on average 42 percent of them see this as a problem). About 40 percent of micro firms' owners think there is insufficient demand. This factor seems to have a positive relationship with enterprise size, as medium size enterprises do not show any real concern about weak demand.

FIGURE 43: Distribution of SME-s in construction sector with perceived demand difficulties (January 2002 – July 2004)

Question: *What main factors are limiting your building activity (more than one choice is allowed)?*

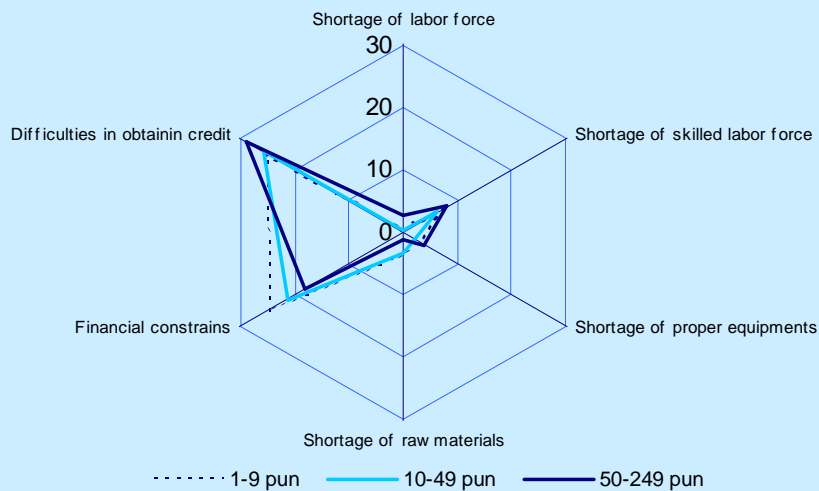


Source: CRD, Tirana, Business

As in the manufacturing sector, supply-side limiting factors are less problematic to firms. Figure 44 shows that SME-s in the construction sector have problems to access credit markets, as well as financial constrains (mentioned on average by 20-30 percent of respondents).

FIGURE 44: Distribution of SME-s in construction sector with perceived supply difficulties (January 2002 – July 2004)

Question: *What main factors are limiting your building activity (more than one choice is allowed)?*



Source: CRD, Tirana, Business Survey Data

3.6 Main conclusions regarding SME-s business environment

The analysis of the SME business environment is based on short-term business indicators. Short-term indicators are very important in shaping the policy agenda in support of business development, including SME-s. The key recent developments in the manufacturing and construction sectors are:

a. SME-s in manufacturing sector

- Ø Micro, small and medium size enterprises in the manufacturing sector follow different paths. The level of business confidence for SME-s in this sector is positively related with enterprise size, the bigger the enterprise the more favorable its business environment. Hence, for the period January 2002-July 2004, the business climate for micro enterprises operating in the manufacturing sector has been unsatisfactory, while for medium size enterprises the business climate has been more favorable. Moreover, performance of medium size enterprises determines overall business climate in manufacturing sector. After January 2004, small enterprises are catching up as their managers are optimistic about their business activity.
- Ø Micro enterprises utilize less than 50 percent of their production capacity, small firms use about 60 percent and medium size enterprises use about 72 percent of their capacity. Such figures show that medium size companies are more able to respond to market demand by extending their number of products, and consequently increasing utilization levels of their production lines.
- Ø On average, for the surveyed period January 2002-July 2004, shortages of energy are perceived as the most problematic factor by entrepreneurs. This factor is emphasized more

by micro enterprises (78 percent) and small firms (76 percent). The response rate for medium size companies is 62 percent. The second factor by importance is incorrect implementation of tax legislation mentioned by 44 percent of micro enterprises, 42 percent of small and 33 percent of medium size enterprises. The lack of infrastructure and corruption are factors that are mentioned in particular by owners of micro and small size enterprises.

- Ø On the demand side micro enterprises are particularly concerned with unfair competition of black market (mentioned by 65 percent). Insufficient demand is also a limiting factor for micro enterprises. Entrepreneurs of small enterprises have shown concern about the impact of these two factors, while managers of medium size enterprise seem to be unconcerned with the lack of demand, or the effect of black market.
- Ø On the supply side SME owners in the manufacturing sector have fewer concerns.

b. SME-s in construction sector

- Ø During the period January-April 2003, SME-s in the construction sector have bounced back after a decline in the activity for 2002. After three quarters of positive business tendency, business confidence for SME-s, and particularly micro enterprises, started declining in October 2003 and kept going down for 3 consecutive quarters. Confidence indicators for small enterprises were negative (8%) in the last three surveys, meaning that the business environment for this group was bleak. The confidence indicator for medium size enterprises is at satisfactory levels, but a little bit lower in comparison with one year ago.
- Ø Insufficient levels of order books for SME sector in the construction sector is a reflection of pessimist business climate for the first six months of 2004. The level of order books for micro enterprises is much lower than one year ago.
- Ø Building licensing procedures are the second most important constraint for SME-s in the construction sector (after shortages of energy). Only large enterprises seem to be unconstrained by building licensing procedures (11 percent is the response rate for this group), while entrepreneurs of micro, small and medium size enterprises share more or less the same concern about this problem. Incorrect implementation of fiscal legislation is mentioned by 50 percent of managers of small enterprises, 46 percent by medium size enterprises and 42 percent of micro enterprises. Other factors such as incorrect implementation of procurement law, lack of infrastructure and corruption are significant factors for SMEs in this sector (mentioned on average by 25-35 percent of respondents).
- Ø Micro enterprises are more affected by the activity of the informal sector as on average 42 percent of them have pointed out this factor. About 40 percent of micro firms' owners have mentioned they have insufficient demand.
- Ø Limiting factors with impact on the supply side of firms' activity is are less severe than other types of constrains.

Chapter four

An Outlook to Government Policies

4.1 Strategy overview

Overall objective of Government SME strategy is to create a positive business development climate to allow for sustainable SME growth. Its specific objectives are: encouraging the expansion of existing businesses and the creation of new ones (Start-ups), including the transformation of traders into investors in production, while simultaneously supporting production for export and SME joint-ventures.

The new features of this strategy are related with identified needs of the small business community in Albania. In this context two surveys funded by GTZ and UNDP (bottom-up approach) and the emphasis on a decentralized structure were conducted. 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.

The Ministry of Economy, once these structures have been created, is going to be concerned to policy matters, for which task it will get inputs from the SME Agency that will get constant information from the basis via regional service providers and SME associations. Channeling 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.

To reach the above objectives a number of concrete measures will be taken, such as:

- Ø Institutional strengthening and development
- Ø Creating a positive predictable legal and fiscal framework, conducive to SME development.
- Ø Improving the SME operational management through a comprehensive training program
- Ø Improving the SME credit system.
- Ø Use SME promotion to obtain more balanced regional and sector development.

The SME Strategy is based on a number of *strategic goals*, which are of vital importance to the development of the country in general and to its economic growth in particular.

It takes into account social development elements to improve the social welfare of the population, as well as more specific economic factors.

Ø *Social development*

• Employment creation

This is one of the factors with a big stake in the whole economic development process and thus will have major impact on the SME development strategy.

In that perspective Government intends the following approach:

- ü Analysis of the unemployment situation all over the country, including future trends. This to allow for targeted SME efforts to be made per region/age group/education/gender etc.
- ü Draft an employment/qualification plan related to the needs of the market per region, sector, profession, skills etc. This to project operational strategies and budget allocations for organizing systematic support and thus facilitate the employment process.
- ü Draft a re-integration plan for experienced Albanians abroad. This to make good use of their newly acquired skills and also savings to establish new enterprises in Albania.
- ü Facilitate economic integration of weak groups within the community. This concerns young drop-outs and school leavers; women-head-of-households; handicapped people etc.

- Income Allocation/Distribution

Government will try to keep some control over possible unbalances of the market. Selective SME promotion could thus be used to help in the redistribution process especially with regard to perceived regional unbalances.

- Ø Economic Development Factors

- ü The government will encourage and actively support existing/potential SME service providers and local financial institutions to decentralize their structures and activities, in view of covering the whole country with an appropriate SME credit network, as well as adequate SME consulting/training program as back-up to start-ups and already operating entrepreneurs.
- ü At the same time the Government will consider measures to provide preferential credit for productive investment in outlying districts and in non-trade/services sub-sectors including in the above mentioned central area corridor.
- ü In view of reaching sustainable economic growth and development all over Albania, Government will consider the possibility of creating 'Economic Development Pools', to be located in strategically well placed regional centers. The selection of location will be determined by objective economic and social criteria, as well as political ones regarding stability and national integration.

4.2 The SME Agency

The SME Development Agency is established by Law No 8597 date 17.10.2002. The Agency has a major role in implementation of the SME strategy of the Albanian government. This strategy has an overall purpose to create of positive climate for business development aiming at the promotion of SME-s.

- Support of new business start-ups
- Encouragement of tradesmen to invest in production

- Export promotion
- Support of Joint-Ventures in SME sector

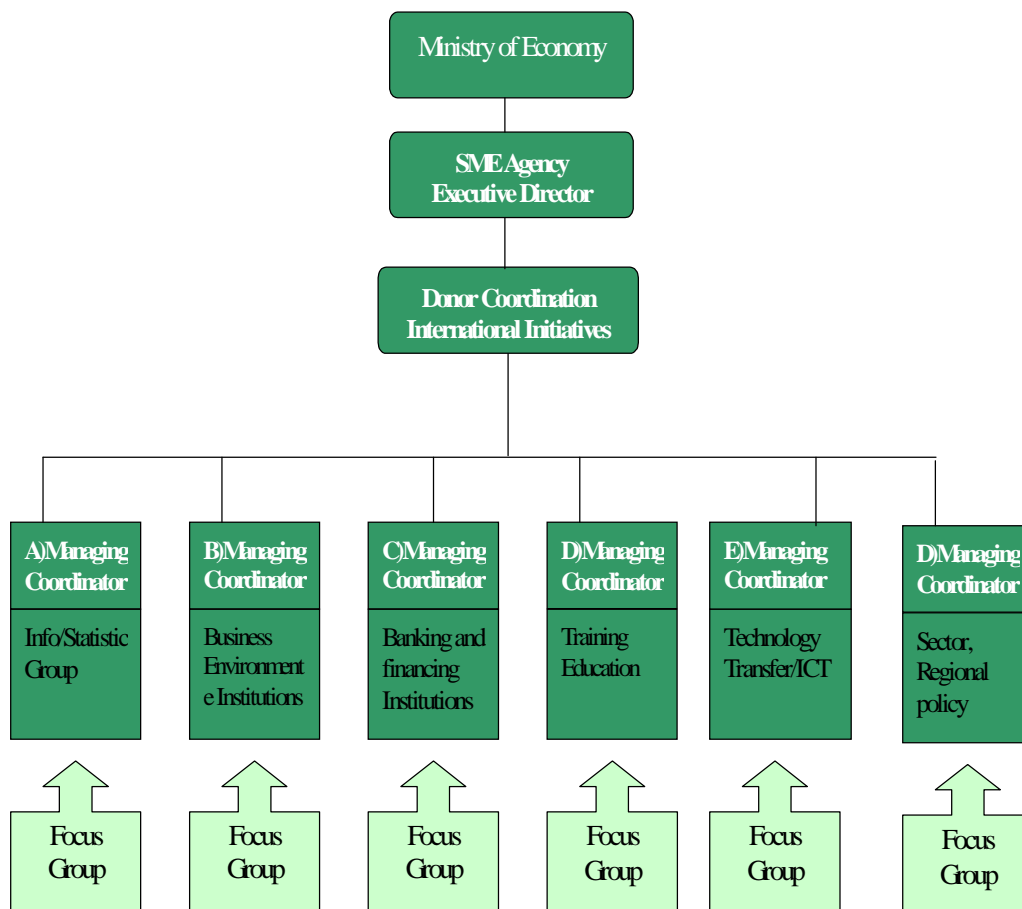
In order to ensure the implementation of these objectives, the measures below would be adopted:

- a. Institution strengthening and development
- b. Development of legal and fiscal framework
- c. Improvement of SME operation management
- d. Improvement of credit system for SME-s
- e. Support of a harmonized development of localities and sectors

The SME Law defines the concrete benefits that SME-s would enjoy support of the government and such support is:

- ü Financial supports and credit risk guarantee
- ü Technical supports
- ü Information and consulting
- ü Education, training and professional qualification
- ü Employment promotion programs
- ü Renting facilities for state assets
- ü Infrastructure development
- ü Industrial zones/Business incubators

The Ministry of Economy is the responsible Institution for SME Policy and legislation and has a leading role in the process of program development and monitoring. The Ministry of Economy has established the SME Agency as an executive body for Policy and Strategy implementation. In order to carry out this role, the SME Agency will play a coordinating function of the SME Development Program. This coordination scheme would be the following:



4.3 SME Development priorities

Each area of policy of SME Development would be directed by a focus group structured according to the specific objectives. It will consist of a variety of different institutions that represent their direct or indirect interest and commitment to the SME program. There are 6 policy committees plus one committee for the donor coordination. These ad-hoc committees will be conceptualized as partnerships groups between government, business and society with corporate responsibility at promoting and contributing to the continuous development of SME-s in Albania. This entire network is to develop government-to government dialog in parallel with business-to business dialog. Thus, the Agency serves as intermediary for government, business, social partner, NGOs and Society aiming at bringing forth an active partnership policy to advertise and optimize its efforts towards creating an efficient synergy needed to bring the undertaking to completion.

1. Information Services

Priority – To monitor SME development by:

- Reviewing available sources of data on SME-s;
- Introducing a system of SME performance indicators;
- Developing sector/cluster based SME information systems and reporting;
- Estimating the proportion and numbers of firms operating in the informal sector;
- Adopting international SME reporting standards; and
- Preparing an annual report on the state of SME-s in Albania.

2. Development of Human Resources

Priority- To raise the level of knowledge of entrepreneurship and improving the professional standards of business service providers by:

- Introducing entrepreneurship into university and pre-university curricula;
- Developing graduate enterprise programs and training;
- Raising the professional standards of trainers and business consultants through accreditation; Improving the quality of training and service products delivered to SME-s;
- Increasing support for young people and women entrepreneurs.

3. Financial Services

Priority – To improve SME-s access to credit and other financial services by:

- Extending loan guarantee schemes;
- Introducing new regional micro-credit schemes;
- Improving the capacity of banks and non-bank financial institutions to offer SME credit services;
- Offering ‘softer’ lending conditions to priority sectors;
- Extending leasing schemes for capital equipment purchasing;
- Accelerating land registration procedures; and
- Simplifying bailiff procedures for executing collateral.

4. Legal, Taxation and Regulatory Framework

Priority – To reduce the taxation, legal and administrative barriers constraining the development of SME-s by:

- Simplifying business registration and licensing procedures based on best practices;
- Increasing the member of businesses operating in the formal sector;
- Minimizing the tax burden on SME-s;
- Stabilizing the taxation environment; and
- Conducting ongoing research on the effects of administrative, legal and tax barriers on SME development.

5. Business Infrastructure and Technology

Priority – To improve the efficiency and quality of infrastructure, utilities and technology available to SME-s by:

- Extending business and industrial parks;
- Promoting the increased use of ICT in SME-s;
- Supporting research and development centre;
- Upgrading the technology used by SME-s;
- Improving the availability of utilities for SME-s

6. Regional and Sector SME Development

Priority – To develop SME-s in the regions by:

- Expanding SME projects in North-Eastern Albania;
- Conducting regional/sector research and analysis; and

7. Donor Coordination

Priority – To maximize the efficacy of donor support by:

- Coordinating donor activities through regular contacts to avoid duplication and overlap;
- Holding regular donor coordination forums organized by the SME agency;
- Encouraging donors to support projects in key SME priority areas.

4.4 Tax Policy

Improvement of fiscal policy is priority of Albanian Government. In the frame of SME business environment changes and amendment of tax legislation are related with:

Value Added Tax (VAT)

The actual VAT legislation rests upon the 6th EU directive on VAT. The Albanian VAT is a broad-base tax, with few exemptions, with a basic tariff of 20%, and the tariff 0% for exports and international transport. Liable to register as VAT taxpayers are all persons that supply goods or services, which annual turnover exceed 8 milion leks (this is the VAT threshold), while persons with a lower turnover might choose to register for VAT or as small business taxpayers, benefitting from a special tax treatment.

Some of the main amendments made to the VAT legislation at the end of 2003, effective from January 15, 2004, are:

- § The increase of the VAT taxable base, by including in the VAT system all persons that deal with wholesale trade, irrespective of the turnover threshold. This group includes persons who sell goods on account of retail traders (i.e. carrying out sales not for a final consumptions, but from business to business). We think that this will help fighting tax evasion of these companies as well as reducing the manipulation of the prices;
- § The acceptance of the technological losses and wastes during transit, warehousing, transport and production for VAT purposes, until the limits defined in special legal and sublegal acts. Before this amendment, in order to avoid abuses, the above-mentioned losses were not accepted for VAT calculation purposes, considering them as taxable supply and calculating VAT. After this amendment, the argued losses, verified by the relevant documentation, are recognized fiscally as a business expense and are not subject to VAT;
- § The improvement of the tax invoice model for supplies of goods and services with VAT, by including identifying data for the transporter of the goods. This will help improve the VAT management and fight tax evasion;
- § The introduction of a self-invoicing system at the businesses processing agricultural and stock-farming products. The processors of agricultural and stock-farming products, like the processors of milk, olives, grapes and wheat, (i.e. the producers of the packaged

milk, olive oil, wine, grape raki, flour, etc.) made the purchase of the raw materials (respectively milk, olive, grape and wheat), directly by the farmers or the collectors, who are not VAT taxpayers. The above-mentioned producers pay VAT on sales of finished products at a rate of 20% and, on the other hand, since they buy from farmers or collectors who are not VAT taxpayers, they cannot reduce VAT on purchases. So, these producers, access the market finding themselves in a discriminating position (compared to farmers who are not taxed, and collectors or small producers who are not VAT taxpayers). In these conditions, by means of the recent amendments, the above-mentioned are entitled to self-invoicing, therefore they are allowed to get an invoice for raw material purchases (with the purchase price) and calculate VAT on purchases which can be normally reduced against VAT on sales of the finished product;

- § The establishment of a 30 days time frame in cases of a reexamination of the tax assessment by the GDT. In compliance with the VAT Law provision, taxpayers have the right to appeal in GDT when they do not agree with a tax assessment of the tax authority. Through the established time frame, the GDT must carry out the reexamination and notify the results to the taxpayer within a 30 day period, otherwise the reply is considered as being in favor of the taxpayer. Through this amendment we aim at avoiding cases of carelessness, negligence or lack of responsibility by tax officials.

2. Excise duty

In January 2003 the Albanian parliament approved a new Law “On Excise duties” effective from July 1, 2003. The law was drawn-up in cooperation with British experts, under the tax assistance of the British Government and rests upon the EU guidelines on Excise duties. Compared with the previous excise law, the new law contains more completed and consolidated provisions that enable to the tax administration the employment of efficient tools and methods for the collection, audit and enforcement implementation for Excise.

3. Income Tax

The Law “On Income Tax”, effective from January 1999 (amended), regulates the personal income tax, simplified profit tax and profit tax.

The most important amendments, ratified by the Parliament in December 2003, in the Law “On Income Tax” , are the following:

Ø On personal income tax:

- § The broadening of the personal income tax basis, by including income from other sources, considering as taxable income any income except those expressly exempted by this Law. All kinds of personal income, except income from employment, are taxed on gross basis at a flat rate of 10%. Exception from this rule make income from sale of shares, or participation in businesses, which are taxed on a net basis, that is, as a difference between the sale and the purchase price, and personal income from sale of immovable properties which are taxed with reduced rates 1 – 3 %;
- § Improvements and adjustments in collection methods of personal income tax, by giving priority to the withholding tax by the payer of the income. So, in the cases when the

payers of income are legal persons, partnerships, physical persons or any other public or private institution registered in the Albanian tax authorities, priority is given to the withholding tax by the payer at the moment of payment. When this is not possible, that is payments are made by persons not registered at the Albanian tax authorities (or made by non-residents), then the individual beneficiary of the income is liable to declare and pay personal income tax to the relevant tax authority;

§ The improvement of the procedures for income tax of foreign residents (non-residents) who generate income sourced in the Republic of Albania (like artists, sportmen, technical assistance, technical service, etc.), also in this case priority is given to method of withholding the tax at source. So, the payer (organizer, the beneficiary of the service) withholds the tax at the moment of payment and pays it into the account of the tax authority;

§ Definition of incomes exempted by the personal income tax;

§ The liability of the employers to declare monthly to the tax authorities the schedule of employees, which contains the salary level and personal income tax, as well as the social and health insurance contributions for each employee.

○ On Profit Tax:

§ The improvement of the declaration and payment procedures for Profit Tax;

§ The proper definition of the expenses for the purposes of calculating profit tax;

§ The requirement for the tax authority to accept the final taxpayer's declaration and refund the over-paid amounts or take them into consideration on the account of other tax dues, unless otherwise has been certified through a tax audit;

§ The improvement of the procedures and documentation related to the withholding taxes.

○ On simplified income tax:

§ The definition and unification of the documentation kept by the taxpayers of this tax;

§ The exemption from simplified profit tax of business categories like ambulatory, transport, artisans, etc. when their annual turnover is less than 3 million lek. This exemption is made to stimulate the small businesses, especially self-employment family businesses.

4. Tax exemptions on EU assistance projects

The Albanian tax legislation gives priority to the provisions of special agreements concluded by the Albanian Government (and ratified in the Parliament) or international multilateral conventions in which the Republic of Albania has aderred, which exempt from direct or indirect taxes certain persons or projects.

5. Taxation in Free Zones

The law no. 8636, dated 6.7.2001 "On Free Zones" regulates the establishment, functioning, supervision and control of free zones. The National Entity of Free Zones is established for the

purposes of licencing, establishment and administration of free zones, as the sole authority in Albania, responsible for the pursuance of development and functioning of free zones.

6. Tax Treaties concluded with third countries during 2003

Albania has concluded about 20 bilateral agreements with other countries for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital (Tax Treaties). During 2003, the Albanian Parliament has ratified the bilateral Tax Treaties with France and Belgium.

4.5 EU Charter for Small Business in Albania

1. Development of a national training program to enhance the internationalization of small companies and their access to EU markets, in collaboration with donors operating in Albania.

The SME Development Agency, within the priorities of SME Development policies and strategies in Albania and through a careful consultative round with all the interested Donors and actors, has proposed a new concept of integrating all existing training resources into a national platform to enhance SME business standards to the level of the required European and International Market.

The National Training Program for SME's aims to improve the competitiveness of Albanian SME's through:

- Developing an Entrepreneurial Culture
- Improving the capacity of Business Service Providers (BSP's) and
- Improving competitiveness of existing enterprises

The program itself intends to link the training projects, methodologies, instruments existing in Albania sponsored by USAID, EU, UNDP, GTZ, Italian Cooperation and other donors in one integrated system, which provides training products for internationalization of SME-s as value added to each one participators through a stage-process.

Results will consider in measurable number of:

- SME-s with certified knowledge in quality management, International Accounting, Financial management, Marketing, International law, etc
- SME-s with International Business partnerships and operations.
- SME-s success stories in competing with imported products

In June 2004 this National Training Program has been discussed in the SME Donor Partnership Forum. SME Donor Partnership Contribution will help to make available the implementation of this strategic program through:

- n Using existing resources in support of the designing phase of the final strategic document
- n Using existing or potential resources in contributing to program development
- n Using existing and potential resource in future contribution to the program implementation

Going from a strategic approach towards an operational program it needs the following steps:

- A survey to identify potential SME-s with entrepreneurial culture, business success stories, potential for growth and innovative will be conducted during the initial phase of the program. The survey will help to distinguish the most common problems and barriers faced by the Albanian SME-s to upgrade the international scope of their businesses as well as to get evidences on the areas of knowledge they perceive as more useful and needy for their operations in a high competitive international market.
- Identification of SME Training needs in relation to their access to International market
- Audit of the current SME Training projects in Albania and their impacts toward their access
- Targeting of participating SME-s in the program
- Collaboration with donors in developing the new training modules according to the program needs
- Identification of certified trainers
- Elaborating the training accreditation strategy,
- Donor commitment and support.

2. Implementation of the FIAS-induced national action plan, adopted by the government, to remove investment barriers.

As it's already known, at the request of the Government of Albania, FIAS, Foreign Investment Advisory Service/IFC and World Bank conducted an Administrative Barriers Study aimed at removing bureaucratic bottlenecks and streamlining administrative procedures for investors. The final objective of the study was the compilation of the Action Plan based on the recommendations given through out the report.

After 1) the establishment of the Task Force responsible for compiling and implementing the Action Plan, 2) the establishment of working groups for four sectors has followed: tax administration, customs administration, land and construction, appeal system and licensing. Those groups are composed by experts from governmental institutions, business community, universities and major professional think-tank dealing in Albania has initiated the dialogue with private sector to prioritize the recommendations given and select the appropriate measure for implementation.

Next step has been 3) The Approval of the Action Plan was made through the Council of Minister Decision No. 561, date 1.8.2003. The Action Plan summarizes the problem identified, the recommendation, the appropriate measure, deadline and responsible structure. The measures include all fields examined on the study. Then has been set up 4) the monitoring system

consisting of implementation of the measures on the proper deadline, and self-assessment of negative or positive impacts of the foreseen recommendations.

During Sep03-Sep04 concrete achievement are noticed. According to this action plan 11 measures have been deferred, 7 others have been postponed for the 2005. Some measures are in the process, while those realized can be summarized as following:

1. Identification of all unregistered businesses
2. Establishment of the taxpayers' service networks in local cities.
3. Integrated taxation system.
4. The publication of the legal and normative acts in hard and electronic copy.
5. The implementation of the administrative procedures regarding of gathering taxes from business subjects.
6. Tourism Development Strategy and Water Supply and Sewage System Strategy for rural areas.
7. The formulation and approval of the legal framework regarding mediation in the commercial and administrative cases.
8. The formulation of the respective draft decision in removing of the request for license in non-food Industry.
9. The others measures that are according to improvements of legislation in Costumes and Taxation Directory.

Part of this action plan is also the self-assessment process which will identify the impact of measures that the Government has implemented up to now by surveying the state institutions and the private companies. The survey intends to make known all the procedures and practices that are related to the services offered to business and compare the result with those of the previous year.

3. Establishment of a loan guarantee fund (€ 30 million with support of the Italian government)

The Albanian Government represented by the Ministry of Economy and the Italian Government represented by the Italian Ministry of Foreign Affairs, General Department for Development and Cooperation (GDDC), signed on April 9, 2002 a Cooperation Agreement. Right now the Italian Government is negotiating a financial assistance program of 30 million Euros to support the SME sector through:

- Ø the establishment of an SME Credit Line to be disbursed by the local Albanian banking system (25 million Euros)
- Ø the establishment of a Credit Scheme (2,5 million Euros)
- Ø technical assistance components for (2,5 million Euros)

This Guarantee Scheme is believed to increase SME access to Financial Institutions, by reducing the risk and as a result the high collateral requested from banks. The six steps to be undertaken for the implementation of this Guarantee Scheme are as following:

- Ø select the appropriate model for Albania and create a legal framework
- Ø set-up the appropriate procedural and operational manual
- Ø begin the pilot phase, creating the first phase of "Albanian Guarantee Found"

- Ø get in practice with the pilot phase
- Ø evaluate and adapt the current manuals
- Ø make the Albanian Guarantee Fund operational

PMU has been established with ETF assistance.

4. The micro credit scheme

A change in this field is the transferriment of 3.24 million USD loan portfolio from AGA to “Besa” Foundation and CSA at a subsidized inters rate 3,5% and 2,5 % respectively. This was realized with the decree No.499, on September 23, 2004.

There are also donor program that has continued to support the SME sector through micro credits and credits such as SBCA/USAID provides loans to SME-s through Albanian Partner in Micro credit through National Commercial Bank.

A new program of UNOPS/PASARP will also contribute in the strengthening of the SME through its LEDA mechanism aiming at identifying and funding through the Guarantee Fund (CREDINS Bank is the partner on the implementation of this strategy) the micro, small and medium enterprises, encouraging the social business.

5. Increase the effectiveness of the Business Advisory Council

It is obvious that Business Advisory Council (BAC) plays a big role in improving the business climate. However, BAC should not engage only in legislative field but also in making a sectional and development policy. For this purpose, Ministry of Economy is engaged in taking measures to increase the efficiency of BAC and strengthen the State-Business Community dialog.

In this aspect, Southeast Europe Enterprise Development (SEED), has contracted JE Austin (JAA) to conduct a study of the Business Advisory Council (BAC), May 2003. The purpose of this study was to analyze the current council structure and operation and to make recommendations regarding how the Business Advisory Council could play a more influential and effective role in policy formulation.

Based on recommendation of first study a second study was undertake on June 2004 from the same firm supported by World Bank (SEED). JAA met with members of the business advisory council, both public and private, members of the business community - non BAC members and members of the donor community.

Recommendation based on the diagnostic report and subsequent consultation with BAC member proposed to:

- Ø improve Vision Mission, Objectives, Strategies and Operating principles for the BAC;
- Ø establish an organizational and functional structure of BAC;
- Ø determine the duty of BAC Secretariat;
- Ø determine the structure of report and the information it will contain;
- Ø flow the information, horizontally and vertically and establish a report mechanism;
- Ø create the date that monitor BAC activity

In addition, the idea of the study is that BAC should have input in framing a law before it is written, and in its subsequent revisions, as opposed to simply considering legislation before being submitted for Parliamentary approval.

The final report of this study includes respective recommendation with final goal the improvement of the role and function of BAC. These recommendations are also supported by the Ministry of Economy. Based on this study and its recommendations a concrete action plan will be designed for the year 2005, and it will be proposed to the Government for the establishing of BAC's new structure.

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	<i>Number of enterprises_all sectors</i>					<i>Annual average number of employed_all sectors</i>					
	1998	1999	2000	2001	2002	1998	1999	2000	2001	2002	
All sectors	1-9 empl	29464	34477	34270	34313	34938	54217	60831	58942	60247	61124
	10-49 empl	663	891	900	914	958	12960	16741	18204	17273	18772
	50-249 empl	272	258	249	246	300	27931	27257	23342	22923	27788
	250 and over	63	52	58	48	52	52569	43173	43496	40678	38546
	Total	30462	35678	35477	35521	36248	147677	148002	143984	141121	146230
		<i>Number of enterprises_ industry sector</i>					<i>Annual average number of employed_ industry sector</i>				
Industry	1-9 empl	3338	3449	3245	3320	3251	8350	8797	8407	9162	8047
	10-49 empl	307	269	311	332	338	6174	5773	7319	6967	7196
	50-249 empl	177	163	160	162	206	18151	18166	15345	15751	19422
	250 and over	51	39	47	38	38	37459	28523	30158	27885	26104
	Total	3873	3920	3763	3852	3833	70134	61259	61229	59765	60769
		<i>Number of enterprises_ construction sector</i>					<i>Annual average number of employed_ construction sector</i>				
Construction	1-9 empl	838	992	799	805	913	3833	4401	3163	3632	3610
	10-49 empl	187	260	291	291	296	3812	4820	5521	5110	5536
	50-249 empl	36	37	32	38	44	3403	3145	2737	3130	3691
	250 and over	0	1	0	0	0	0	332	0	0	0
	Total	1061	1290	1122	1134	1253	11048	12698	11421	11872	12837
		<i>Number of enterprises_ transport sector</i>					<i>Annual average number of employed_ transport sector</i>				
Transport	1-9 empl	3556	5140	5884	5517	5130	4749	6449	7408	6840	6428
	10-49 empl	14	33	24	30	36	292	596	507	648	779
	50-249 empl	17	18	18	13	15	1722	1802	1641	1321	1650
	250 and over	8	8	7	7	9	12954	12290	10964	11240	9747
	Total	3595	5199	5933	5567	5190	19717	21137	20520	20049	18604
		<i>Number of enterprises_ trade sector</i>					<i>Annual average number of employed_ trade sector</i>				
Trade	1-9 empl	15808	18654	17768	18167	18540	25288	28203	26500	27352	27681
	10-49 empl	91	163	142	105	136	1650	2691	2418	1748	2380
	50-249 empl	15	8	11	11	8	1305	832	794	693	523
	250 and over	2	1	0	0	0	688	298	0	0	0
	Total	15916	18826	17921	18283	18684	28931	32024	29712	29793	30584
		<i>Number of enterprises_ services sector</i>					<i>Annual average number of employed_ services sector</i>				
Services	1-9 empl	5924	6242	6574	6504	7104	11997	12981	13464	13261	15358
	10-49 empl	64	166	132	156	152	1032	2861	2439	2800	2881
	50-249 empl	27	32	28	22	27	3350	3312	2825	2028	2502
	250 and over	2	3	4	3	5	1468	1730	2374	1553	2695
	Total	6017	6443	6738	6685	7288	17847	20884	21102	19642	23436

	<i>Investment in million leke_all sectors</i>					<i>Labour productivity_all sectors</i>					
	1998	1999	2000	2001	2002	1998	1999	2000	2001	2002	
All sectors	1-9 empl	5031	5838	6826	7011	6503	0.3	0.5	0.5	0.6	0.7
	10-49 empl	1749	8093	4836	5301	7485	0.3	0.6	0.6	0.7	0.9
	50-249 empl	3574	3354	4971	23099	13224	0.3	0.3	0.5	0.4	0.6
	250 and over	8212	13564	6481	20462	17158	0.5	0.6	0.7	0.7	0.8
	Total	18566	30849	23114	55873	44370	0.4	0.5	0.5	0.5	0.5
Industry	<i>Investment in million leke_industry sector</i>					<i>Labour productivity_industry sector</i>					
	1-9 empl	1578	653	3668	1310	1531	0.3	0.4	0.4	0.5	0.5
	10-49 empl	1060	694	1981	1954	2270	0.4	0.4	0.3	0.5	0.6
	50-249 empl	2397	2648	2512	7995	2440	0.2	0.2	0.3	0.3	0.3
	250 and over	3158	3292	3228	5760	9818	0.2	0.4	0.5	0.6	0.6
Total	8193	7287	11389	17019	16059	0.3	0.3	0.4	0.5	0.5	
Construction	<i>Investment in million leke_construction sector</i>					<i>Labour productivity_construction sector</i>					
	1-9 empl	298	354	1090	3548	793	0.4	0.4	0.4	0.6	0.5
	10-49 empl	332	722	840	1441	1994	0.3	0.4	0.6	0.9	0.9
	50-249 empl	237	137	24	752	524	0.2	0.4	0.6	0.6	0.9
	250 and over	0	0	0	0	0					
Total	867	1213	1954	5741	3311	0.3	0.4	0.5	0.7	0.8	
Transport	<i>Investment in million leke_transport sector</i>					<i>Labour productivity_transport sector</i>					
	1-9 empl	156	619	362	125	353	0.5	0.9	0.5	0.6	0.5
	10-49 empl	48	194	207	142	619	1.5	2.3	1.2	1.0	1.5
	50-249 empl	830	263	2194	13978	9693	0.2	0.5	2.4	1.0	3.3
	250 and over	4979	10004	2980	14438	7135	0.5	1.2	0.9	0.9	1.9
Total	6013	11080	5743	28683	17800	0.5	1.1	0.9	0.8	1.5	
Trade	<i>Investment in million leke_trade sector</i>					<i>Labour productivity_trade sector</i>					
	1-9 empl	1540	2521	1172	1507	3118	0.4	0.5	0.5	0.6	0.6
	10-49 empl	206	6229	1569	1391	2151	1.3	1.3	2.4	1.3	1.5
	50-249 empl	91	216	85	216	321	0.3	1.3	1.5	3.0	1.9
	250 and over	75	120	0	0	0					
Total	1912	9086	2826	3114	5590	0.5	0.6	0.7	0.7	0.7	
Services	<i>Investment in million leke_services sector</i>					<i>Labour productivity_services sector</i>					
	1-9 empl	1459	1691	534	521	708	0.3	0.3	0.4	0.4	0.4
	10-49 empl	103	254	239	373	451	0.2	0.4	0.5	0.5	0.6
	50-249 empl	19	90	156	158	246	0.6	0.4	0.3	0.1	0.4
	250 and over		148	273	264	205	0.1	0.2	0.2	0.2	0.4
Total	1581	2183	1202	1316	1610	0.4	0.3	0.4	0.4	0.4	

		<i>Value added in million leke_all sectors</i>					<i>Turnover in million leke_all sectors</i>				
		1998	1999	2000	2001	2002	1998	1999	2000	2001	2002
All sectors	1-9 empl	21308	28897	27478	31415	31223	110879	135457	140350	155632	173397
	10-49 empl	6346	10398	12929	12109	15356	27303	43146	58791	72186	83503
	50-249 empl	7236	7967	12133	9920	16982	24475	23936	33764	37649	51802
	250 and over	16090	26488	24243	27599	34349	49863	43069	46778	57156	79533
	Total	50980	73750	76783	81043	97910	212520	245608	279683	322623	388235
		<i>Value added in million leke_industry sector</i>					<i>Turnover in million leke_industry sector</i>				
Industry	1-9 empl	2399	3206	3306	4193	3633	9070	14519	12960	15122	13349
	10-49 empl	2443	2529	2203	3342	4123	6710	7608	9014	14898	13304
	50-249 empl	3632	3453	4406	4392	6160	12034	12835	9748	14380	15906
	250 and over	9333	11561	14460	16602	14387	27713	22994	28805	37470	43641
	Total	17807	20749	24375	28529	28303	55527	57956	60527	81870	86200
		<i>Value added in million leke_construction sector</i>					<i>Turnover in million leke_construction sector</i>				
Construction	1-9 empl	1365	1580	1389	2333	1877	6046	8559	6795	10242	9517
	10-49 empl	1202	1963	3168	4472	4815	5947	9141	15061	19668	22328
	50-249 empl	748	1113	1690	1997	3458	2507	3394	4884	7483	14619
	250 and over	0	51	0	0	0	0	182	0	0	0
	Total	3315	4707	6247	8802	10150	14500	21276	26740	37393	46464
		<i>Value added in million leke_transport sector</i>					<i>Turnover in million leke_transport sector</i>				
Transport	1-9 empl	2391	5958	3616	4077	3237	6122	12991	12348	9746	9175
	10-49 empl	427	1391	590	635	1176	1287	4507	1608	3062	3517
	50-249 empl	426	908	3895	1255	5383	2405	1166	6874	3242	11801
	250 and over	6297	14311	9364	10668	18861	18650	15781	17074	19110	33906
	Total	9541	22568	17465	16635	28657	28464	34445	37904	35160	58399
		<i>Value added in million leke_trade sector</i>					<i>Turnover in million leke_trade sector</i>				
Trade	1-9 empl	11245	13750	13886	15569	16546	77430	85757	93959	107603	125645
	10-49 empl	2063	3448	5797	2346	3522	12652	19785	31363	32710	41590
	50-249 empl	396	1119	1171	2059	984	5248	4333	10457	11686	7433
	250 and over	299	304	0	0	0	3260	3478			
	Total	14003	18621	20854	19974	21052	98590	113353	135779	151999	174668
		<i>Value added in million leke_services sector</i>					<i>Turnover in million leke_services sector</i>				
Services	1-9 empl	3908	4403	5281	5243	5930	12211	13631	14288	12919	15711
	10-49 empl	211	1067	1171	1314	1720	707	2105	1745	1848	2764
	50-249 empl	2034	1374	971	217	997	2281	2208	1801	858	2043
	250 and over	161	261	419	329	1101	240	634	899	576	1986
	Total	6314	7105	7842	7103	9748	15439	18578	18733	16201	22504

Source: INSTAT

Annex 2: Composition of CRD's business survey sample according to firm's size and number of employees

	Average number of surveyed firms	Average number of employees in surveyed firms	Total number of firms	Total number of employees	% number of employees in surveyed firms against total number
Industry					
1-9 employees	110	499	3071	7463	7%
10-49 employees	104	2272	298	6126	37%
50 and over	65	10204	194	25783	40%
Total	279	12975	3563	39372	33%
Construction					
1-9 employees	40	216	913	3610	6%
10-49 employees	120	2586	296	5536	47%
50 and over	34	3079	44	3691	83%
Total	194	5881	1253	12837	46%