

**SEED – ETF**

**STUDY OF SME IMPACT ON ECONOMIC  
GROWTH IN ALBANIA: 1997 - 2002**

Prepared by CRD Tirana and Mr Franz-Josef Klein

**Tirana, December 2002**

## Table of contents

<b>About the report</b> .....	5
<b>Acknowledgments</b> .....	6
<b>About the authors</b> .....	7
<b>Acronyms and Abbreviations</b> .....	8
<b>Key findings</b> .....	9
<b>Executive summary</b> .....	11
<b>Chapter 1</b>	
<b>DEFINITIONS AND METHODOLOGY</b> .....	15
<b>1. Definitions of indicators</b> .....	15
1.1 Statistical indicators .....	15
1.2. Business survey indicators.....	16
<b>2. Size identification of enterprises</b> .....	18
<b>Chapter 2</b>	
<b>ASSESSMENT OF SME DEVELOPMENT: 1997-2000</b> .....	20
<b>1. An overview of SME significance.</b> .....	20
<b>2. Comparison with European SMEs</b> .....	21
<b>3. The impact of privatisation</b> .....	23
<b>4. The class-size impact on macro-economic development</b> .....	24
4.1. Turnover.....	24
4.2 Value added.....	26
4.3 Number of employees.....	27
4.4 Number of enterprises.....	28
4.5 Investment growth.....	30
4.6 Labour productivity.....	31
4.7 Profitability.....	33
<b>Chapter 3</b>	
<b>ESTIMATING RECENT SME DEVELOPMENTS USING BUSINESS SURVEY RESULTS</b> .....	34
<b>1. Introduction to business surveys</b> .....	34
<b>2. Recent SME development in the manufacturing sector</b> .....	34
2.1 The industrial confidence indicator.....	34

2.1.1 Export order books and export expectations.....	37
2.1.2 Employment expectations.....	38
2.2 Limits to production.....	39
<b>3. Recent SME development in the construction sector.....</b>	<b>40</b>
3.1 Construction confidence indicator.....	40
3.2 Factors limiting construction activity.....	42
<b>4. Investment.....</b>	<b>43</b>
4.1 Investment by size of enterprise.....	43
4.2 Factors limiting future investments.....	44

## Chapter 4

<b>GENERAL PROJECT OUTCOMES.....</b>	<b>46</b>
--------------------------------------	-----------

### Annexes

Annex 1. Previous studies on SMEs development.....	48
Annex 2. SME indicators by sectors.....	50
Annex 3. SME startups by territory.....	52

### List of Tables

Table 1: SME economic significance: 2000 .....	20
Table 2: SME structure and performance: 1997-2000 .....	22
Table 3: Employment in private and public enterprises: 1997-2000 .....	22
Table 4: Average enterprise size, Candidate Countries, Albania, and Europe-19, 1998-2000.....	22
Table 5: Labour productivity by enterprise size: 1997-2002 .....	31

### List of Figures

Figure 1: Turnover as % of total (1997-2000) .....	21
Figure 2: Profitability and annual changes (1997-2000) .....	21
Figure 3: Assessment of production/manufacturing activity by size, 2002 .....	21
Figure 4: Employment in private and public enterprises (1997-2000) .....	23
Figure 5: Turnover, by size of enterprises in % of total (1997-2000).....	24
Figure 6: Turnover for micro size as % of total (1997 – 2000).....	24
Figure 7: Turnover by size of enterprises yearly change, 1997-2000.....	25
Figure 8: Turnover for micro size yearly change, 1997-2000.....	25
Figure 9: Value added, by size of enterprises in % of total, 1997-2000.....	26
Figure 10: Value added by size of enterprises yearly change, 1997-2000.....	26
Figure 11: Value added for micro size yearly change, 1997-2000.....	26
Figure 12: Number of employees by size of enterprises in % of total, 1997 – 2000.....	27
Figure13: Number of employees by size of enterprises yearly change, 1997 – 2000....	27
Figure14: Number of enterprises by size in % of total, 1997 – 2000.....	28
Figure 15: Number of enterprises for micro yearly change, 1997-2000.....	28
Figure 16: Number of enterprises by size of enterprises yearly change, 1997 – 2000...	29
Figure 17: Investment by size of enterprises in % of total, 1997-2000.....	30
Figure 18: Investment by size of enterprises yearly change, 1997-2000.....	30
Figure 19: Value Added per occupied person by size of enterprises yearly change, 1997 –2000.....	31

Figure 20: Value Added per employed person micro size annual change, 1997-2000....	32
Figure 21: Share of labour cost in value added by size of enterprises yearly change, 1997-2000.....	32
Figure 22: Profitability by size of enterprises in % of value added, 2000.....	33
Figure 23: Profitability by size of enterprises yearly change, 1997-2000.....	33
Figure 24: Manufacture, confidence indicator, 2002.....	35
Figure 25: Manufacture, confidence indicator SMEs80.....	35
Figure 26: Manufacture, components of confidence indicator, 2002.....	35
Figure 27: Manufacture, confidence indicator, 2002, small enterprises.....	35
Figure 28: Manufacture, confidence indicator, 2002, medium enterprises.....	36
Figure 29: Manufacture, confidence indicator, 2002, large enterprises.....	36
Figure 30: Manufacture, export order-books by size of enterprise, 2002.....	37
Figure 31: Manufacture, export order-books SMEs80.....	37
Figure 32: Manufacture, export expectations by size of enterprise, 2002.....	37
Figure 33: Manufacture, export expectations SMEs80.....	37
Figure 34: Manufacture, employment expectation by size of enterprise, 2002.....	38
Figure 35: Manufacture, employment expectation SMEs80.....	38
Figure 36: Manufacture, limits to production by size of enterprise, January 2002.....	39
Figure 37: Manufacture, limits to production by size of enterprise, October 2002.....	39
Figure 38: Construction confidence indicator, 2002.....	40
Figure 39: Construction confidence indicator, SMEs80.....	40
Figure 40: Construction, components of the confidence indicator, 2002.....	41
Figure 41: Construction, confidence indicator, 2002 small enterprises.....	41
Figure 42: Construction, confidence indicator, 2002 medium enterprises.....	41
Figure 43: Construction, confidence indicator, 2002 large enterprises.....	41
Figure 44: Construction, limits to production by size of enterprise, April 2002 .....	42
Figure 45: Construction, limits to production by size of enterprise, September 2002 .	42
Figure 46: Manufacture, fixed investment by size of enterprise, April 2002.....	43
Figure 47: Manufacture, fixed investment by size of enterprise, October 2002.....	43
Figure 48: Manufacture, main factors limiting planned investments by size of enterprise, April 2002 .....	44
Figure 49: Manufacture, main factors limiting planned investments by size of enterprise, October 2002 .....	44

## About the Report

This report was prepared at the request of SEED and the ETF under the Terms of Reference (ToR) for the project, “Study of SME impact on economic growth in Albania”. The study was designed to assess the impact and role of Small and Medium Enterprises on economic growth by introducing for the first time a set of frame indicators estimated in accordance with the EU standards.

With this new report, SEED provides public institutions, business associations and independent researchers with an assessment of SME development during the period 1997-2002 and their impact on economic growth. It provides clear, comprehensive recent information concerning the development of SMEs and their impact on economic growth according to a number of indicators.

Findings are based on a variety of indicators according to enterprise size and cover the period 1997-2000 and 2002. Data has been provided by the Institute of Statistics and Centre for Research and Development in Tirana.

The report comprises the following four chapters:

Chapter I: “Definitions and Methodology”, outlines and defines the indicators used and provides the significance and methodology of data estimation.

Chapter II: “ Assessment of SME development (1997 – 2000)”, provides detailed information related to the development of SMEs between 1997 and 2000, including changes in private ownership and the impact of privatization. The analysis makes use of statistical data, based on the indicators outlined in Chapter I.

Chapter III: “Estimating recent SMEs developments by using BS results”, provides information about trends in SME development in the manufacturing and construction industries, in addition to major factors that constrained business activity during 2002. This analysis is made possible by the use of quarterly business surveys.

Chapter IV lays out a number of policy recommendations and suggests future follow-up action.

## Acknowledgements

This project is a joint effort of many experts. Particularly, it is a contribution of the authors of the report, Mr Franz-Josef Klein for his precious ideas in designing the whole project and CRD staff involved in the project, Mirlinda Gajo-Rusi, Albert Gajo, Rozi Poga, Genc Çelo and Lindita Sadiraj.

The authors extend their appreciation and thanks to SEED staff, Hans Shrade, Anila Bashllari and Silvana Rusi, for their professional commitment and willingness to provide insights and support in all stages of project implementation.

We would also like to give special mention to those who commented on the initial draft of the report: Bashkim Sykja and Fatbardh Çangu from the Economic Ministry, Lida Kita from ETF, and Milva Ekonomi, Director of INSTAT, who provided invaluable statistical information.

SEED and ETF welcome comments on the content of the report and suggestions for its improvement. The information contained in the report may only be used with the express permission of the authors and with full reference made to them.

## About the Authors

**CRD Tirana** is an independent, non-profit organization, registered at the Court of Tirana on 27.03.2001. The CRD gathers and disseminates knowledge related to economic development and business performance, with a view to assisting public institutions and business community in the formation of good policies for a better society. The CRD conducts business and consumer surveys, organizes meetings and publishes research results related to recent business development, factors limiting production, and future investment.

**Franz-Josef Klein** is a consultant after a considerable experience working at the General Directory of Economic and Financial affairs of the European Commission in Brussels. His primary responsibility includes the preparation and implementation of the Harmonized EU Program of Business and Consumer Surveys for the EU Member States and applicant countries. Mr Klein is a specialist in business cycle analysis and private enterprise development.

## Acronyms and Abbreviations

CEE	Central and Eastern Europe
CRD	Centre for Research and Development
ETF	European Training Foundation
EU	European Union
GDP	Gross Domestic Product
GNP	Gross National Product
INSTAT	Institute of Statistics
LSE	Large Size Enterprise
MSEs	Medium-Size Enterprises
NPOs	Non Profit Organizations
SEED	Southeast European Enterprise Development
SEs	Small Enterprises
SMEs	Small and Medium Enterprises with up to 50 employees
SMEs80	Small and Medium Enterprise with up to 80 employees
ToR	Terms of Reference
TOTAL	Value of the indicators for the total number of enterprises
VA	Value added



### *Significance of SMEs*

The primary reasons for studying the impact of SMEs on economic growth are related to the following factors:

- SMEs comprise some 99 % of enterprise stock
- SME turnover was approximately 71 % of total turnover
- SMEs provide the majority of employment in Albania
- SMEs are the most dynamic enterprises in Albania

### *Peculiarities of SMEs*

#### **Almost 91.1 % of enterprises employ fewer than four people.**

Enterprise structure in Albania is therefore based on micro enterprises. This figure varies from 1.9 employees in small enterprises to 31.4 employees in medium-sized enterprises.

#### **MSEs were found to be the most dynamic enterprises and have made the most significant contribution to economic growth during the period from 1997 to 2000.**

This is shown by most of the indicators, including turnover, VA, employment, and number of enterprises by size. MSEs were the most preferred structure of enterprises according to employee numbers. The analysis of turnover by size showed that from 1997 to 2000 enterprise size was positively correlated to growth for medium sized enterprises only (20 – 50 employees) and is negatively related to Micro enterprises.

#### **The growth pattern for SEs was found to be continuously diminishing during the study period.**

In 2000, SE growth was found to be negative by 1 %, which could have been a consequence of changes in fiscal legislation introduced in 2000. In 2002, business survey results revealed that production growth of SMEs in the manufacturing and construction industry is also likely to be negative.

#### **SME investments from 1997 to 2000 show certain fluctuations.**

Investment in SMEs in 1999 outperformed LSEs, but in 2000 the total investment decreased by 25%. In 2000, only SMEs showed an increase in investment level compared with that of 1999. It is also important to mention the fact that the decrease in investment in two other enterprise classes is significantly higher: 25 % in LSEs and 21 % in small size enterprises. In October 2002, the majority of the SMEs in the manufacturing sector were likely to have invested in the replacement of old equipment and in extending production capacity (this is mainly for SMEs). During this phase of development, SMEs are less interested in investing in the introduction of new production techniques, energy saving, pollution control etc.

#### **Labour productivity is dependent on and relative to labour cost.**

Business surveys results confirm what statistical information for the period from 1997 to 2000 has already shown - that MSEs play a significant role in increasing employment opportunities. Such opportunities are limited for small enterprises.

**The most profitable enterprises are Micro enterprises.**

This result was surprising, given the fact that size and profitability are normally positively correlated.

***Business constraints***

**SME owners most frequently identify factors related to the business environment as the major factors that constrain their business activity.**

Shortages and/or interruption of electricity supply is the most important constraint on SME activity, closely followed by unclear fiscal legislation. In October 2002, SME managers considered lack of infrastructure as an important constraint on their business activity.

**Lack of demand is also notable as a constraint on SMEs in Albania.**

In October 2002, lack of domestic demand was found to be an important constraint for SMEs, which in October 2002 also influenced LSEs.

**From the point of view of supply,** competitive imports were the only constraint to SME business activity found.

In the construction industry, the most pressing constraints to SME activity are factors such as the **unfair implementation of fiscal and procurement laws**. Difficulties in obtaining credit and issues of insolvency were also found to be important.

**Fear of insufficient profits was the most important factor limiting SME investment planning for 2002.**

Since profit is the major source of investment for the SME sector, such results indicate that during 2002, SME profitability is likely to have been diminished.

## Executive Summary

This report is the first attempt that has been made to provide a picture of SME performance and their impact on economic growth in Albania. Previous studies (see Annex 1) have been mainly related to the need to support SMEs and to establish a regulatory framework, and studies related to the implication of informal activity in SME development.

In this study, the analysis of SME development during the last five years is based on a set of frame indicators estimated in conformity with the internationally recognized system. Another important peculiarity of this report is that it analyses SME development for the year 2002 by making use, for the first time, of business survey data.

The report contains:

- I. An analysis of SMEs based on two sets of frame indicators – quantitative and qualitative. These are used to monitor SME performance and their impact on economic growth. Quantitative or statistical indicators were developed to capture changes in SME structure during the study period in addition to their impact on economic growth from 1997 to 2000 (statistical data for 2001 and 2002 were not available). Indicators were developed for each size of enterprise and they have been analyzed according to the following:
  1. Turnover - structure and yearly changes
  2. Value Added - structure and yearly changes
  3. Number of employees - structure and yearly changes
  4. Number of enterprises - structure and yearly changes
  5. Investments - structure and yearly changes
  6. Labour productivity - structure and yearly changes
  7. Share of labour cost to Value Added – yearly changes
  8. Enterprise profitability – yearly changes

The second group of indicators used to assess the SME business climate, trends, and factors limiting their activity were as follows:

9. Business confidence – as a composite index
  10. Employment expectation – as a balance
  11. Price expectation – as a balance
  12. Export expectations – as a balance
  13. Export order-books – as a balance
  14. Capacity utilization – as a percentage
  15. Fixed investment – as a direction
  16. Production limits – as a frequency
- II. Looking at the development of each indicator, the study makes known, where possible, the most notable impacts of past government policies on the general development of SMEs, such as the impact of fiscal regulations and privatization. Statistical indicators have been presented for the total, while Annex 2 contains the same statistical indicators according to the main branches of the economy: manufacturing, construction, trade, communication, and other services. Since the statistical information provided by INSTAT is not part of the National Accounting System (as it is not yet in place), analysis of the impact of SMEs on economic growth must be seen in a narrow perspective and for its overall impact on the Albanian economy. Nevertheless, where

possible, the report contains general remarks on trends of SME development and performance and their impact on the Albanian economy.

The use of various indicators makes it possible to see the changes in the size of each enterprise by tracking the most important developments of SMEs during the study period. The analysis, by indicator, shows:

1. **Turnover indicator** shows that between 1997 and 2000 more than half of the turnover was the result of the activity of SEs and of that some two-thirds was realised by micro-enterprises. MSEs, during the period from 1997-2000, became an important size-class of enterprise, due to the fact that the turnover indicator shows constant growth for MSEs. During this period, SEs lost their significance and contributed less to economic growth.
2. **VA indicator** shows that the contribution by MSEs doubled during the 1997-2000 period, while the contribution share by SEs remained almost unchanged. SMEs had a growth pattern higher than the average growth of TOTAL. The correlation of Value Added to enterprise size is stronger for Albanian MSEs.
3. **Number of employees** of MSEs has been growing steadily, particularly during the period from 1999 to 2000. SEs and LSEs have contributed negatively to the growth of TOTAL employment. In 2000, total employment was 143,985 persons, of which SMEs employed 77,146 persons.
4. **The number of enterprises** indicator shows that from 1997 to 2000, the growth pattern continuously decreases for SEs and LSEs. At the same time, the numbers MSEs increased during this period.
5. **The Investment indicator** shows that LSEs contributed most investment from 1997 to 1998, as it appears that after the 1997 crisis only this enterprise class was able to undertake investment programmes. During the following years, LSE investment shows a steady decrease. MSE investment has been continual and the share has increased over the years.
6. **Labour productivity indicator** shows that MSEs have achieved a better economy of scale. SEs, including micro enterprises, have also been able to adjust production levels and costs.
7. In 2000, **the share of labour cost in V.A.** is respectively for SEs 21.1%, MSEs 19.2%, and LSEs 38.4%.
8. **The enterprise profitability indicator** in 2000 shows that micro enterprises, in comparison with other sizes of enterprise, were the most profitable. This is a surprising result, since the size has to be negatively correlated to profitability. SMEs are close to average profitability of SMEs. In 1999, LSEs outstripped the profitability of SMEs, but in 2000 they were still lagging behind the profitability level of SMEs.
9. During 2002, the **confidence indicator** for SEs in the manufacturing sector was negative. In May 2002, this decreased by one point, meaning that managers had become more pessimistic than at the beginning of the year. In October 2002, the confidence indicator showed that managers of SEs were less worried than in May 2002 (by seven points). The confidence indicator for MSEs indicates that the

business climate for this size of enterprise has deteriorated. In October 2002, the level of optimism among managers of MSEs rose (indicated with a rise in confidence of 4 %).

10. ***The Export Order books and export expectations*** indicator has a special importance when no statistical data are available for exports. This indicator reveals the export trend. Managers of SMEs showed pessimism concerning exports during the year 2002, although the situation looked better in October of that year. MSEs and LSEs expect an increase in exports during 2003.
  11. ***Employment expectation*** has a positive correlation to production. The assessment of MSEs and LSEs reveal that employment in these enterprise classes is expected to increase during 2003, while in SEs is expected to decrease.
  12. The ***production limits*** indicator reveal changes in the business environment over time.
    - Lack of electricity supply is the main business limitation (January and October 2002). The difficulty is the same for all class of enterprises.
    - Lack of clarity in fiscal legislation ranked second in the list of constraints in January 2002, but in October was found to have moved to fifth place. MSEs suffered fewer limits than other classes in January 2002, but more in October of that year.
    - Lack of domestic demand was found to be an important limitation for both SMEs and MSEs in January 2002. In October, this limitation ranked fourth, but was less important for MSEs.
    - Lack of infrastructure ranked third as a constraint in January 2000, but in October had moved to second place. MSEs consider this limitation more important than the other classes of enterprise do.
    - Insolvency is considered to be an important limitation for SMEs in October 2002.
  13. ***The construction confidence indicator*** was assessed according to two factors: (1) order books and (2) employment expectations. September 2002 was a positive turning point for this indicator by the influence of LSEs.
- III. The following are recommendations for improving the Albanian statistical system and providing support for the development of business surveys as a tool for generating complementary information about the development of SMEs during periods when statistical information is not available. In the frame of this project we concluded that:
1. INSTAT should expedite the implementation of the National Accounting System based on internationally recognized practices.
  2. INSTAT should take immediate action to revise data according to the definition of Law no.8957 "For Small and medium enterprises", dating from 17.10.2002.
  3. Business statistical survey data should be made available every three months.
  4. Conducting of periodical qualitative business surveys in the frame of the joint harmonized EU program on business surveys should be continued.

5. An annual survey specifically for SMEs should be designed. This will detect issues related to entrepreneurship and management, administrative burdens and taxation and other issues, which are particular to the SME business environment and are absent from this report.

# Chapter I

## DEFINITIONS AND METHODOLOGY

### 1. Definitions of indicators

This study is based on the indicators listed in the ToR, in addition to a number of other indicators, which examine recent enterprise development and their performance by size. Such indicators have also been used by the European Commission to assess SMEs in Europe, including a first glance at EU candidate countries<sup>1</sup>. Frame indicators are divided into two groups - quantitative and qualitative. The first group is known as statistical indicators and the latter are tendency indicators, estimation of which is based on data collected by special qualitative business surveys.

Information in this report is based on data provided by INSTAT and CRD Tirana. Data related to export development supplied by the General Directorate of Customs has not been included, as we have been unable to group the data by enterprise size or/and activities. Consequently, SME contribution to exports is provided for 2002 only, in the frame business survey data provided by CRD Tirana. Moreover, we have not found complete information regarding the number of private companies because the current stock of enterprises includes both private and public enterprises. However, in order to assess the scale of privatisation from 1997 to 2000, the report provides information regarding the number of people employed in private and public enterprise, which is also a good indication of the extension of private activities in various sectors of the Albanian economy.

#### 1.1. Statistical Indicators

Usually, a Central Statistical Office provides data, generated by a National Account System, for estimating SME impact on economic growth. In Albania, however, the National Account System is not yet in place. Preparation of this report is therefore based on statistical data published in the frame of "General Results of the Annual Structural Survey of Economic Enterprises, Year 1997-2000". Results for the 2001 were not available at the time of writing. According to statistical data, the information offered by these surveys tries to satisfy demands for complete statistical information in a trade market economy. This system is supported by the declarations of enterprises<sup>2</sup>.

A number of statistical indicators are available for assessing SME business development. This report makes use of the following:

1. **Turnover** 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. In the report, turnover is shown according to the size-classes and all enterprises. Size-class turnover represents the sum of turnovers of the enterprises in that size-class. TOTAL represents all enterprises and is the sum of the turnover of all size classes.
2. **Investments** represents the value of long-term goods purchased or produced by an enterprise for use in the production process within a period of not less than one year, including the land. This is an indicator of business stability and future prosperity, as investments are

---

<sup>1</sup> See, Observatory of European SMEs 2002, No.2.

<sup>2</sup> The Albania Statistical Yearbook: 1991-1999, INSTAT, 2002, p.244.

made if managers feel that the business will be expanded. The size – class indicator is the sum of investments of all enterprises in the size-class. TOTAL represents all enterprises and is the sum of all size-class investments.

3. **Value Added** is the contribution of a producer to GNP 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. VA is important in evaluating business performance or enterprise productivity. The size –class indicator is the sum of VA of the enterprises in that size-class. TOTAL represents all enterprises and is the sum of the VA of all size-classes.
4. **Enterprise profitability** is defined here in terms of the difference between VA and labour costs, adjusted for the wage of the self-employed, as a percentage of VA. The Observatory of European SMEs 2002, No.2 recommends that this adjustment be made as the self-employed provide essential labour input in their enterprise, but are not on the wage bill. Excluding this group would therefore hamper a useful comparison of SMEs (especially micro enterprises) with LSEs. By the definition given to profitability, this differs from profit as a value, but the two have the same role when viewed in relation to enterprises. The indicator is calculated for each size –class. TOTAL is *not* the sum of all size-classes indicators, but is calculated separately.
5. **Labour productivity** is measured as Value Added per employed person. This is a calculated indicator for each size-class and TOTAL as a ratio of VA to number of employed persons. This is an indication of employee efficiency. The higher the value, the greater the productivity of employees. As a calculated indicator, this has to be computed for each size-class and for TOTAL. TOTAL in *not* the sum of all size-classes indicators.

While processing the statistical data a number of problems relating mainly to data consistency were discovered. Most frequently previous data were not revised in forthcoming reports. Secondly, in some cases, information provided for individual sectors is not in conformity with the NACE classification of economic activities. Furthermore, some publications<sup>3</sup> do not contain proper and/or adequate definitions of terminology used. However, despite these problems, the report contains significant amount information provided in the form of direct and estimated indicators, which have been derived from statistical data. The results presented here are generally consistent when examined from one year to another and there are few discrepancies among the various indicators.

## 1.2. Business survey indicators

Qualitative indicators are generated by means of a standard business survey. These are qualitative economic surveys used for: (1) complementing statistical information at a time when statistical data is not available (for instance, at present and during the last three months of development); (2) short-term economic forecasting analysis (3 to 6 months); (3) identification of major constraints and the impact of various policies on businesses; and (4) cyclical business analysis. While conventional econometric models perform reasonably well when the economic growth trend is stable, their performance is not so good for signalling changes in economic direction. There is increasing interest in the use of economic surveys for predicting turning points in the economic cycle.

Business surveys are a method of gathering information from a number of units or individuals that form a sample, in order to draw meaningful conclusions about the groups from which samples have

---

<sup>3</sup> We have found similar problems in the last INSTAT publication, “The Albanian Statistical Yearbook: 1991-1999” Tirana 2002. See for instance Figures on pages 233 and 235 and Tables on pages 236-237.



been drawn. It differs from statistical surveys in one important aspect, namely the nature of the information gathered. More precisely, business (and consumer) surveys are designed to deal with judgments, estimates and expectations of economic agents – that is managers of firms or consumers. Surveyors (original participants) also provide information not only about their intentions but also about their perception of factors affecting these. Government agencies, research organizations, international bodies, universities and the general public make use of the results.

Each survey consists of a series of multiple-choice questions, usually with no more than five answers and in most cases three. Questions are either put through a written questionnaire or orally. Subsequently, ‘balances’ are calculated, meaning the differences between the percentages of positive and negative answers. Several questions are then combined to form an indicator for both the industrial and construction sectors as featured in this report.

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 40 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.

In this study we make use of the following business survey indicators:

1. ***The indicator of confidence in the manufacturing industry*** is defined as the arithmetic mean of the answers to questions on: (1) production expectations, (2) assessment of order books, and (3) assessment of stocks of finished products. This indicator should combine the judgements and attitudes of principal actors, or producers, in the economic process.
2. ***The indicator of export order books*** is defined as the arithmetic mean of the answers given to questions in this area.
3. ***The indicator of export expectations*** is defined as the arithmetic mean of the answers given to questions in this area.
4. ***The indicator of limits to industrial production*** is defined as the arithmetic mean of the answers to questions related to 16 factors limiting the activity of enterprises in the business environment.
5. ***The indicator of confidence in the construction industry*** is defined as the arithmetic mean of the answers to questions on: (1) order book assessments and (2) employment expectations
6. ***The indicator of limits to construction production*** is defined as the arithmetic mean of the answers to questions related to 18 factors limiting the activity of enterprises in the business environment.
7. ***The investment indicator*** is defined as the arithmetic mean of the answers to questions related to four investment goals and seven factors that limit enterprises investment.

Availability of business surveys in Albania is limited for the following reasons:

1. Overall business confidence indicators could not be estimated for the non-agricultural sector of the Albanian economy because business surveys are only conducted for the manufacturing and construction sectors. The results for trade and other services would only be available for 2003 if the appropriate financial resources are made available.
2. Information related to the manufacturing sector could not be further disaggregated for activities within the sector, for instance, food processing, manufacture of leather and shoes, textiles, wood processing, etc, because the sample size is relatively small and does not allow presentation of results by activities.

3. Business survey data has only been available since September 2001, and consequently does not offer valuable information regarding the cyclical and seasonal nature of SMEs by size and activity in Albania. The continuation of business surveys and in particular monthly surveys of non-agricultural sectors will allow an extension of information related to the impact of SMEs on economic growth in Albania.

It is also important to mention that the Bank of Albania is currently making efforts to build a market research data generation programme.

## **2. Size identification of enterprises**

Grouping of enterprises by size is a key element in the study of the effects of SMEs on the economy. However, there is no unique and scientifically based definition of what constitutes an SME, since no clear analytical concept exists. For instance, both turnover and number of employees of one enterprise are used as size criteria. In this report, as in other European similar studies, the number of employees is used as the sole criterion for the classification of enterprises by 'size-class'.

The appropriate size-class classification of enterprises depends on the particular goal of the analysis. Hence, there is no unique 'size-class' classification. INSTAT, for instance, uses the following classification:

- Size-class I: 1 to 4 employees
- Size-class II: 5 to 9 employees
- Size-class III: 10 to 19 employees
- Size-class IV: 20 to 49 employees
- Size-class V: over 50 employees

The EU member states and most of the countries in transition use the following classification:

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

Law No. 8957, "For small and medium enterprises" (17.10.2002), uses the following classification:

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

For the purposes of our study, the following classification applies:

- Small enterprises: 1 - 19 employees
- Micro enterprises: 1 - 4 employees (as a sub-class of small enterprises)
- Medium size enterprises: 20 - 49 employees
- Large size enterprises: over 50 employees
- SMEs: up to 80 employees (used in business surveys)
- TOTAL: this represents the respective value of indicator for the total number of enterprises (not always is the sum of the indicators for three size classes).

Given the significance of micro enterprises in the Albanian economy (see Table 1), the report provides additional information for micro enterprises with 1-4 employees.

The classification given above is based on the following:

- i. ***The Albanian economy*** is very small compared with that of the average European country and consequently, for the purposes of the report, those enterprises involving more than 50 employees are seen as large, while others are considered small and medium sized. Taking into consideration the significance of small enterprises, the report provides information for micro enterprises wherever possible.
- ii. The classification takes into consideration the need for ***future harmonization with EU standards and the necessity of ensuring comparability over time and across borders***. The chosen classification structure allows easy transformation of data about SME development in Albania in accordance with EU standards.
- iii. The overall ***project cost and*** relatively short ***timeframe*** for completion of the project (two months) influenced to a certain degree the non-extension of the 'size class'.
- iv. The need for ***harmonizing statistical data with*** that provided by ***business surveys*** was also a factor. The extension of size-classes for business survey data will only be possible if the sample size is increased in the future.
- v. ***The law "For Small and Medium enterprises"*** came into force at the end of November last, so it was not possible to collect data according to the legal definition of size-classes. To harmonize the report with the legal definition of SMEs, the business survey indicators were only assessed for the group of enterprises involving up to 80 employees.

## Chapter 2

### ASSESSMENT OF SME DEVELOPMENT (1997-2000)

#### 1. An overview of SME significance

Table 1 summarises the significance of SMEs for the Albanian economy in terms of providing employment for the non-agricultural, private sector<sup>4</sup> and contribution to income formation. In 2000, SMEs comprised some 99 percent of enterprise stock in Albania. Over 35,100 small and medium size enterprises were providing jobs for more than 77,200 people in Albania. Almost 91.1 % of enterprises were employing fewer than four people and for this reason are classified as micro enterprises. On average, enterprises in Albania employ approximately four people. This figure varies from 1.9 in small enterprises to 31.4 employees in medium-sized enterprises. Turnover varies hugely between small and medium-size enterprises. On average, small enterprises register a turnover of approximately 4.6 million Albanian lek, in comparison with the 108 million lek declared by medium-sized companies. Employees of medium-sized enterprises are found to be more productive (measured by Value Added per employee). On average, an employee in medium sized enterprises has provided not less than 8,000 leks, or 2,700 leks<sup>5</sup> more than the average.

Table 1: economic significance of SMEs, 2000

Indicators		SMEs			
		<i>Micro</i>	<i>Small*</i>	<i>Medium</i>	TOTAL**
Number of enterprises	(1 000)	32,7	34,8	0,3	35,5
Employment	(1 000)	49,1	66,4	10,8	144
Occupied persons per enterprise		1,5	1,9	31,4	4,0
Turnover per enterprise	million lek	3,2	4,6	108,0	7,9
Value Added per employee	million lek	0,46	0,48	0,80	0,53

Source: INSTAT

\* The class of small enterprises includes micro enterprises

\*\* Total also includes large enterprises

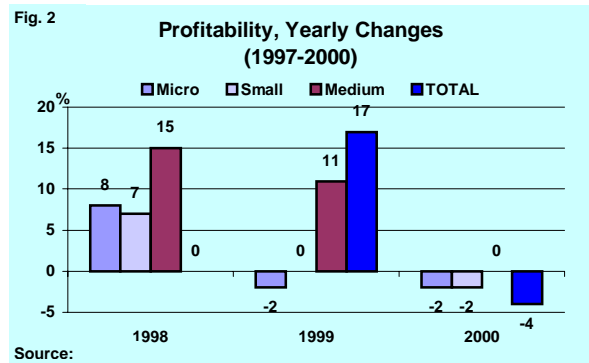
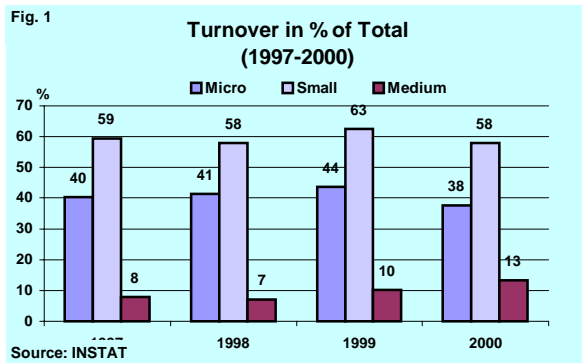
Figures 1 and 2 indicate relative changes in the structure of enterprises during the period 1997-2000 and the impact of size on enterprise growth and profitability, measured as the difference between Value Added and labour costs, adjusted for the wage of the self-employed, as a percentage of Value Added.

Figure 1 shows that from 1997 to 2000 the overall structure of SMEs (estimated as turnover in percentage by enterprise size) changed in favour of MSEs. The structure of SME turnover has increased from 7.8 % in 1997 to 13.3 % in 2000. At the same time, the structure of SEs has diminished to 37.5 %, from 43.7 % in 1999.

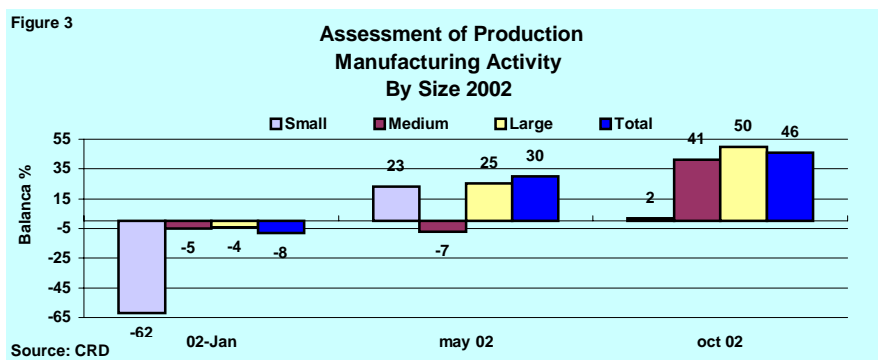
Figure 2 indicates that the changes in SEs are due to the drop in significance of micro enterprises. This figure also shows that in term of profitability, MSEs are the most dynamic type of enterprise. In 1998, their profitability grew 15 % more than the average profitability of all enterprises, followed in 1999 by 11% growth. In 2000, MSEs were the most profitable enterprises, managing to have a flat profitability, whereas other size-class enterprises (including LSEs) grew negatively.

<sup>4</sup> In 1999, the non-agricultural private sector employed 102,675 people, comprising some 10 percent of total employment in Albania [INSTAT 2002, Table 4, p.98].

<sup>5</sup> Current exchange rate is 1 \$ = 130 leke



Business survey data for the manufacturing sector shows that in 2002 SMEs were still performing far better than SEs, but were lagging behind LSEs (see Figure 3). In January 2002, the majority of SE managers thought that their productivity had decreased in comparison with three months before. The balance<sup>6</sup> of answers in percentages is a negative 62 points. In May 2002, the answer that came from large enterprises contributed most to the increasing percentage of the total answer by 30 points. LSEs were still performing far better in October 2002, demonstrated by the difference between the positive and negative percentage of answers for LSEs, which was positive by 50 points. For SMEs this difference is positive by 41 points, while for SEs it remains almost unchanged.



## 2. Comparison with European SMEs

Within the EU, the 20 million enterprises are the driving force behind economic prosperity, providing employment for in excess of 120 million people. The majority of these enterprises are SMEs. The figures presented in following table exclude agriculture, hunting and fishing.

Analysis at macro level is shown in Table 2. For the differences between the size-classes used in this report and those in the EU, this table represents a comparison of the total number of enterprises, including LSEs, only for the indicators that can be assessed based on the statistical data available.

<sup>6</sup> The balance shows the difference between positive and negative percentages of answers.

Table 2: Main indicators for total number of enterprises in Europe-19 and Albania, 2000

Indicators		EU-19	Albania
Number of enterprises	(000)	20,455	35.5
Employment	(000)	121,750	144
Occupied persons per enterprise		6	4
Turnover per enterprise	Million Euro	1.1	0.06
Value Added per employee	Thousand Euro	80	3.8
Share of labour cost in Value Added	%	56	33.1

Source: INSTAT and European Commission, 2002

Structure by country groupings is shown in Table 3. The largest share in total employment assesses the size-class dominance.

Table 3: Structure of total Candidate Countries, Albania and Europe-19, 1999

	Enterprises (1 000)	Total employment (1 000)	Average enterprise size	Size-class dominance
EU	19,930	n.a.	6	Micro
Non-EU	525	n.a.	7	SME
Europe-19	20,100	120,000	6	Micro
Total Candidate Countries	5,805	29,290	5	Micro
Albania	35.7	148	4.15	Micro

Source: INSTAT and European Commission, 2002

Table 4 shows that within the Candidate Countries, large differences between average enterprise sizes exist. The analysis of developments between 1995 and 1999 suggests that the average size of enterprises in these countries tend to converge towards Europe-19. Some of the countries that had a low average enterprise size experienced an increase in average enterprise size. This is consistent with the fact that the structure of these economies is far more in conformity with that of the EU.

Table 4: Average enterprise size, Candidate Countries, Albania, and Europe-19, 1998-2000

	1999	Change 1995-1999
Albania*	4.15	-0.76**
Bulgaria	8	-0
Cyprus	4	-0
Czech Republic	5	-2
Estonia	9	-2
Hungary	4	-5
Latvia	15	-2
Lithuania	11	-1
Malta	4	0
Poland	5	-0
Romania	6	2
Slovak Republic	8	-0
Slovenia	6	-0
Turkey	4	0
Total Candidate Counties	5	-1
Europe-19	6	-0

\* Albania is not included in Candidate Countries

\*\* Change 1997-2000

Source: INSTAT and European Commission, 2002

### 3. The impact of privatisation

In order to analyze the development of private enterprises between 1997 and 2000 and the impact of privatization on changing the structure of private enterprise contribution to VA, it is important to gather information on changes in the number of enterprises by size, ownership and activities. For the purposes of this report, an investigation of most INSTAT and other institutions' publications was carried out, but no such reliable information was found. However, INSTAT publications do contain some information regarding employment changes in private and public enterprises by sector<sup>7</sup>. Given that employment is one of the main factors of productivity (assuming no technological changes during the study from 1997 to 2000), we might consider that indicator as a good indication of changes in private ownership, and also for assessing the impact of privatization on such changes. Figure 4 summarises changes in employment by enterprise ownership in non-agricultural activities.

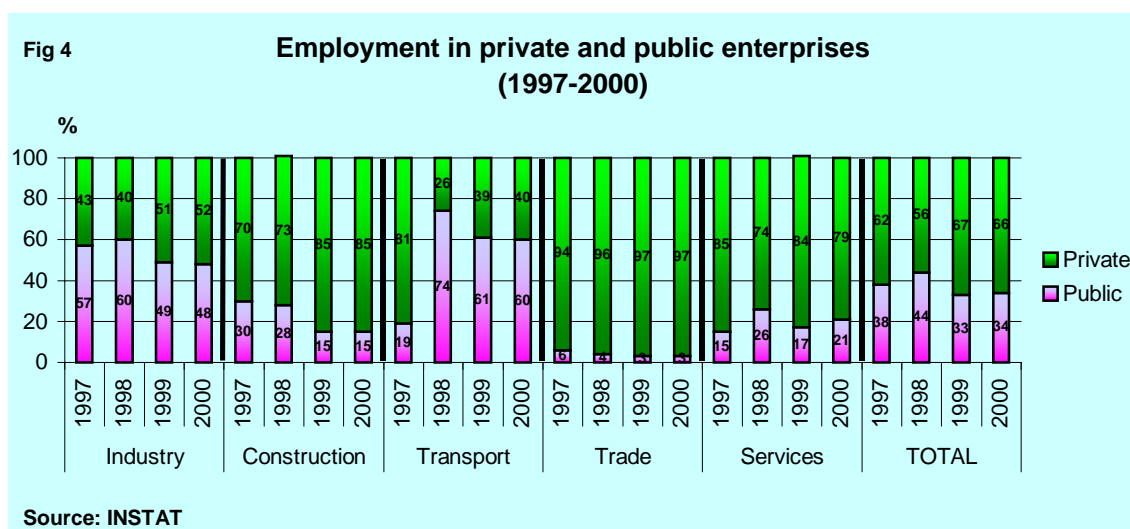


Figure 4 shows that during 1997, employment in public enterprises was 38 % of total employment in the non-agricultural sector<sup>8</sup>. In 1998, this increased by 6 %, mainly due to a significant increase in public activity in transport (involving some 13,000 employees) and services. The share of employment in public enterprises to industry also increased from 57 % to 60 %. Such changes can be explained by the deterioration in 1997 of the business climate in Albania, which forced a shift in employment from private to public enterprises.

In 1999, the employment structure changed quite significantly. The share of private employment in industry rose from 40 to 51 percent, while in construction it increased by 12 % . The share of private employment in services rose from 74 % in 1998 to 84 % in 1999. Such changes could be explained by the acceleration of the government's privatization programme, which came to a halt during 1997 and 1998. In 2000, there was no marked change in the structure of enterprise by ownership. In fact, overall employment in non-agricultural sectors in 2000 compared to that in 1999 decreased by 3 %.

<sup>7</sup> Separation of such information according to enterprise size was not possible.

<sup>8</sup> The number of those in total employment in both private and public enterprises was 134,110 [INSTAT, 2000(a), Tables on employment pp. 2 and 6].

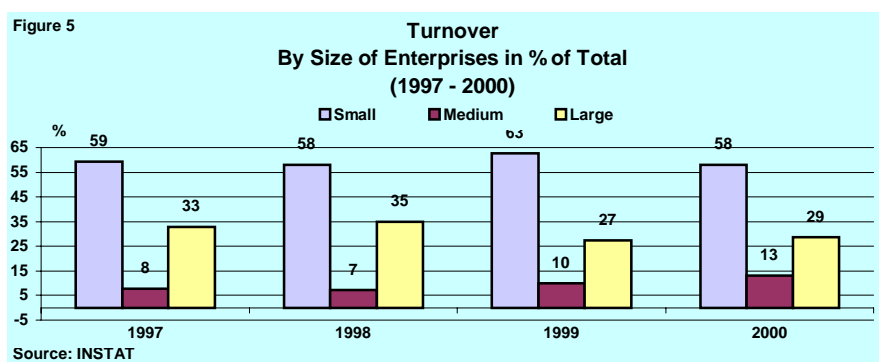
## 4. Size-class impact on macro-economic development

The analysis of the impact of SMEs on economic growth is tied to a so-called evaluation of non-agricultural private enterprise sectors in terms of structure, growth, and performance. This section, using the following indicators, will assess yearly changes in structure and growth by size of enterprise:

- (a) Turnover
- (b) Value Added.
- (c) Number of employees
- (d) Number of enterprises

### 4.1. Turnover

Figure 5 shows changes in the structure of turnover by size from 1997 to 2000. It can be seen that between 1997 and 2000 more than half of the turnover is the result of the activity of SEs and, from that, some two-thirds was realised by micro enterprises (see Figure 3).



Looking at Figure 5 it can be seen that the weight of MSEs increased from 8 % in 1997 to 10 % in 1999 and from that to 13 % in 2000. Figure 2 also shows that LSEs have diminished from 33 % in 1997 to 29 % in 2000. Overall, during the 1997-2000 period, the structure of SEs has remained constant. However, within this group the size of micro enterprises shrunk from 40 % in 1997 to 37% in 2000 (see Figure 6).

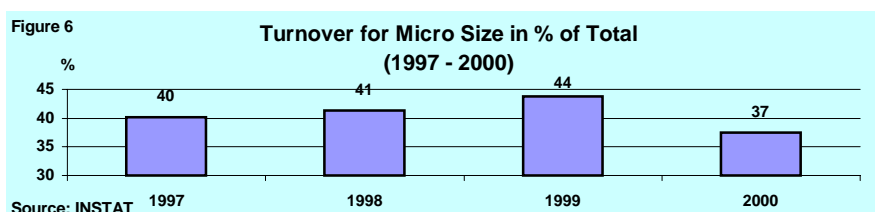


Figure 7 shows that between 1997 and 2000 the turnover growth pattern was different for the three size-classes. MSEs outperformed SEs and LSEs and appear to be the most dynamic firms in the Albanian economy.

From 1997 to 2000, the yearly turnover changes for the medium-sized companies was 34, 64 and 49 % respectively. Such figures indicate that growth for these companies has a significant impact on



the level of total turnover growth. Small companies performed better in 1998 and 1999, but their growth was below average in comparison with the total growth of companies in 2000. Figure 7 shows that the growth pattern for large enterprises changed during the 1997-2000 period. After a sharp increase in 1998 to 60 % they declined by 10 % in 1999, but performed reasonably well in 2000 with growth of approximately 20 %.

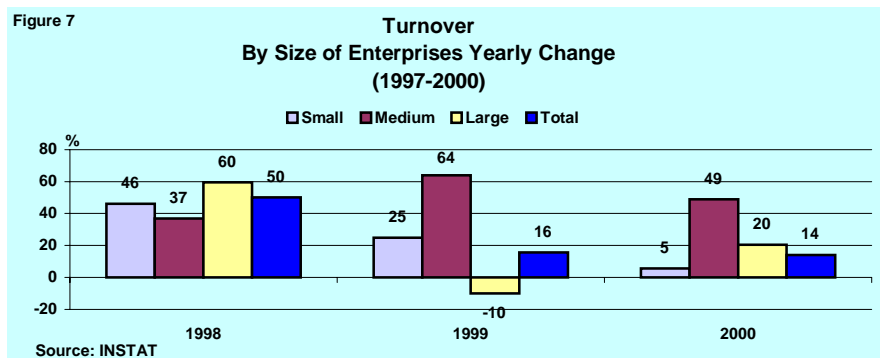
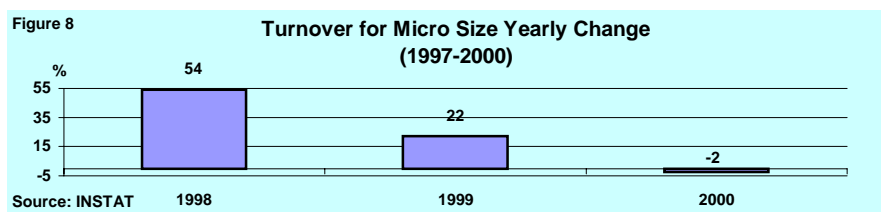


Figure 8 shows that the decline of small firms is the result of development within micro enterprises (1 - 4 employees). The negative growth for micro enterprises could be explained by changes in the business environment for these enterprises after 2000. The increase of taxes on small business and other administrative barriers could have been contributing factors to the growth pattern for small enterprises.

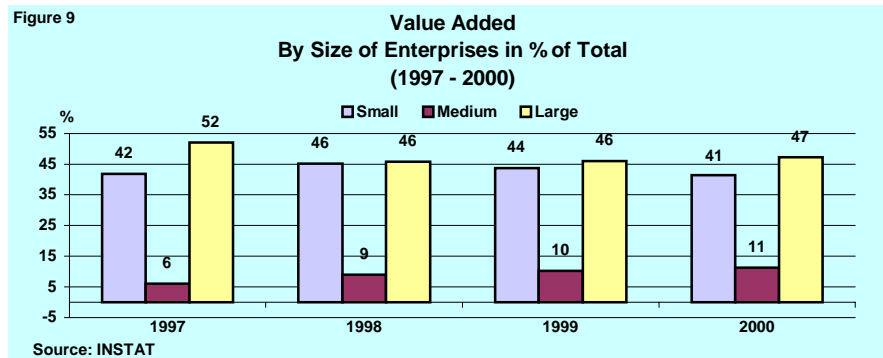


The analysis of turnover by size shows that from 1997 to 2000 the enterprise size-indicator is positively correlated with growth for medium-sized enterprises only (20 – 50 employees), and is negatively related to micro enterprises. In conclusion it can be said that from 1997 to 2000, medium- sized enterprises become an important group and the most preferred enterprise structure for managers in Albania.

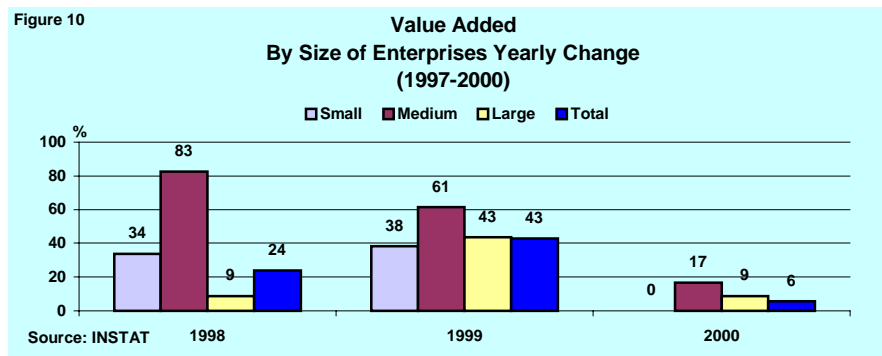
**Conclusion:** From 1997 to 2000 MSEs became an important group, presenting constant growth according to the turnover indicator. During the same period, SEs reduced their activity, becoming less important for economic growth. The influence of SEs and LSEs contributes negatively to the TOTAL turnover indicator.

## 4.2. Value Added

The price of products (or services) sold represents the cost of the raw materials or services purchased, plus the value that is added. The VA represents the overhead costs together with the profit. The sell price, or turnover, of the product (or service) represents its value to the customers. The VA represents the amount by which the business contributed to the creation of the country's wealth.



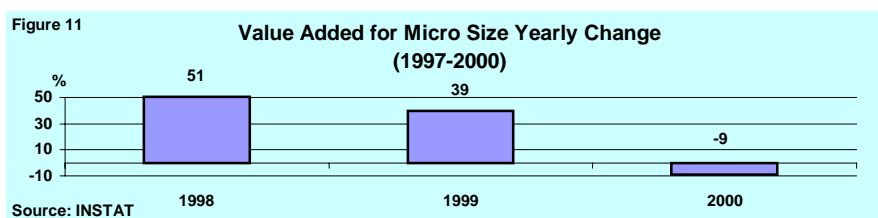
When measuring the difference between enterprise performances by size, VA is a more reliable indicator than turnover, because in the VA, the influence of indirect taxes and prices of materials are excluded. In terms of contributing to VA, LSEs have lost their significance. Their contribution to VA decreased to 47 % in 2000, compared with 52 % in 1997 (see Figure 9).



The contribution by MSEs to VA doubled during the 1997-2000 period, while the contribution share for SEs remained almost unchanged.

Regarding yearly VA growth, results show that in 2000, SEs, especially micro-enterprises, experienced negative growth (see Figures 10 and 11).

Figure 10 shows that the growth-pattern for MSEs in each of the three years was higher than the average growth for all enterprises. In 2000, they grew by approximately 17 %, or 11 % more than the average Value Added growth for all sectors.



The difference in VA contribution by size of enterprise has been also distinguished in other European countries. According to the report, “Observatory of European SMEs” 2002/ No.2”, VA contribution has a positive correlation with enterprise size. Figures 9, 10, and 11 show that in Albania this correlation is stronger for MSEs.

**Conclusion:** The contribution of MSEs doubled during the period 1997-2000, while the contribution share for SEs remained almost unchanged. MSEs had a growth pattern higher than the average growth pattern for all enterprises (presented in the graph by TOTAL). The correlation of VA to enterprise size is stronger for MSEs, showing that the behavior of this size-class fits the European SME pattern.

### 4.3. Number of employees

Following the analysis of turnover and Value Added, the number of employees and enterprises by size should be examined in relation to the increasing significance of MSEs.

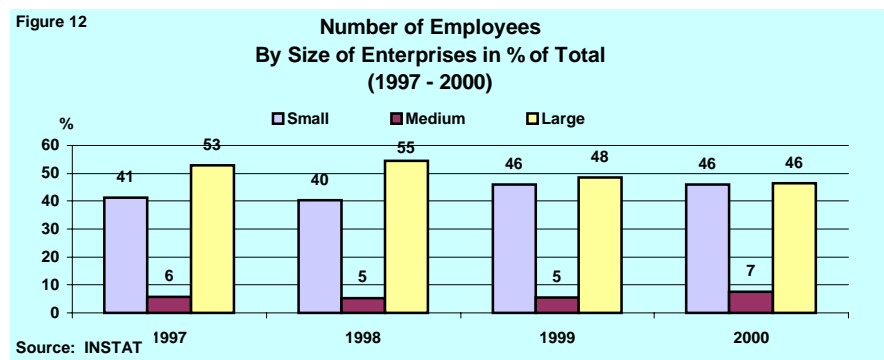
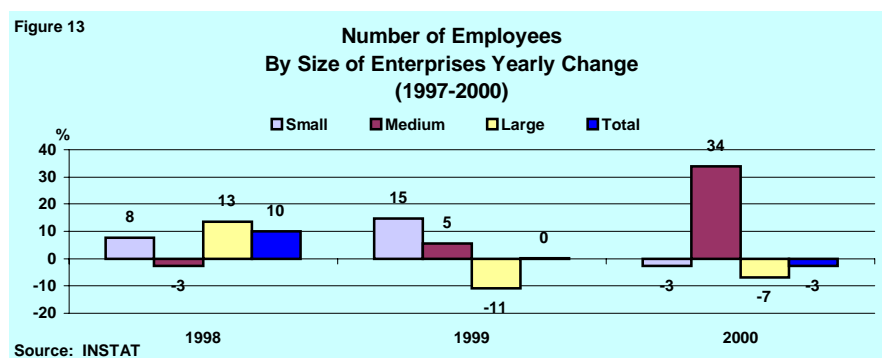


Figure 12 provides information concerning changes in the number of employees according to size enterprise size as a percentage of the total. Data indicates that in 2000, the overall employment structure of SMEs increased from 47 % in 1997 to 53 %. At the same time, employment share for LSEs diminished to 46 % in 2000, from 53 % in 1997. Such results show that during the study period, employees were moving from LSEs to SEs and MSEs.

Figure 13 indicates employee growth pattern by size of enterprise. It indicates that during the 1997 - 2000 period, and especially in 1999 and 2000, the number of people employed in MSEs grew steadily. In 2000 for instance, employment in MSEs almost offset the effects of negative growth in employment in SEs, and especially LSEs.

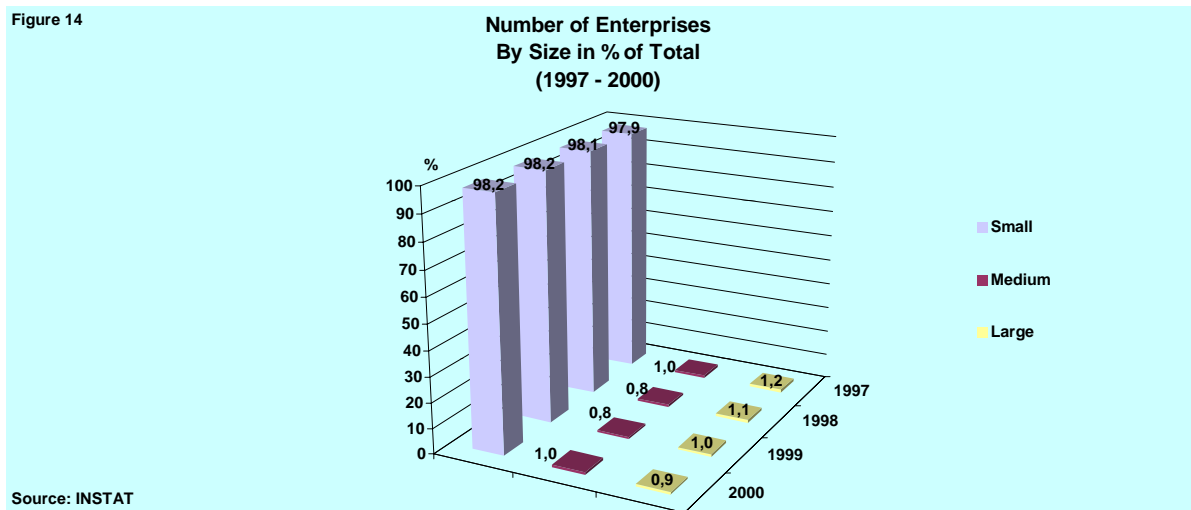


The indicator for micro enterprises is almost the same as the indicator for the SEs.

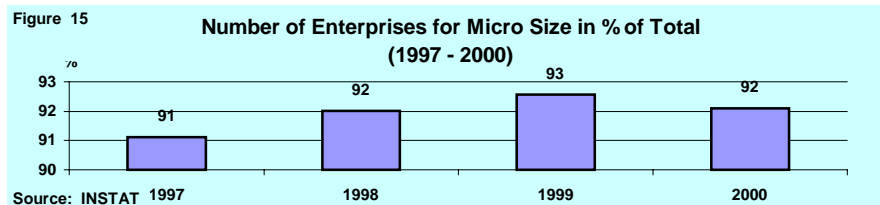
**Conclusions:** The number of employed has been growing steadily in MSEs, particularly during 1999 and 2000. SEs and LSEs had experienced a negative effect in employment growth in comparison with the TOTAL number of enterprises.

#### 4.4. Number of enterprises

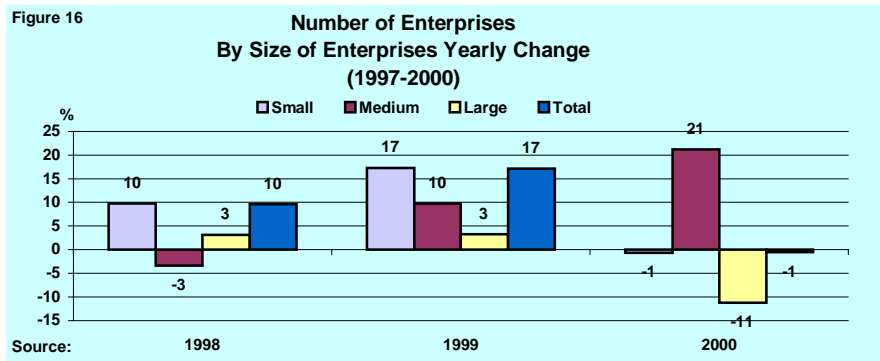
Figure 14 provides information about the number of enterprises by size as a percentage of the total. SEs comprise some 98 % of enterprise stock in Albania, out of which approximately 92 % are micro-enterprises (see Figure 15). The share of MSEs and the LSEs are almost equal. However, with reference to yearly growth figures for the 1997- 2000 period (Figure 16), some interesting developments can still be distinguished.



During that period, the enterprise growth pattern for SEs and LSEs decreased continuously, becoming negative for the year 2000. During that year, LSEs decreased by 11 % and small enterprises by 1 %. For the same period, only the number of MSEs saw an increase, by 10 % in 1999 and 21 % in 2000.



In conclusion, it can be said that between 1997 and 2000, all of the analysed indicators, such as turnover, value added, employment and number of enterprises by size, show that MSEs are the most dynamic enterprises, which have contributed most to growth. Consequently, they are the most preferred structure of enterprise, which can be seen in the numbers they employ.



Annex 2 provides information concerning the same indicators divided by sector –industry, construction, trade, and other services.

**Conclusions:** The number of SEs and LSEs continually decreased between 1997 and 2000. For the same period, the number of MSEs increased, accounting for most of the growth, proving that this is the most dynamic and preferred enterprise structure.

## 4.5 Investment growth

Investment by size is an important indicator, indicating perspectives for future growth for various enterprise classes. Between 1997 and 2000, it can be said that the 1997 was the lowest point for enterprise economic activity in Albania and consequently it can be expected that investment increased in 1998.

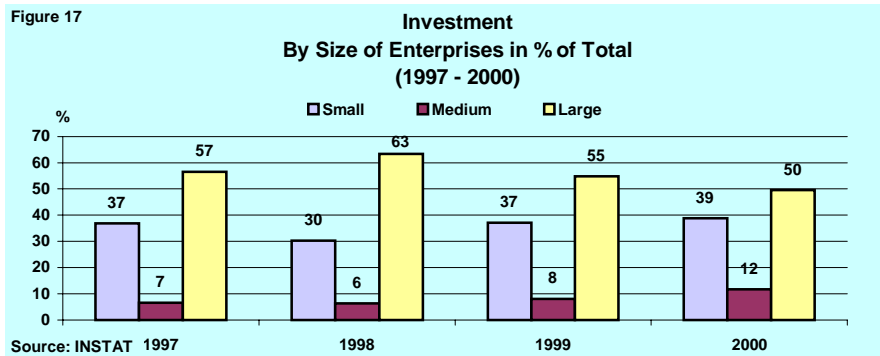
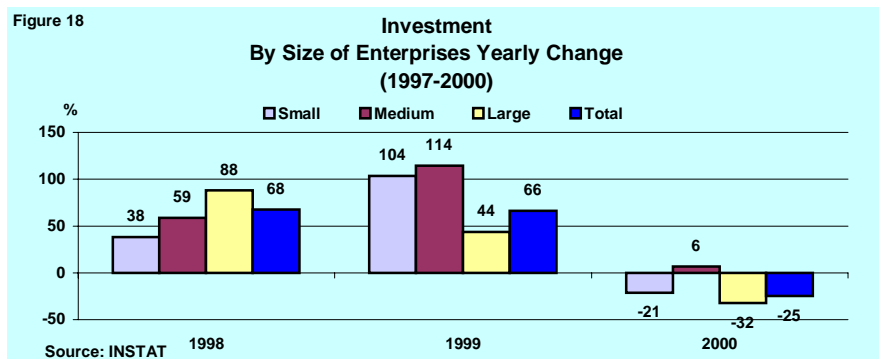


Figure 17 shows the structure of investment by size. The majority of investments were made by LSEs, but their total share, after a large increase in 1998, shows a steady decrease to 55 % in 1999 and 50 % in 2000. These developments can be explained by the fact that, after the events of 1997, LSEs were more able to undertake investment programmes. The SME investment level, after a decrease in 1998, almost reached that of LSEs.

Annual investment growth by size of enterprise also shows a different pattern. Figure 18 indicates that in 1998, investment by MSEs, particularly the larger ones, grew more than that of SEs.



In 1999, investment in the SME sector outperformed that of LSEs. In 2000, total investment decreased by 25%. In that year only MSEs increased their investment level in comparison with that of 1999. It is also important to mention the fact that the decrease in investment in the two other classes was significantly higher, at 25 % for LSEs and 21 % for SEs.

**Conclusions:** LSEs made the majority of investments during 1997 and 1998, because after the events of 1997 this size class was able to undertake investment programmes. During the following years, investment by LSEs shows a steady decrease. Only MSEs have persistently undertaken investment programs and increased their share.

## 4.6. Labour productivity

Labour productivity is measured as VA per employed person and it is expected that eventually VA per employed person would have a positive correlation with enterprise size<sup>9</sup>. As seen in Table 5, labour productivity varies between various enterprise classes and from year to year. As expected, in 1997, labour productivity was at its lowest point and displays relatively small variations, from 0.29 million lek in micro-enterprises to 0.32 million lek in MSEs.

Table 5: Labour productivity by enterprise size, 1997-2002  
(million leks)

	1997	1998	1999	2000
Small	0,31	0,39	0,47	0,48
Micro	0,29	0,39	0,48	0,46
Medium	0,32	0,60	0,92	0,80
Large	0,30	0,29	0,47	0,54
Total	0,31	0,35	0,49	0,53

Source: INSTAT

Table 5 shows that labour productivity is not related to enterprise size. MSEs are still the top performers and have managed to create the perfect enterprise structure in terms of having achieved production levels at the maximum efficient scale. In 1998 and 1999, LSEs (which usually could adjust their production and employment levels much better than other groups), is found to work with the minimum efficient scale. In 2000, the difference in labour productivity between SEs and Micro enterprises indicates that with a higher number of employees, Micro enterprises are far better able to adjust their production levels and costs.

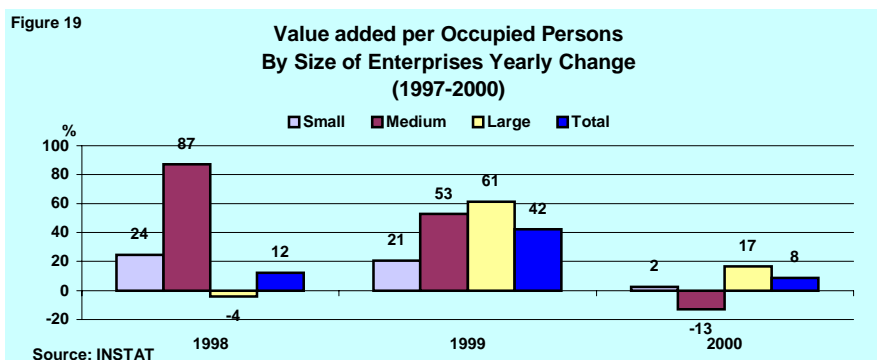
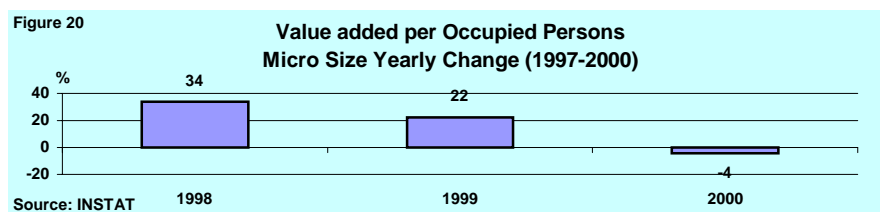


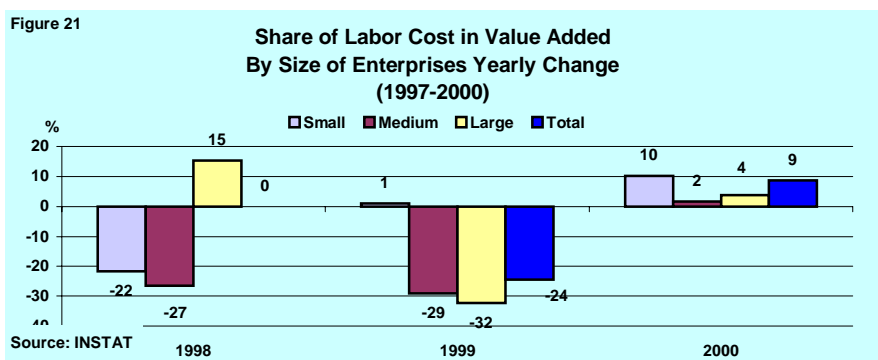
Figure 19 shows yearly changes in VA per employed individual. In 1998, labour productivity in MSEs grew 87 %, which is well above the productivity levels achieved by other classes of enterprise. In the same year, labour productivity in LSEs experienced negative growth of 4 %. In 1999, SMEs also increased labour productivity, although large enterprises performed far better in terms of labour productivity, which increased by 61 %.

<sup>9</sup> According to the Observatory of European SMEs 2002, in 2000 there were a strong correlation at European level between enterprise size and labour productivity.

Micro-enterprises only affected labour productivity of SEs in 2000, when labour productivity in micro-enterprises experienced negative growth of 4 % (see Figure 20).



To a large extent, variation in labour productivity could be explained by two factors –changes of labour cost share in VA and changes in technology. Figure 21 shows the dynamics of share of labour cost in Value Added during the 1997-2000 period. Comparing the results in Figures 19 and 21 it can be said that changes in labour productivity could be attributed more by changes in the share of labour cost in Value Added and less to changes in technology. Figure 21, for instance shows that in 2000, all classes of enterprises had increasing labour costs, which is followed by a significant reduction in labour productivity (see Figure 19).



In conclusion, it can be said that, in terms of labour productivity, SMEs in Albania are dependent on labour cost, which is used effectively in middle size companies. Since the variation in labour productivity is explained to a large extent by labour cost, it can be concluded that firms are not yet investing in new technology to increase labour productivity.

**Conclusions:** MSEs have achieved maximum efficient scale. SEs, including micro-enterprises, are better able to adjust production levels and costs. An analysis of labour productivity shows that the share of labour cost in Value Added is higher than the level of technology share. During the year 2000 every class of enterprise saw an increase in labour cost. This affected labour productivity. the reduction in which was as a result of the lack of investment in new technology.



## 4.7. Profitability

As in the Observatory of European SMEs Report 2002, profitability is defined here as operating surplus, adjusted for the imputed wage of the self-employed, as a percentage of Value Added. Operating surplus is calculated as the difference between VA and labour costs. In this Report It is suggested to make the adjustment for the imputed wage costs of self employed amounts to average wage by size-class times the estimated number of self employed. This adjustment is required as the self-employed provide an essential labour input in their enterprises, but are not on the average bill. Their exclusion would therefore hamper a useful comparison of SMEs (especially micro-enterprises) with LSEs.

It can be expected that labour productivity and profitability have a strong correlation and consequently it is expected for medium-sized enterprise to be the most profitable size class. Instead, Figure 22 shows that in 2000 the most profitable were micro-enterprises (1-4 people), which is surprising given that size and profitability are negatively correlated.

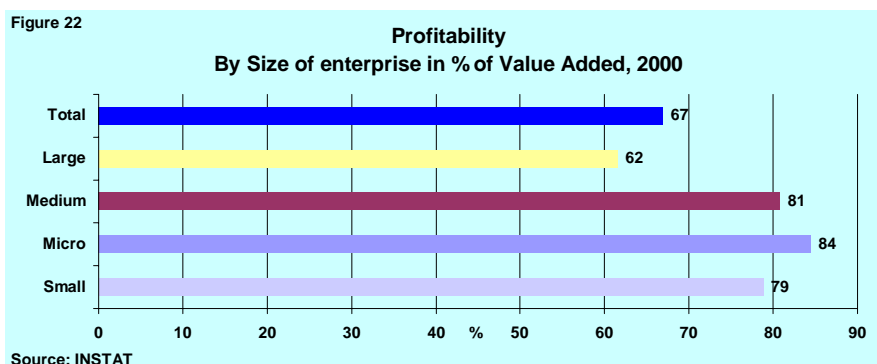
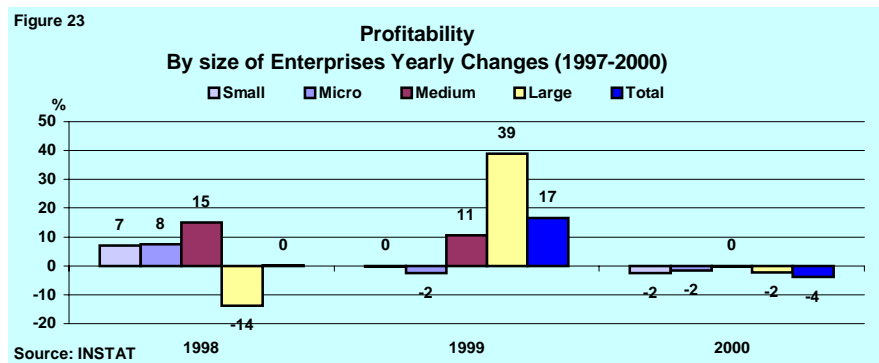


Figure 22 shows that SMEs, in terms of Value Added, are approximately 20 % more profitable than the larger enterprises. Medium size enterprises are also close to the average profitability of SMEs by 80 %.

Figure 23 shows that in 1998, SME profitability grew respectively by 8 % for small enterprises, 7 % for micro and 15 percent for medium-size enterprises. In 1999, the profitability of large enterprises exceeded that of SMEs, but in 2000 they were still lagging behind the profitability level of medium- size enterprises, which had a flat growth for that year, while all other enterprises experienced negative growth of 2 %.



**Conclusions:** The analysis shows that micro-enterprises were the most profitable in 2000. This result is surprising, given that size is negatively correlated to profitability. MSEs were close to the average profitability of SMEs. In 1999, large enterprises exceeded the profitability of SMEs, but in 2000 were still lagging behind MSEs.

## **Chapter 3**

### **ESTIMATING RECENT SMES DEVELOPMENTS BY USING BS RESULTS**

#### **1. Introduction to business surveys**

Qualitative Business Surveys are conducted to increase the level of information on the perception among business people of their environment and to disseminate the resulting information to policy makers and other interested parties. The most important characteristics of such surveys are the speed at which they can be carried out and their relative low cost. Business Surveys can therefore provide:

- (1) Complementary statistical information at a time when no statistical data is available (for instance, a presentation of the last three months development).
- (2) A Short-term economic forecasting analysis (in combination with statistical data).
- (3) Identification of major constraints and the impact of various policies on businesses.
- (4) A cyclical business analysis. Survey data is available for 2002, which is used in the following sections of this report to estimate SME development in the manufacturing and construction sectors.

The results of business surveys are presented in such a way as to clearly show opinions concerning the actual or expected changes or judgements concerning the level of a number of variables. In this way the surveys capture the direction of change for a specific activity.

#### **2. Recent SME development in the manufacturing sector**

##### **2.1. The industrial confidence indicator**

The confidence indicator is a type of 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. This indicator 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 summarises the industrial climate accurately.
- The industrial climate is positively related to increasing balances 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 24 shows a continuing increase in the confidence indicator for the manufacturing sector - 6 % in January, 10 % in May and 11 % in October 2002. Such figures indicate a continuing increase of optimism among managers in the manufacturing sector during 2002. This indicator is assessed for TOTAL. Figure 25 shows the confidence indicator for SMEs<sup>80</sup>. There are some differences

between the indicators assessed for different groups of enterprises, caused by the LSEs employing in excess of 80 persons.

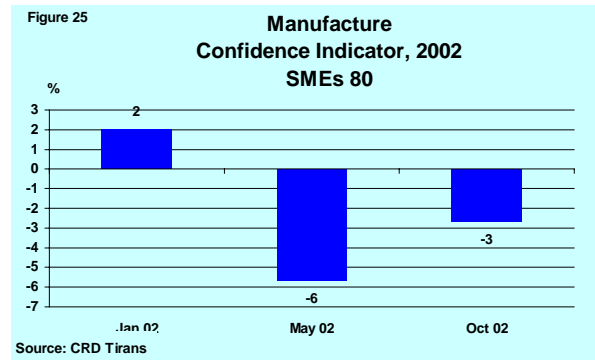
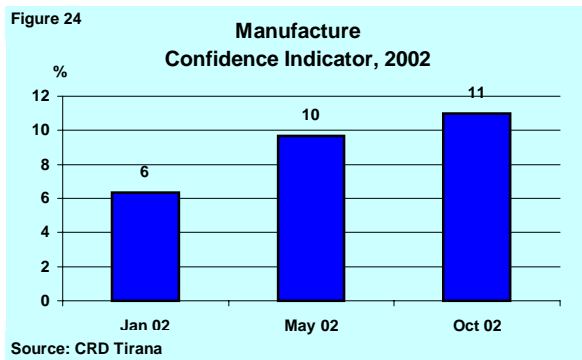
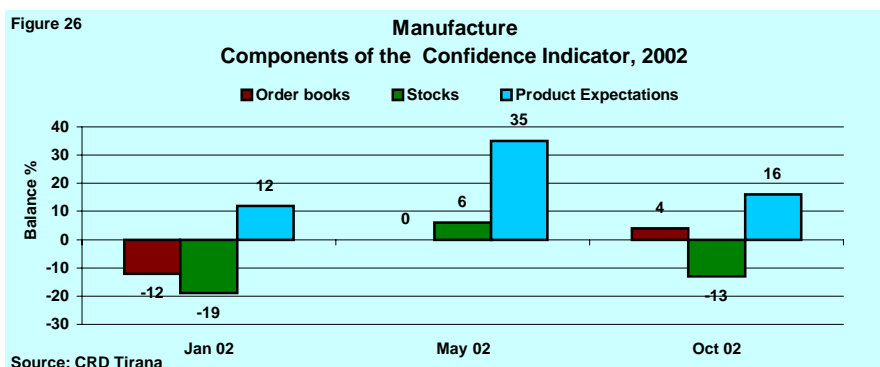


Figure 26 indicates the influence of each component of the confidence indicator. In January and October 2002, the balance of answers shows the decreasing level of finished goods as the primary influencing factor in the increase of the confidence indicator for manufacturing activity by 6 and 11 %. In April 2002, the increase of production expectation by 35 points contributed to an increase in the confidence indicator, while in October 2002 all three components contributed to the increase.



Disaggregating confidence indicator by size of enterprises, show significant differences of the confidence indicator among different size classes of enterprises (see Figures 27-29).



Figure 27 shows that the confidence indicator for SEs is negative during all three-study periods. In May 2002, the confidence indicator decreased by one point, meaning that managers were more pessimistic than in January of that year. Figures show that in October 2002, SE managers were less worried than in May of that year by 7 points.

Figure 28 shows that in May 2002, the confidence indicator for medium size enterprises indicates that the business climate for medium size enterprises had deteriorated, as it had for small size enterprises. In October 2002, managers of medium size companies had become more optimistic (indicated with a rise in the confidence indicator of 4 %).

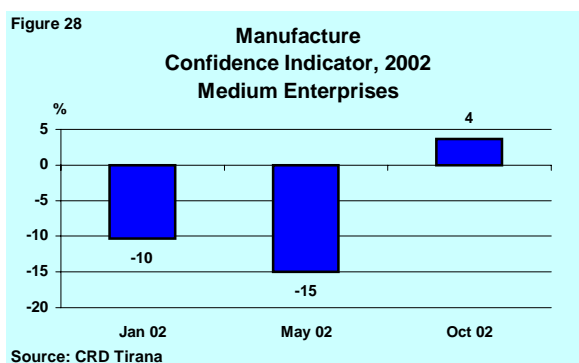
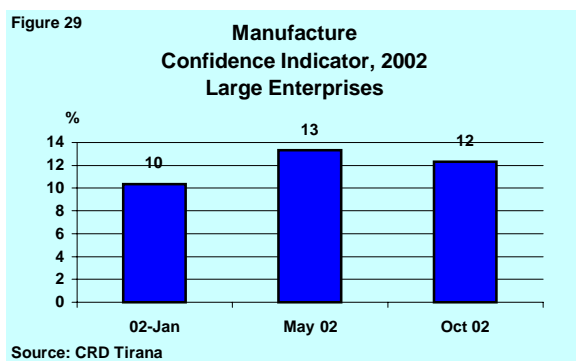


Figure 29 shows that in 2002, managers of large enterprises were optimistic about their business activity. Comparing the results of Figures 23 and 28 it can be said that large enterprises contribute most to the high level of confidence in business activity in the manufacturing sector in Albania.

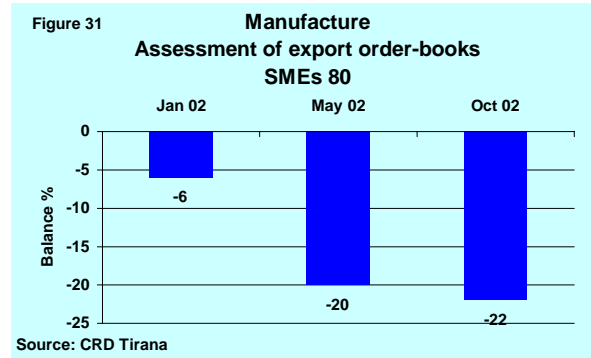
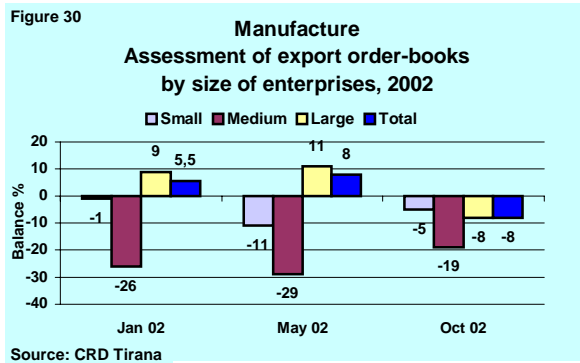


In conclusion it can be expected that, during 2002, small enterprises are likely to have experienced a negative growth in production, which will be largely eliminated by an increase in activity by LSEs.

**CONCLUSIONS:** The manufacturing confidence indicator is important in understanding the business environment and is assessed by three factors: (1) production expectations, (2) assessment of order books, and (3) assessment of stocks of finished products. So, the managers' optimistic or pessimistic responses are related to the perspective of their business. SMEs had a continuous increase in business, which is related to a decrease in the level of finished goods. SEs revealed that in May 2002, managers were more pessimistic than in January of that year, but in October 2002, were more optimistic. It can be expected that during 2002 ses were eliminated by lses. mses reveal a deteriorated business environment during the first half of 2002, but the situation improved during the second half of that year. lses feel strong, contributing in a positive way to manufacturing business. SMEs-80 are quite different from the TOTAL enterprises and are not similar to SMEs in the statistical and survey data.

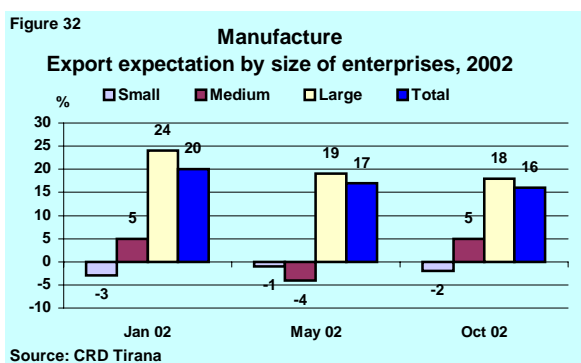
### 2.1.1. Export order books and export expectations

The following are a number of other indicators that have been generated by business survey results, which will help us to create a clearer picture regarding SME performance in the manufacturing sector.



An assessment of export order books by size of enterprise shows a pessimistic situation among entrepreneurs. Figure 30 indicates that managers of medium size enterprises thought that export order books would decline more in May 2002 and less in October of the same year. The balance of answers for large enterprises shows that export order books in October 2002 is likely to have declined in comparison with three or four months before. Examining export expectations (Figure 32), it is expected that exports by large enterprises should increase during 2003. Figure 31, represents the assessment of SMEs80. Comparing the assessment of size-classes used in the surveys, Figure 30 and the assessment for SMEs80, there are small differences between SMEs and SMEs80, but the trend is the same. The difference can be seen in the result of the part of LSEs with 50-80 employees.

Figure 32 shows that the balance in percentages of positive and negative answers by managers of medium size enterprises (as well as LSEs) is positive throughout 2002, indicating that managers are optimistic that in 2003 exports will increase. Figure 33 shows the assessment for SMEs80.



Comparing the assessment of size-classes used in the surveys, Figure 32, and the assessment of SMEs80, there are small differences between the two, but the trend is the same. The difference is the result of the part of LSEs with 50-80 employees.

**Conclusions:** Export Order books and the export expectations indicator have a special importance in a situation where no statistical data is available for export. This indicator reveals the export trend. SME managers displayed pessimism concerning exports during 2002. The situation appeared better in October of that year, but managers remained pessimistic. MSEs and LSEs anticipate an increase in 2003. The trends for SMEs and SMEs80 are the same. The differences can be seen in the area of LSEs with 50-80 employees and make the need to revise the data according to size classes as defined by the SME law clear.

### 2.1.2. Employment expectation

Figure 34 provides information for another important indicator: employment expectations.

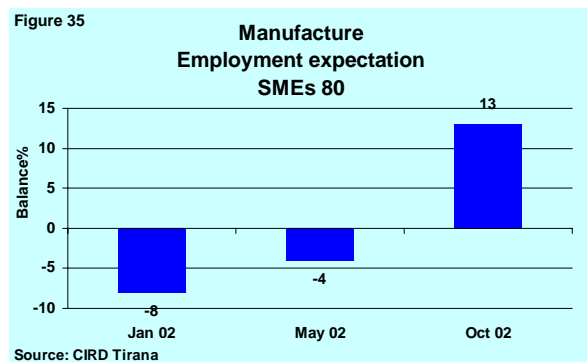
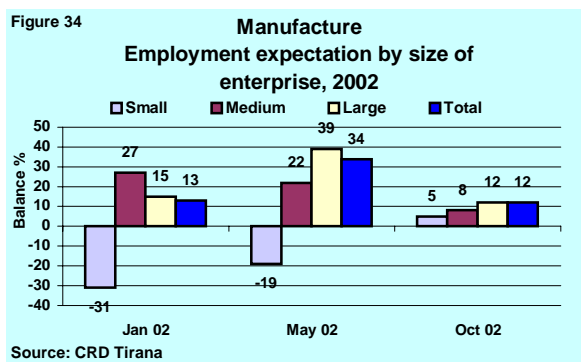


Figure 34 shows that during 2003, MSEs and LSEs will provide more employment for the labour market. In contrast, small enterprises are likely to decrease the number of jobs created during 2003. Only in October 2002, the balance of answers in percentages for small enterprises was positive by 5 points. However, the overall October survey results indicate that employment expectations were lowered in comparison with the May survey results. Figure 35 shows the assessment for SMEs80. There are small differences between SMEs and SMEs80, but the trend is the same. The difference is the result related to LSEs with 50-80 employees.

The results of the business surveys confirm what statistical information for the 1997-2000 period has already shown - that medium-size enterprises play a significant role in creating job opportunities. Instead, such opportunities are limited for small enterprises.

**Conclusions:** The employment expectation indicator is positively correlated with production. For positive employment expectation production may increase. The assessment for MSEs and LSEs reveals that employment in these size classes is expected to increase during 2003, although SEs are expected to reduce the number of employees. The business surveys results emphasize the statistical conclusion for 1997-2000 - that MSEs employ the majority of the workforce. Trends relating to SMEs and SMEs80 are the same. The differences can be seen in the influence on the part of LSEs with 50-80 employees. These differences make evident the necessity to revise the data according to size classes as defined by the SME law.

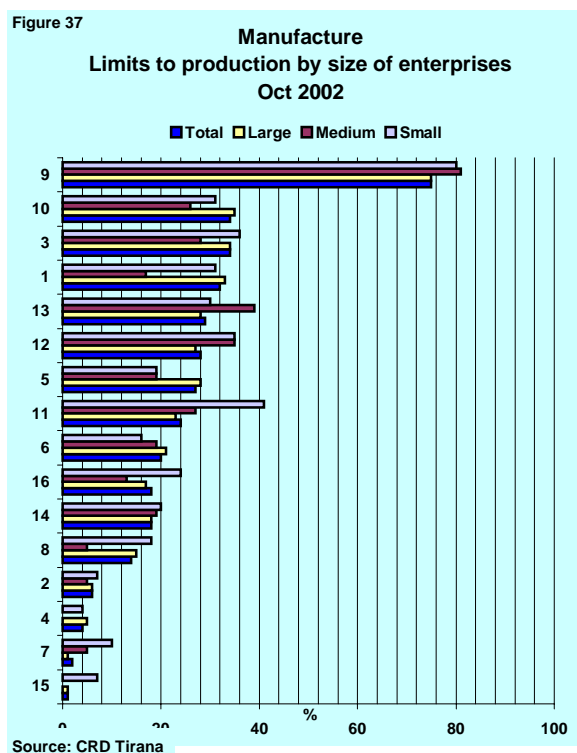
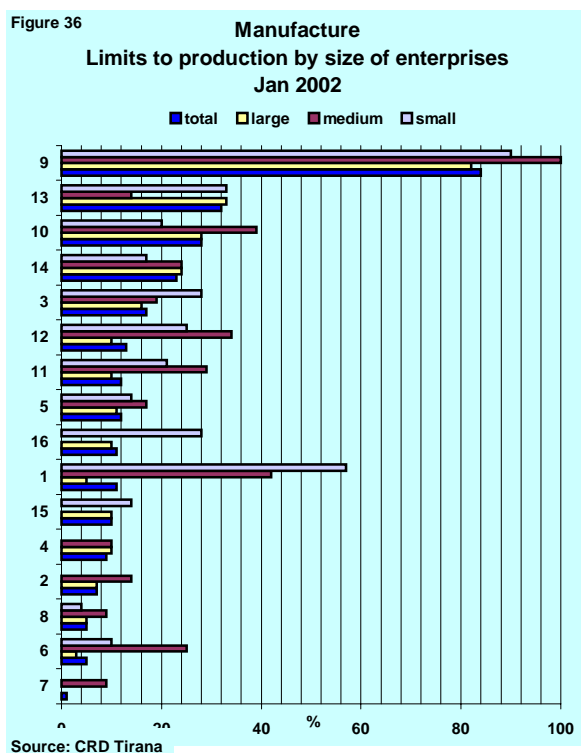
## 2.2. Limits to production

In 2002, business survey data for the manufacturing sector showed a variation over time not only for the total but also for different enterprise classes. Such development led to the conclusion that the change in business environment over time differs according to the class of enterprise. Figures 36 and 37 analyses the impact of different limiting factors that have affected production activity by size of enterprise.

Limitations on production in the manufacturing sector are monitored by means of 15 factors, which can be divided into three types:

- Demand-side constraints (1 and 2)
- Supply-side constraints (3, 4, 5, 6, 7 and 8)
- Business environment constraints (9, 10, 11, 12, 13, 14 and 15)

Figures 36 and 37 indicate that business environment constraints are the most significant factors limiting SME production activity in Albania.



Legend:

- |                                    |                                      |
|------------------------------------|--------------------------------------|
| 1. Insufficient domestic demand    | 9. Shortage of electricity supply    |
| 2. Insufficient foreign demand     | 10. Lack of infrastructure           |
| 3. Competitive imports             | 11. Insolvency                       |
| 4. Shortage of labor               | 12. Difficulties in obtaining credit |
| 5. Shortage of skilled labour      | 13. Unclear fiscal legislation       |
| 6. Lack of appropriate equipment   | 14. Uncertainty of macro environment |
| 7. Shortage of semi-finished goods | 15. Licensing procedures             |
| 8. Shortage of raw materials       | 16. Other                            |

In January 2002, shortages of electricity supply and unclear fiscal legislation were the two major business environment constraints. In October of that year, lack of infrastructure was considered by SME' managers as an important constraint to their business activity.

In January 2002, lack of domestic demand was an important constraint for SMEs, which also influenced the LSEs in October of the same year, and affected SMEs to the same degree (ranked fourth in October). From supply side components, only competitive imports can be mentioned as a constraint to SME business activity. The significance of this factor was further increased in October 2002, indicating that SMEs in Albania are feeling relatively weak and unprepared to challenge foreign competition.

Returning to the analysis of the components of the confidence indicator for manufacturing activity, i.e. order books, stocks, and production expectation (Figure 26), it can be concluded that business environment constraints (particularly shortages of electricity supply and lack of infrastructure) could have contributed to the reduction of stocks of finished goods. This is a sign of the weakening of future SME business activity, if appropriate measures are not taken to limit their influence.

**Conclusions:** Limits to the production indicator reveal changes in the business environment over time.

- Lack of electricity supply is the main business limitation (in January and October 2002), equally felt by all size classes of enterprise.
- Unclear fiscal legislation ranked second in the list of constraints in January 2002, but in October ranked fifth. MSEs, in January 2002, were less limited than the other size classes, but were found to be more limited in October 2002.
- Lack of domestic demand was an important limitation for both SMEs and MSEs in January 2002. In October, this limitation ranked fourth, but was less important for MSEs.
- Lack of infrastructure ranked third in January 2000, but in October of the same year ranked second. MSEs consider this limitation more important than the other size classes.
- Insolvency was considered an important limitation for SMEs in October 2002.

### 3. Recent SME development in the construction sector

#### 3.1. Construction confidence indicator

Figure 38 shows that in comparison with April 2002, we can distinguish a turning point in September in the business confidence indicator as it moved from negative 2 points to positive 3 points.

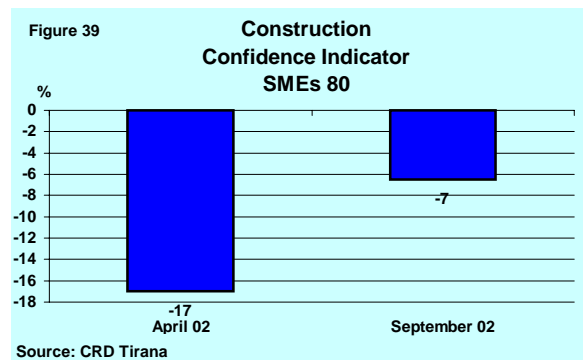
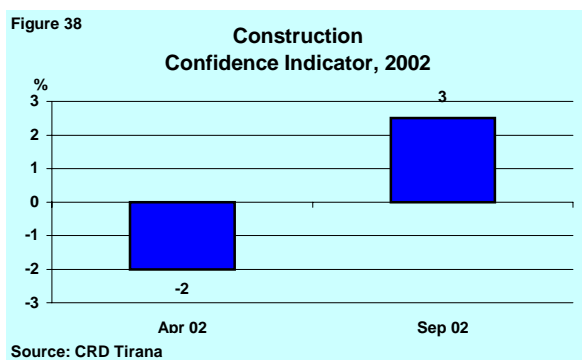
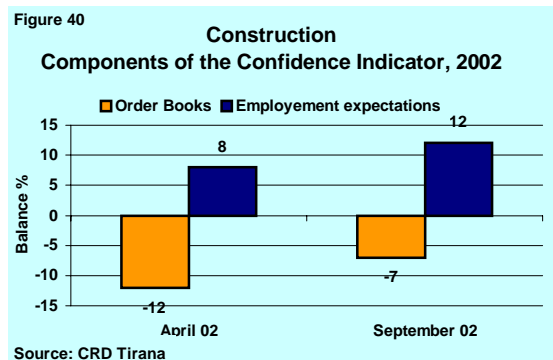


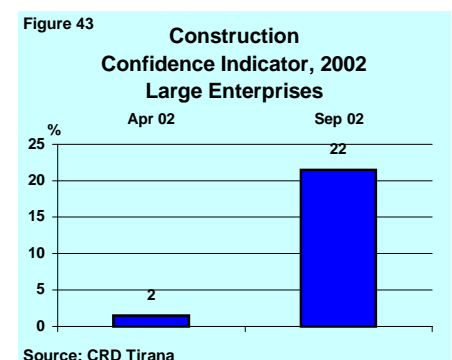
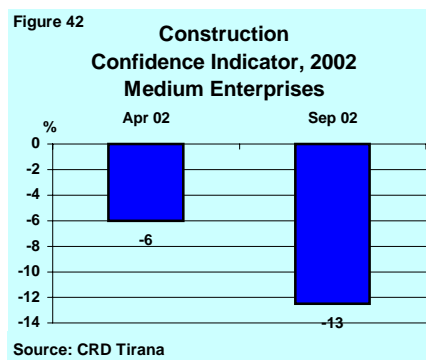
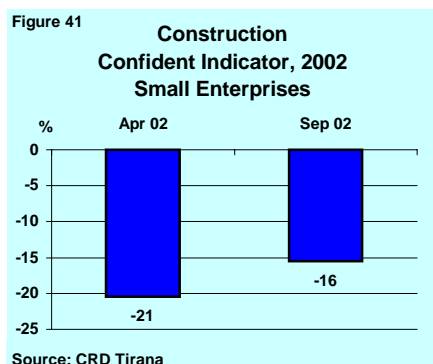
Figure 40 indicates changes in the components of the construction confidence indicator. As it can be distinguished, employment expectation is a factor with positive influence to increasing



construction confidence indicator. Instead, order books, in April and September 2002, have contributed negatively to confidence indicator.



The confidence indicator is also estimated for different classes of enterprises (see Figures 41-43). Figure 41 shows that in April 2002, the construction confidence indicator for small enterprises was negative by 21 points, indicating that many small enterprise managers were pessimistic about their business activity. In September 2002, a pessimistic tone among managers can once again be distinguished, by 16 points, which was less than three months before, but still at a high level.



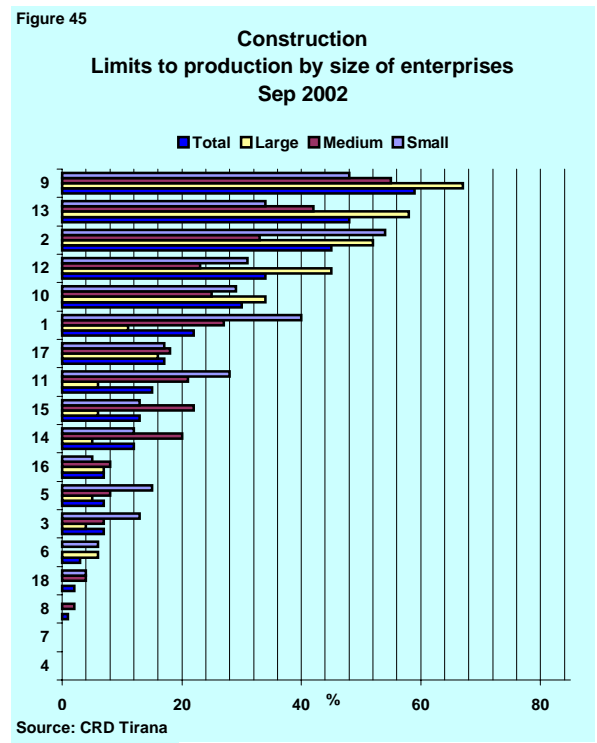
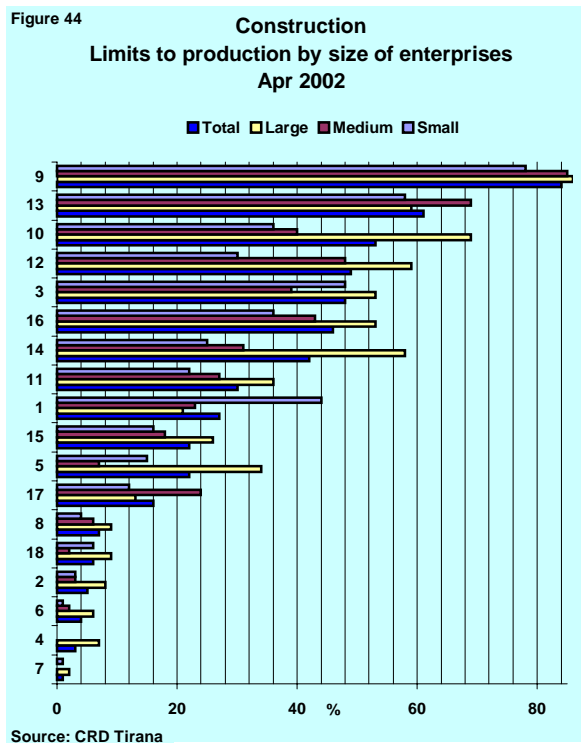
In September, in comparison with April 2002, the construction confidence indicator for medium size companies (Figure 42) shows a 7 points decrease, indicating that managers of medium size companies were more worried about their business activity than three months before.

Figure 43 shows changes in the confidence indicator for large enterprises. In April 2002, the indicator was positive by 2 points, while it had a 20 point increase in September of that year. Such results indicate that, as in the manufacturing sector, increasing the confidence of managers in large construction companies contributed to the overall confidence index for the industry. In comparison, the confidence indicators for SMEs in the construction sector show that their performance is not in line with large enterprises and deteriorated during the year.

**Conclusions:** The construction confidence indicator is assessed according to two factors: (1) order books and (2) employment expectation. September 2002 was a turning point for the indicator. In September, the employment expectation factor showed a relevant increase, while the order book factor had been decreasing, although its negative influence was less than in April. SE managers were pessimistic in both surveys, but felt a little better in September. The MSE managers were pessimist too, and felt more so in September. The LSE managers were optimistic in both surveys, feeling far more so in September. This size class made the construction confidence indicator for the sector positive.

### 3.2. Factors limiting construction activity

Figures 44 and 45 indicate factors limiting construction activity by enterprise size in April and September 2002. Business constraints (with the exception of shortages in electricity supply) for SMEs in the construction sector differ from those in the manufacturing sector. Both Figures 43 and 44 show that the second and third (September survey – see Figure 41) major business constraints in the construction sector are the unfair implementation of fiscal and procurement laws. Difficulties in obtaining credit and insolvency issues are also important to the development of SMEs in the construction sector. In contrast with LSEs, SMEs face more problems related to domestic limitations on construction work. Lack of infrastructure has less significance here than in the manufacturing sector and in September 2002 this factor was even less important compared to the April results.



*Legend:*

- |   |  |
|---|--|
| 1. Insufficient domestic demand             | 10. Lack of infrastructure                             |
| 2. Unfair implementation of procurement law | 11. Insolvency   |
| 3. Competitive imports                      | 12. Difficulties in obtaining credit                   |
| 4. Shortage of labor                        | 13. Unclear fiscal legislation                         |
| 5. Shortage of skilled labor                | 14. Uncertainty of macro environment                   |
| 6. Lack of appropriate equipment            | 15. Licensing procedures                               |
| 7. Shortage of semi-finished goods          | 16. Others   |
| 8. Shortage of raw materials                | 17. Difficulties in obtaining construction permissions |
| 9. Shortages of electricity supply          | 18. Unfair competition by black market                 |

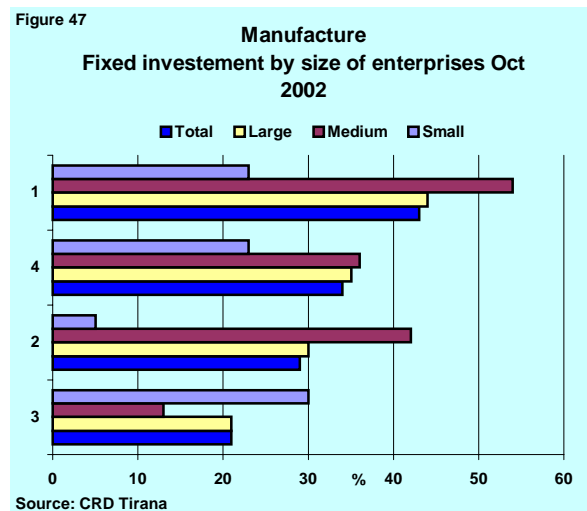
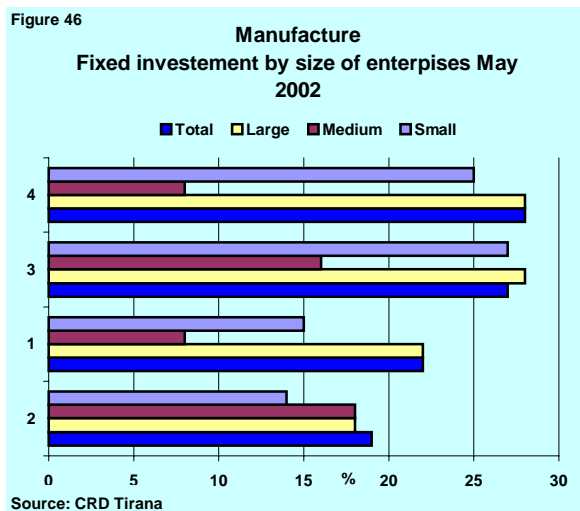
**Conclusions:** Limits on the construction indicator reveal changes in the business environment over time:

- Lack of domestic demand is the main business limitation (in April and September 2002). The same weight was given to all size classes of enterprise in January, but in September LSEs felt more constrained.
- Unclear fiscal legislation is the second limitation. In April, MSEs were more constrained, but in September this had changed to LSEs.
- Lack of infrastructure was considered a third limitation by LSEs in April.
- Unfair competition was ranked as the third limitation by SEs and LSEs in September.
- Difficulties in obtaining credit, and insolvencies, were the fourth limitation (in April and September). LSEs felt more constrained.

## 4. Investment

### 4.1 Investment by size of enterprises

Figures 46 and 47 show the direction of fixed investments in the manufacturing sector, revealed by survey results in May and October 2002. Both results reveal that SMEs differ from LSEs in investment direction. In May 2002, survey results indicate that small enterprises were likely to have invested the most in extending production range (see Figure 46). By comparison, medium size enterprises responded that they invested more in extending production capacity.



#### Legend

1. Replacement of old equipment
2. Extending production capacity
3. Extending product range
4. Mechanization or automation of the existing manufacturing process

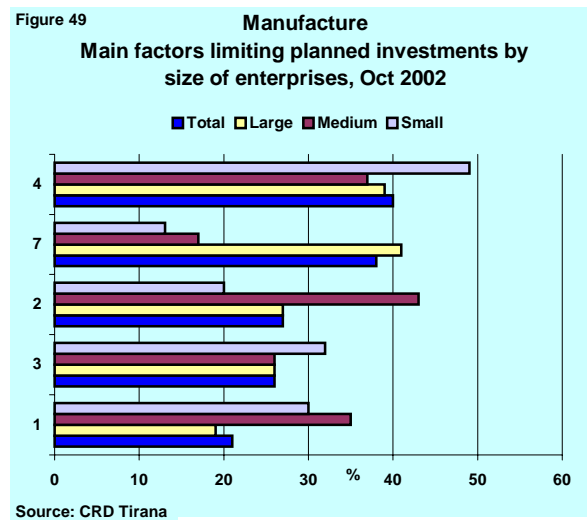
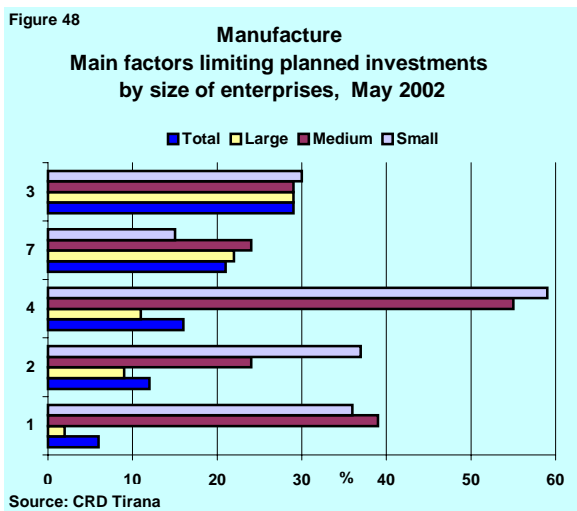
In October 2002, most SMEs had invested in replacing old equipment and extending production capacity (mainly for middle size enterprises). During this phase of development, SMEs were less interested in investing in the introduction of new production techniques, energy saving, pollution control, etc<sup>10</sup>.

<sup>10</sup> Due to their insignificance these type of investment are not shown in Figures 46 and 47.

**Conclusions:** The fixed investment indicator reveals business stability. No one will invest if the business is unlikely to survive. Investment in all enterprises made the replacement of old equipment a priority. The investment policy changed to a focus on extending the product range and extending the range of production (a priority in May, but with less importance in October). SEs invested more in mechanization and extension of the product range (in the May survey). The second survey, in October, revealed that fewer investments were made in extending product capacity. MSEs prioritized investments that extended production capacity. The October survey reveals that more investments were made, prioritizing replacement of the old production capacity. LSEs, according to the October survey, reduced investments in general, particularly those that extended production capacity.

## 4.2 Factors limiting future investments

Figure 48 and 49 indicate the main factors limiting planned investment by size of enterprise in May and October 2002. The impact of most of the factors on SMEs and LSEs can be seen to be different. In May 2002, difficulties experienced in obtaining credit was the only factor with more or less the same significance for all sizes of enterprise. During this period, the major factor constraining SME investment in the future was insufficient profit, which reoccurred as the main factor in October 2002, showing that profit is the major source for financing investment for SMEs and secondly, during 2002, SMEs profitability is likely to have diminished.



Legend:

1. Insufficient domestic demand
2. Prohibitively high cost of capital
3. Difficulties in obtaining credit
4. Insufficient profit
7. Other

Other important factors that discouraged SME managers from investing were the cost of capital and insufficient demand. The last group, 'other', includes factors such as political instability and electricity shortages. These factors had no significant effect on the decision by SMEs to invest. By comparison, in October 2002, LSE managers considered these factors as the second most important constraint limiting their future investment.

**Conclusions:** The investment is an important indicator to understand business perspective. Moreover, investment constraints add important information regarding factors constraining future investments. In general, these constraints were felt more strongly by all enterprises in October 2002 than in May. SEs considered the main constraint on investments to be insufficient profits, while MSEs cited insufficient profits and prohibitive capital costs. In the October survey lack of profit was revealed to be the major limiting factor on investment by LSEs.

## Chapter 4

### GENERAL PROJECT OUTCOMES

The analysis of SME development for the 1997-2000 period<sup>11</sup> (based on statistical data), and 2002 (based on Business Surveys) revealed a number of characteristics of the impact by this important class of enterprises on the Albanian economy and particularly on its growth pattern. The most significant findings with an effect on policy issues are as follows:

- SMEs in Albania comprise the bulk of enterprise stock. On average 99 % of enterprises have fewer than 50 employees.
- SME performance has deteriorated gradually, particularly since the year 2000. Only MSEs show improved performance over other size class enterprises. These enterprises could be the source of significant job creation in the future as they are the most dynamic type of enterprise. In addition, MSEs plan future investment on a larger scale than both small and large enterprises. Specific policies should therefore be designed in support of such development.
- SME managers feel that they are constrained by a number of factors primarily related to business environment operation, such as energy, infrastructure, and unclear fiscal legislation.
- The Government should improve its privatization strategy in the service sector (particularly in transport and other services), as the impact of the privatization process after 1998 on employment in SMEs has been virtually non-existent.
- SMEs are investing more in the extension of production capacities and the replacement of old machinery and less in new technologies, modernization, and automation. Special fiscal legislation is therefore needed to support SMEs in investing in new technologies and modernization.

#### **Limitation and future actions**

It is also important to mention that this report is lacking in certain other valuable information regarding the development of SMEs such as contribution to exports, and SME performance in various important activities such as services. These limitations are mainly related to data availability, and the time and resources that authors had at their disposal during the compilation of the report. However, future reports on SME development with a focus on their impact on economic growth will significantly improve if the following actions are taken:

- Policy makers will be better informed if annual reports on SME development are complimented by the results of frame indicators made available every six months. In order to achieve this it is important that:
  - INSTAT speeds up the implementation of the National Accounting System based on internationally recognized practices.
  - INSTAT takes immediate actions to revise data according to the definition of law no.8957, “For Small and medium enterprises” (17.10.2002).
  - Business statistical survey data is made available every three months.
  - Periodical qualitative business surveys in the frame of the joint harmonized EU program on business surveys continue to be conducted.

---

<sup>11</sup> Data for 2001 development was unavailable.

- An annual survey designed specifically for SMEs is also needed. This would detect issues related to entrepreneurship and management, administrative burdens, taxation, and other issues, which are particular to the SME business environment and are absent from this report.

## *Annex 1*

### Previous studies on SME development

In recent years there have been some efforts made to research the nature and need of SME activity in Albania. According to our investigations, such work has not been systematic, with focus on a variety of issues. The most important publications are as follows:

1. *Informal Economy: Fiscal Evasion and Unregistered Employment*, Albanian Centre for Economic Research; Tirana, March 1999
2. *Survey of Organizations Involved in SME Regulation and Promotion in Albania*, Human Development Promotion Centre; Tirana, November 1999.

The aims of the survey are to identify the main obstacles that impede SME start-up and growth, including:

- Regulations
- Procedures
- Taxation
- General legislation

3. *Private Sector Development: Strategic Approach*, GTZ – DEG SME; Tirana, November 1999. The report focuses on the following issues:

- Identification of problems and opportunities for SMEs.
- Collection of appropriate information for generating and evaluating future actions.
- Addressing proposals and recommendations for creating a favourable SME-oriented climate to relevant government bodies.
- A short-, medium-, and long-term guide for detailed action needed to provide effective support to the private sector.

4. *Survey of the Albanian Business Community*, AATDA (Albanian – American Trade and Development Association); Tirana, March 2001.

This survey had as its main objectives:

- Identification of general and specific needs, and potential for association development in Albania.
- Recommendations for government policy and programmes related to SME development.
- Implementation of a campaign to influence the government and the private sector in the area of business reform.

5. *Determinants of Growth*, IDRA (Institute for Development Research and Alternatives); Tirana, 2002.

The report presents:

- The general political, economic, and social situation.
- Human capital and growth.
- Production and growth.
- Financial markets.
- Health and environmental impact.

The common features of previous surveys are:

- A representation of the business environment as static.
- Presentation of an historical observation.



- Conclusions are the results of data collected by non-representative sample surveys.

This study aims to fill the gap of previous studies by providing a methodological tool for estimating a set of frame indicators to assess the performance of SMEs within the past five years. This study is the first of its kind in Albania and can be used to track SME development and the influence of various government policies.

**ANNEX 2**  
**SME indicators by sectors (%)**

		All Sectors				Industry				Construction				
		1997	1998	1999	2000	1997	1998	1999	2000	1997	1998	1999	2000	
NUMBER OF ENTERPRISES	Structure	<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
		<b>Small</b>	97.9	98.1	98.2	98.2	90.3	90.9	91.7	90.4	89.4	89.0	89.9	89.0
		<b>Micro</b>	91.1	92.0	92.6	92.1	75.5	76.7	77.3	76.0	33.9	37.3	43.3	42.6
		<b>Medium</b>	1.0	0.8	0.8	1.0	2.9	3.3	3.1	4.1	5.9	7.6	4.4	8.1
		<b>Large</b>	1.2	1.1	1.0	0.9	6.8	5.9	5.2	5.5	4.7	3.4	5.7	2.9
	Yearly Change	<b>Total</b>	:	9.6	17.1	-0.6	:	10.7	1.2	-4.0	:	20.6	21.7	-13.1
		<b>Small</b>	:	9.8	17.3	-0.6	:	11.4	2.2	-5.4	:	19.9	22.9	-13.9
		<b>Micro</b>	:	10.6	17.8	-1.1	:	12.4	2.0	-5.7	:	32.9	41.2	-14.5
		<b>Medium</b>	:	-3.4	9.7	21.2	:	23.5	-2.4	26.0	:	55.8	-29.6	59.6
		<b>Large</b>	:	3.1	3.3	-11.3	:	-4.2	-11.4	2.5	:	-12.2	105.6	-56.8
NUMBER OF EMPLOYEES	Structure	<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
		<b>Small</b>	41.3	40.3	46.1	46.1	13.6	15.3	17.4	17.2	45.6	47.5	52.3	51.8
		<b>Micro</b>	30.1	30.7	34.9	34.1	7.7	8.7	10.1	9.6	8.3	9.6	12.4	10.5
		<b>Medium</b>	5.8	5.2	5.4	7.5	4.3	5.4	6.4	8.5	12.7	21.7	10.1	24.2
		<b>Large</b>	52.9	54.5	48.5	46.4	82.1	79.3	76.2	74.3	41.7	30.8	37.5	24.0
	Yearly Change	<b>Total</b>	:	10.1	0.2	-2.7	:	-3.4	-12.7	0.0	:	-8.7	14.9	-10.1
		<b>Small</b>	:	7.6	14.6	-2.7	:	8.2	-0.5	-1.5	:	-4.9	26.5	-10.9
		<b>Micro</b>	:	12.4	14.0	-4.9	:	9.5	1.4	-4.7	:	5.0	49.0	-23.6
		<b>Medium</b>	:	-2.6	5.5	33.9	:	22.8	2.6	33.6	:	56.1	-46.2	114.6
		<b>Large</b>	:	13.5	-10.9	-6.8	:	-6.7	-16.0	-2.5	:	-32.6	40.0	-42.5
TURNOVER	Structure	<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
		<b>Small</b>	59.4	57.9	62.6	58.0	17.9	21.8	29.9	27.1	51.5	57.3	63.1	47.0
		<b>Micro</b>	40.2	41.3	43.7	37.5	10.4	10.9	15.6	13.5	9.7	10.2	14.5	5.9
		<b>Medium</b>	7.8	7.1	10.1	13.2	6.2	6.6	8.3	9.3	15.7	25.4	20.1	34.7
		<b>Large</b>	32.8	35.0	27.3	28.8	75.9	71.6	61.8	63.7	32.8	17.3	16.8	18.3
	Yearly Change	<b>Total</b>	:	49.8	15.6	13.9	:	8.6	4.4	4.4	:	53.0	46.7	25.7
		<b>Small</b>	:	46.0	25.0	5.4	:	32.2	43.3	-5.5	:	70.4	61.6	-6.4
		<b>Micro</b>	:	54.0	22.3	-2.5	:	13.9	49.3	-9.8	:	61.4	107.8	-49.1
		<b>Medium</b>	:	36.9	63.9	49.0	:	15.6	30.2	16.6	:	147.3	16.0	117.4
		<b>Large</b>	:	59.8	-9.9	20.2	:	2.4	-9.9	7.6	:	-19.5	42.6	36.6
VALUE ADDED	Structure	<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
		<b>Small</b>	41.8	45.2	43.8	41.4	10.3	17.9	19.1	16.6	39.6	48.6	47.2	46.1
		<b>Micro</b>	28.8	35.0	34.2	29.5	5.9	9.5	10.5	8.8	7.0	10.8	12.1	10.1
		<b>Medium</b>	6.1	9.0	10.2	11.2	4.2	9.3	8.5	6.0	13.6	28.9	28.0	26.8
		<b>Large</b>	52.1	45.8	46.0	47.4	85.5	72.8	72.4	77.4	46.8	22.6	24.7	27.1
	Yearly Change	<b>Total</b>	:	23.7	42.7	5.5	:	-14.3	16.5	17.5	:	10.0	42.0	32.7
		<b>Small</b>	:	33.9	38.3	-0.4	:	49.3	24.3	2.3	:	35.1	38.1	29.5
		<b>Micro</b>	:	50.5	39.5	-9.0	:	38.6	28.0	-1.7	:	69.3	58.2	10.9
		<b>Medium</b>	:	82.5	61.3	16.6	:	87.2	7.1	-17.9	:	132.8	37.8	27.1
		<b>Large</b>	:	8.7	43.4	8.7	:	-27.0	15.8	25.7	:	-47.0	55.6	45.2
INVESTMENT	Structure	<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
		<b>Small</b>	36.7	30.2	37.0	38.9	18.9	22.8	13.3	36.8	22.4	51.6	48.2	81.3
		<b>Micro</b>	20.7	21.2	14.3	21.8	10.1	15.8	4.0	27.5	7.9	10.1	12.1	21.8
		<b>Medium</b>	6.7	6.3	8.2	11.6	6.6	9.4	5.1	12.8	5.3	21.1	40.5	17.5
		<b>Large</b>	56.6	63.5	54.8	49.5	74.4	67.8	81.5	50.4	72.2	27.3	11.3	1.2
	Yearly Change	<b>Total</b>	:	67.6	66.2	-25.1	:	26.4	-11.1	56.3	:	-41.3	39.9	61.1
		<b>Small</b>	:	37.9	103.6	-21.3	:	52.1	-47.9	330.7	:	35.0	30.9	171.6
		<b>Micro</b>	:	71.8	12.1	14.0	:	97.4	-77.3	962.4	:	-24.1	67.0	189.1
		<b>Medium</b>	:	58.8	114.4	6.4	:	79.5	-51.4	290.1	:	131.6	168.3	-30.5
		<b>Large</b>	:	88.0	43.5	-32.3	:	15.1	6.9	-3.4	:	-77.8	-42.2	-82.5
VALUE ADDED PER OCCUPIED PERSONS	Yearly Change	<b>Total</b>	:	12.4	42.4	8.5	:	-21.1	11.6	12.5	:	20.6	23.5	47.6
		<b>Small</b>	:	24.4	20.7	2.4	:	22.2	-13.2	8.2	:	42.0	9.2	45.4
		<b>Micro</b>	:	33.9	22.3	-4.4	:	21.6	-14.3	9.0	:	61.3	6.2	45.2
		<b>Medium</b>	:	87.4	52.9	-12.9	:	57.6	-17.8	-29.6	:	49.1	156.0	-40.8
		<b>Large</b>	:	-4.2	61.0	16.7	:	-28.8	28.5	16.8	:	-21.2	11.2	152.7
SHARE OF LABOR COST IN VALUE ADDED	Yearly Change	<b>Total</b>	:	-0.1	-24.5	8.8	:	24.4	-18.2	-6.5	:	4.6	-20.4	-21.2
		<b>Small</b>	:	-21.6	1.0	10.2	:	-34.4	-19.3	10.2	:	-17.7	-5.2	-28.1
		<b>Micro</b>	:	-33.9	17.6	10.0	:	-20.4	-25.3	18.5	:	-35.4	5.8	-31.8
		<b>Medium</b>	:	-26.5	-29.2	1.6	:	-18.6	3.4	53.0	:	-7.5	-40.4	10.5
		<b>Large</b>	:	15.4	-32.3	3.7	:	43.4	-19.6	-13.2	:	63.3	-23.9	-32.5
PROFITABILITY	Yearly Change	<b>Total</b>	:	0.1	16.5	-3.8	:	-23.7	28.7	6.5	:	-3.9	18,8997	13.1
		<b>Small</b>	:	6.9	-0.2	-2.4	:	35.5	9.6	-3.7	:	14.3	3,02341	15.1
		<b>Micro</b>	:	7.5	-2.4	-1.6	:	10.5	9.4	-4.7	:	26.6	18,7929	-6.8
		<b>Medium</b>	:	15.1	10.6	-0.4	:	10.7	-1.4	-23.5	:	6.5	30,8156	-3.7
		<b>Large</b>	:	-13.8	38.9	-2.2	:	-41.6	46.1	17.1	:	-53.3	70,3688	42.7

		Trade				Transport				Other Services				
		1997	1998	1999	2000	1997	1998	1999	2000	1997	1998	1999	2000	
NUMBER OF ENTERPRISES	Structure	<b>Total</b>	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	
		<b>Small</b>	99,8	99,7	99,7	99,7			99,3	99,3	98,1		98,8	98,9
		<b>Micro</b>	96,3	97,4	97,6	97,0	99,5	97,1	97,8	97,3	92,2	94,3	92,9	91,8
		<b>Medium</b>		0,2	0,3	0,2			0,2	0,2	1,3		0,6	0,7
		<b>Large</b>		0,1	0,05	0,1		0,7	0,5	0,4	0,5	0,5	0,5	0,5
	Yearly Change	<b>Total</b>	:	13,3	18,3	-4,8	:	17,6	44,6	14,1	:	-4,8	7,1	4,6
		<b>Small</b>	:	13,2	18,3	-4,8	:			14,2	:			4,6
		<b>Micro</b>	:	14,5	18,6	-5,4	:	14,8	45,6	13,5	:	-2,5	5,4	3,3
		<b>Medium</b>	:		48,6	-26,9	:			40,0	:			9,8
		<b>Large</b>	:		-47,1	22,2	:		4,0	-3,8	:	-14,7	20,7	-8,6
NUMBER OF EMPLOYEES	Structure	<b>Total</b>	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	
		<b>Small</b>	90,9	90,0	92,2	93,7			32,0	36,7	70,2		70,2	69,1
		<b>Micro</b>	77,0	80,8	82,6	81,4	72,7	22,0	28,8	32,6	56,8	58,7	54,4	52,9
		<b>Medium</b>		3,1	4,3	3,6			1,4	1,9	11,2		5,7	6,3
		<b>Large</b>		6,9	3,5	2,7		74,4	66,7	61,4	18,6	27,0	24,1	24,6
	Yearly Change	<b>Total</b>	:	18,2	10,7	-7,2	:	308,6	7,2	-2,9	:	-11,1	17,0	1,0
		<b>Small</b>	:	17,0	13,4	-5,7	:			11,5	:			-0,5
		<b>Micro</b>	:	24,0	13,3	-8,6	:	23,4	40,6	9,8	:	-8,1	8,4	-1,6
		<b>Medium</b>	:		51,4	-21,3	:			32,9	:			11,1
		<b>Large</b>	:		-43,3	-29,7	:		-4,0	-10,6	:	28,9	4,6	3,1
TURNOVER	Structure	<b>Total</b>	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	
		<b>Small</b>	86,6	84,7	83,9	77,5			39,1	33,5	85,9		77,6	81,4
		<b>Micro</b>	60,5	65,2	62,1	53,3	82,4	17,1	36,4	28,2	68,1	72,3	66,5	64,3
		<b>Medium</b>		6,7	9,2	14,8			11,7	3,3	4,1		7,1	4,2
		<b>Large</b>		8,6	6,9	7,7		74,0	49,2	63,2	9,9	16,3	15,3	14,4
	Yearly Change	<b>Total</b>	:	49,2	15,0	19,8	:	690,2	21,0	10,0	:	33,9	20,3	0,8
		<b>Small</b>	:	45,9	13,9	10,6	:			-5,7	:			5,8
		<b>Micro</b>	:	60,7	9,6	2,7	:	64,2	157,2	-14,8	:	42,2	10,7	-2,4
		<b>Medium</b>	:		58,5	92,7	:			-68,6	:			-40,2
		<b>Large</b>	:		-8,2	33,9	:		-19,5	41,3	:	120,8	12,7	-5,0
VALUE ADDED	Structure	<b>Total</b>	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	
		<b>Small</b>	79,8	83,9	84,2	74,0			26,9	21,7	79,2		67,5	71,6
		<b>Micro</b>	55,9	72,8	70,8	58,1	80,6	21,9	25,5	18,6	62,7	55,6	55,4	57,4
		<b>Medium</b>		11,1	13,4	20,3			5,6	2,4	6,6		9,5	10,6
		<b>Large</b>		5,0	2,4	5,6		70,5	67,4	75,9	14,2	34,8	23,0	17,7
	Yearly Change	<b>Total</b>	:	26,1	25,8	18,3	:	526,5	136,5	-22,6	:	32,5	12,5	10,4
		<b>Small</b>	:	32,6	26,2	4,1	:			-37,8	:			17,2
		<b>Micro</b>	:	64,3	22,3	-2,8	:	70,2	175,3	-43,3	:	17,5	12,0	14,3
		<b>Medium</b>	:		51,8	79,4	:			-66,7	:			23,6
		<b>Large</b>	:		-39,1	176,8	:		126,4	-12,9	:	224,2	-25,5	-15,0
INVESTMENT	Structure	<b>Total</b>	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	
		<b>Small</b>	88,9	83,9	80,6	76,2			7,2	8,1	59,8		79,5	54,0
		<b>Micro</b>	52,7	61,9	20,8	30,3	51,7	1,7	4,7	4,5	39,1	80,7	71,8	27,6
		<b>Medium</b>		7,4	15,7	20,8			0,2	1,8	3,8		9,6	13,8
		<b>Large</b>		8,7	3,7	3,0		96,6	92,7	90,1	36,4	1,2	10,9	32,3
	Yearly Change	<b>Total</b>	:	-11,6	375,2	-68,9	:	6811,5	84,3	-48,2	:	82,6	38,1	-39,1
		<b>Small</b>	:	-16,5	356,5	-70,6	:			-41,7	:			-58,7
		<b>Micro</b>	:	3,9	59,8	-54,7	:	122,2	420,0	-50,0	:	276,4	22,9	-76,6
		<b>Medium</b>	:		904,9	-58,8	:			517,6	:			-12,4
		<b>Large</b>	:		102,4	-74,7	:		76,7	-49,6	:	-94,0	1152,6	80,3
VALUE ADDED PER OCCUPIED PERSONS	Yearly Change	<b>Total</b>	:	6,7	13,7	27,6	:	53,3	120,6	-20,3	:	49,0	-3,8	9,2
		<b>Small</b>	:	13,3	11,3	10,4	:			-44,2	:			17,7
		<b>Micro</b>	:	32,5	8,0	6,3	:	37,9	95,8	-48,4	:	27,9	3,4	16,2
		<b>Medium</b>	:		0,2	128,0	:			-74,9	:			11,2
		<b>Large</b>	:		7,3	294,0	:		135,8	-2,6	:	151,6	-28,8	-17,6
SHARE OF LABOR COST IN VALUE ADDED	Yearly Change	<b>Total</b>	:	-13,6	-3,5	-27,0	:	35,5	-46,4	43,4	:	-25,4	17,8	9,6
		<b>Small</b>	:	-25,4	3,2	-15,6	:			-25,2	:			-0,7
		<b>Micro</b>	:	-38,9	-2,1	-20,1	:	-9,8	84,6	-25,4	:	-35,3	39,7	-5,9
		<b>Medium</b>	:		-17,4	-47,9	:			151,1	:			-9,5
		<b>Large</b>	:		48,1	-73,9	:		-56,0	51,1	:	-63,4	65,7	47,4
PROFITABILITY	Yearly Change	<b>Total</b>	:	2,6	0,6	4,2	:	-10,8	21,3	-8,8	:	15,3	-7,0	-4,8
		<b>Small</b>	:	4,6	-0,4	2,1	:			6,5	:			0,2
		<b>Micro</b>	:	6,9	0,2	2,0	:	1,3	-10,3	6,4	:	7,3	-5,0	1,1
		<b>Medium</b>	:		1,6	3,6	:			-19,5	:			4,0
		<b>Large</b>	:		-30,2	98,6	:		27,5	-8,7	:	278,2	-27,9	-46,2

**ANNEX 3**  
SME starts up by territory (%)

		1997	1998	1999	2000
Structure	<b>Berat</b>	2,6	4,0	7,2	5,4
	<b>Dibër</b>	1,6	1,5	0,9	1,8
	<b>Durrës</b>	9,7	8,1	8,4	4,8
	<b>Elbasan</b>	2,1	2,6	1,6	2,0
	<b>Fier</b>	5,5	11,7	7,2	9,0
	<b>Gjirokastrë</b>	2,7	4,6	2,1	2,6
	<b>Korçë</b>	3,6	12,3	7,5	8,7
	<b>Kukës</b>	1,6	1,1	0,4	0,3
	<b>Lezhë</b>	3,8	2,9	3,8	5,3
	<b>Shkodër</b>	3,4	1,7	3,0	4,0
	<b>Tiranë</b>	60,9	43,8	51,8	50,0
	<b>Vlorë</b>	2,5	5,6	6,0	5,9
	<b>Total</b>	100,0	100,0	100,0	100,0
	Yearly Change	<b>Berat</b>	:	197,0	133,2
<b>Dibër</b>		:	80,5	-21,6	134,5
<b>Durrës</b>		:	58,3	34,3	-34,3
<b>Elbasan</b>		:	144,4	-20,5	40,0
<b>Fier</b>		:	306,3	-21,2	44,7
<b>Gjirokastrë</b>		:	223,9	-41,3	43,7
<b>Korçë</b>		:	553,2	-21,7	33,3
<b>Kukës</b>		:	31,0	-49,1	-10,7
<b>Lezhë</b>		:	45,0	66,2	61,8
<b>Shkodër</b>		:	-2,2	120,7	55,2
<b>Tiranë</b>		:	36,8	52,3	11,1
<b>Vlorë</b>		:	325,8	38,1	13,1
<b>Total</b>		:	90,5	28,7	15,0