

I. The importance of entrepreneurship for economic development

It is not so easy to discuss about the development of entrepreneurship in Albania. The development of entrepreneurship is influenced from the economic transition that the country went through since the change of the political system. Entrepreneurship is the ability of an individual to transform its ideas in work activities. It includes creativity, innovation, facing the previously calculated risk, and the ability to plan and manage a project, with the aim to achieve and realize the predefined objectives.

Economists have come to realize that entrepreneurs are the backbone of modern economies. It is their important contributions that help society grow as a whole. One of the reasons the developed countries are such dynamic, innovative, and prosperous in their economies is because of the numerous business entrepreneurs that take their ideas to the next level regardless of the risks involved.

Entrepreneurs create jobs and innovate and grow the economy. According to Schumpeter (1975) capital and output growth in an economy depends significantly on the entrepreneur. The quality of performance of the entrepreneur determines whether capital grows rapidly or slowly, and whether the growth involves innovation where new products and production techniques are developed. The difference in economic growth rates of countries is largely due to the quality of their entrepreneurs. Factors of production, land, labor and capital, will lie dormant or become indolent without the entrepreneur who organizes them for productive ventures. The entrepreneur is, therefore, an important agent of growth, innovation and technical progress.

In many developing countries, small and medium enterprises run according to the visions, talents, opportunities and resources of entrepreneurs and are known to bring about employment creation, provide jobs for women and youth, spread the returns of economic development, help develop rural areas, mobilize domestic savings for investment, inculcate new skills and infuse new technology, and contribute to social and political stability. Except introduce innovations and induce economic growth, entrepreneurs increase competition. By establishing new businesses, entrepreneurs intensify competition for existing businesses. Consumers benefit from the resulting lower prices and greater product variety.

According to Alexander S. (2014), this effect is particularly strong when considering entrepreneurial activity five years prior to the start-up, which points to a substantial time lag

in the effect of start-ups on market mobility. Furthermore, new business formation has an indirect competition-enhancing effect by pushing established firms to improve their performance.

Entrepreneurs provide new job opportunities in the short and long term. Entrepreneurs stimulate employment growth by generating new jobs when they enter the market. According to Fritsch M. (2008) there is more to judge beyond the immediate positive effect. New business formation has a positive effect on employment in the short and long term, but a negative effect in the medium term, representing by AS-shaped curve and effect over time between the period of time and the impact on jobs creating.

After the initial phase, which consists on a direct positive employment effect from new businesses to job creation, there is usually a stagnation phase or even a downturn as new businesses gain market share from existing firms that are unable to compete and as some new entrants fail. After this interim phase of potential failure and displacement of existing firms, the increased competitiveness of suppliers leads to positive gains in employment once again. About ten years after startup, the impact of new business formation on employment has finally faded away.

This empirical situation is strongly proved for some European countries and U.S.A case, in a research organized by Organization for Economic Co-operation and Development (OECD) countries in 2008¹. Entrepreneurial activity raises the productivity of firms and economies, especially in the long run period. In the initial years following entry, the productivity effect can sometimes be negative, probably a result of adjustments to routines and strategies in response to the new entrants. The productivity-enhancing effect of business formation generally occurs in the medium term, when the employment effect is dominated by the displacement of less efficient existing firms with the ones that have a competitive advantage or that are more efficient.

Entrepreneurship encourages structural change. Existing firms often struggle to adjust to new market conditions and permanent changes, getting locked into their old positions (Schumpeter 1934). The entry of new businesses and the exit of worn-out firms can help to

¹ Carree M., and Thurik R. "The lag structure of the impact of business ownership on economic performance in OECD countries." *Small Business Economics* 30:1 (2008): 101–110.

free firms from a locked-in position. Moreover, entrepreneurs may create entirely new markets and industries that become the engines of future growth processes.

II. An estimation of the level of entrepreneurship in the Albanian economy, especially in potential sectors such as energy, tourism, agriculture and agro processing, manufacture

In Albania, the small medium-sized enterprises (SME) are about 99% of all the enterprises that operate in Albania. For this reason, the discussion about the entrepreneurship and the reforms that were implemented in Albania, will focus on micro enterprises (small and medium enterprises)

Micro firms and SMEs are heterogeneous by nature, ranging from small producers of non-tradable services to born-global suppliers of digital products, from low productivity farmers to producers of fine specialty crops. In the majority of countries, small and medium-sized enterprises (SMEs) are defined as firms employing between 10 and 250 people. Firms with up to 10 employees are usually referred to as micro firms. There is, however, no commonly agreed definition of what micro firms and SMEs are.

According to the Albanian legislation (Law 8957), MSME are considered enterprises that employs less than 250 people and have an annual balance sheet and/or an affairing value not higher than 250 mln ALL.

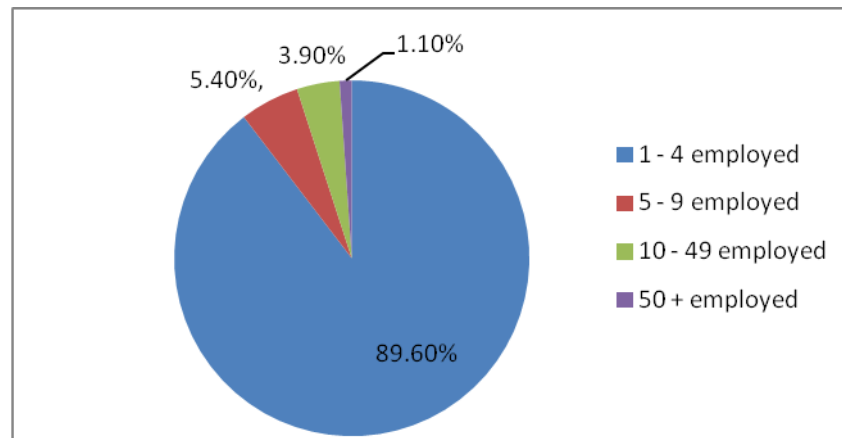
According to the current legislation, MSME are classified in micro enterprises (less than 10 employees) and an annual balance sheet not higher than 10 mln ALL), small enterprises (10 - 49 employees and an annual balance sheet not higher than 50 mln ALL) and medium enterprises (50 - 249 and an annual balance sheet not higher than 250 mln ALL).

According to the data of the Register of the Enterprises, there are 152,288 active enterprises at the end of 2015, whereas at the end of 2014 were registered 112,537 active enterprises. By the end of 2015 if compared to the same period of the previous year, the number of enterprises increased by 26%. The share of enterprises that operate in trade, accommodation, and food services to the total enterprises is 50%.

Around 90% of the active enterprises are micro enterprises and small enterprises. 61.8% of these enterprises have registered only one employed person. In total, SMEs comprise 99.9%

of active enterprises for 2015. The sectors with the highest and lowest number of enterprises in SMEs are the same as those of employment. Trade sector prevails with 43.1%, followed by services sector with 19.3%. Mining and quarrying sector has the lowest percentage by 0.6%, and electricity, water and waste management sector with the same percentage of 0.6%

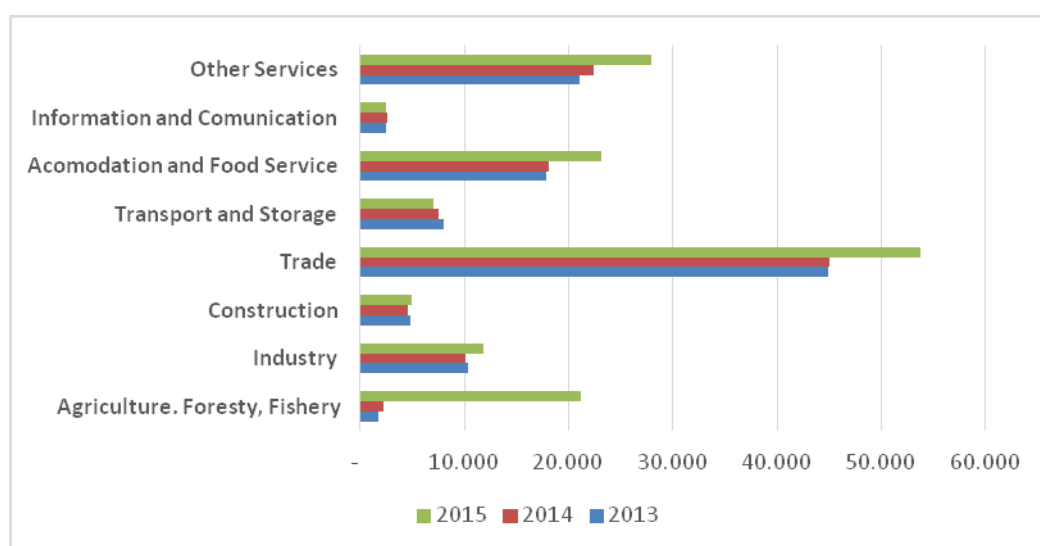
Figure 1: Active Enterprises classified by size in 2015 (in %)



Source: INSTAT, 2016

In the group of goods producers, enterprises with 50 + employees are concentrated more in the activity 'Processing industry'. The group of services producers prevails in the Albanian economy and mainly in the commercial activity. The economic activity 'Trade' is the preferred activity even for the newly active enterprises that for 2015 are 27.3% e of the registered enterprises.

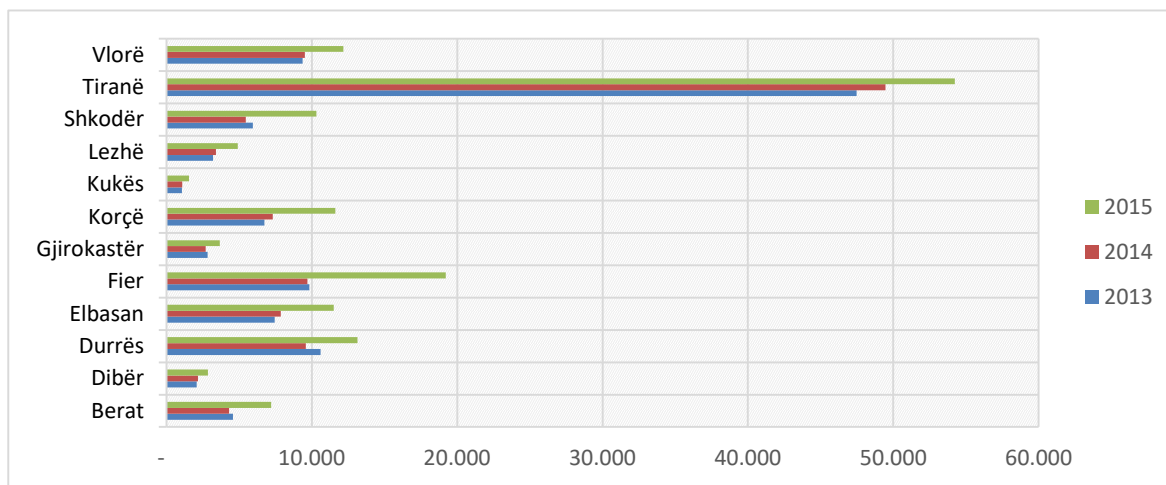
Figure 2: Enterprises and the Economic Activity



Source: INSTAT, 2016

In Tirana, Fier and Durrës regions are located about 66, 8% of active enterprises. The biggest number of enterprises is located in Tirana with 54.237 enterprises, and the smallest number of enterprises is located in Kukës with 1.543 enterprises. The group of services producers is dominant in all the regions.

Figure 3: Active Enterprises



Source: INSTAT, 2016

Joint and foreign enterprises are about 3, 9% of the active enterprises and employ about 14% of all the employed people in Albania. The biggest enterprises with foreign or joint ownership are focused more in: Call Center, production of shoes and clothes, and banking activities. Foreign and joint enterprises operate mainly in the regions of Tirana and Durrës. Enterprises with owners or co-owners from Italy and Greece are about 57, 7% of the foreign and joint ownership enterprises.

Based on the data of NCB (QKB), during 2016 are registered 1,503 companies with foreign and joint ownership, 25% more than in 2015 and 43% more compared to 2014. These companies are active and operate in different sectors of the Albanian economy and the origin of the investment is from Italy, Greece, Turkey, etc.

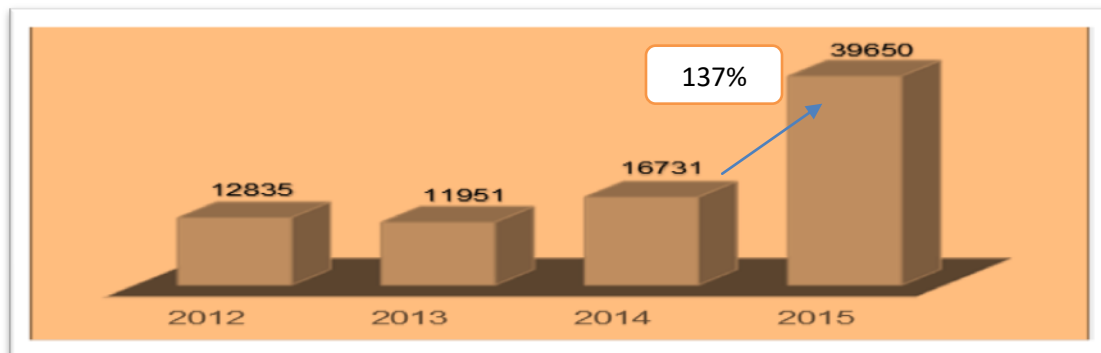
Table 1: Active Enterprises due to ownership

	2013	2014	2015	In %
Albanian	106,429	107,291	146,349	96.1%
Foreign and joint capital	4,654	5,246	5,939	3.9%

Source: QKB, 2016

The number of the new companies registered in 2015 was 39,650 new companies (the highest number) from 16,731 new companies registered in 2014, increasing by 137%. Part of these companies previously operates in the informal market and as a result of the reform against the informality these companies became formal by registering on the register of new enterprises. The new registered companies in 2016 were 19,100.

Figure 4: New enterprises registered



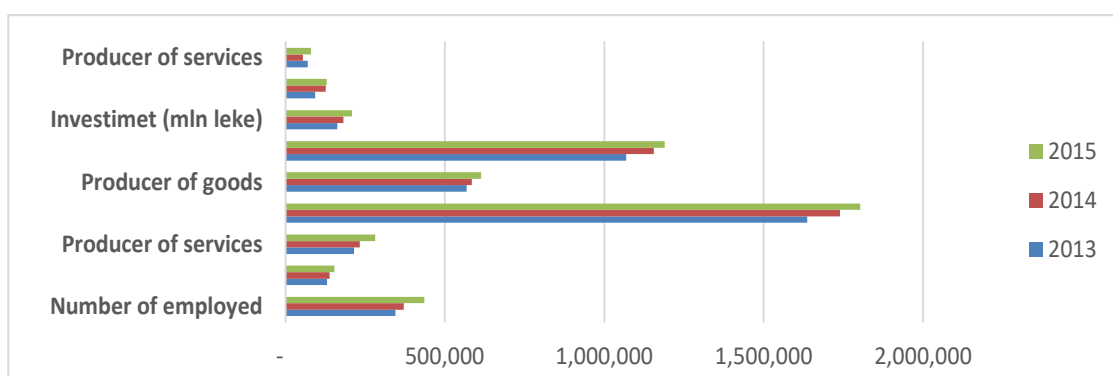
Source: QKB, 2016

Let's look more carefully the data about the efficiency and the results of the activities of these active enterprises, the economic structure and the main characteristics of these enterprises.

According to the Structural Questionnaire of Enterprises⁶ 2015, the number of active economic enterprises in 2015 was 104,534, 22.7 % higher than 2014. According to the economic activity, the enterprises that operate in the sector of trade are 43.11 % of the total number of the enterprises.

Enterprises with 1-4 employees are about 89.3 % of the total of active enterprises. 80.3% of these enterprises operate as producers of services

Figure 5: Economic Indicators of Enterprises



Source: INSTAT, 2016

Enterprises with 5 – 9 employees are about 5.5 % of the total of active enterprises; enterprises with 10 – 49 employees are about 4.2 % of the total of active enterprises, and the enterprises with 50 + employees are 1%.

During 2015 the number of employed people increased with 64.550 employees or increased by 17.4 % compared to 2014. Producers of services contribute with +13,2p.p, meanwhile producers of goods contributed with +4.2 p.p.

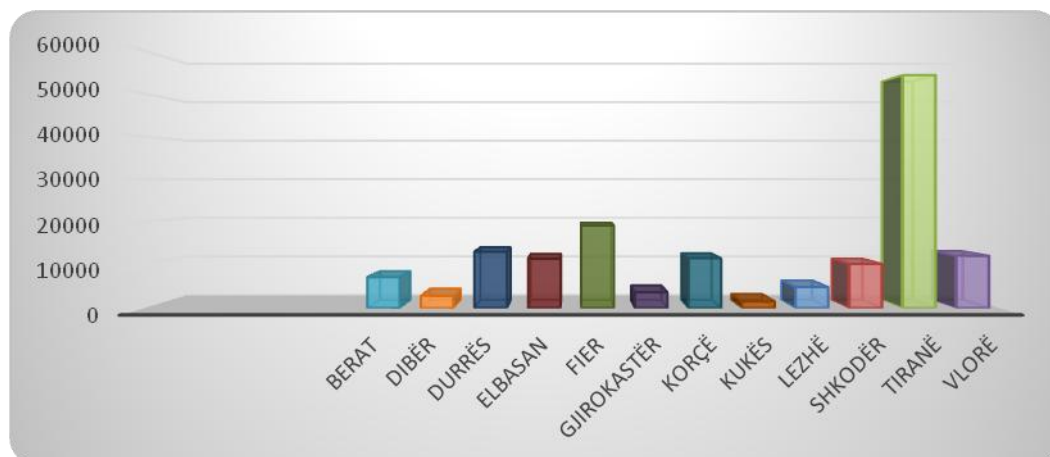
SMEs comprise 81.3% of the total number of employed. Three are the sectors that engaged over 50% of employed in small and medium enterprises. Trade sector dominates with 24.5%, followed by services by 16.0% and manufacturing by 14.2%.

Turnover value in 2015 was 1.802 mld lekë, marking an increase by 3.6 % compared to 2014. The sales of services producers in 2015 consist on 66% of overall sales, contributing by +1.9 p.p in annual growth of this indicator.

SMEs realized 77.6% of turnover. Trade sector prevails in the percentage of total turnover realized by small and medium enterprises with 44.3%, followed by Construction (9.3%) the manufacturing sector with 8.2%. The sector with the lowest percentage of turnover realized by small and medium enterprises is mining and quarrying with 1.4%.

Investments grow up by 14.9% in 2015, with a level of investments from enterprises by 208 mld lekë compared with 181 mld lekë in 2014. In this case, the producers of goods have the higher contribution on realized investments, on 61.8 % of overall investments for 2015.

SMEs being the main component of Albanian entrepreneurship, invested 66.5% of total investments realized during the year. Despite other indicators, the sector with the highest percentage realized in small and medium enterprises is electricity, water and waste management sector by 21.1%. SMEs realize 66.3% of value added. Trade sector occupies the highest percentage of value added realized by small and medium enterprises with 22.2%.

Figure 6: The distribution of SME in regions

Source: Register of Economic Enterprises - INSTAT 2016

SME and their export performance is another indicator. As a percentage of total number of active enterprises, only 1.9% of small and medium enterprises perform exports. Mining and quarrying is the sector with the highest percentage of exporting enterprises with about 25.7% of active enterprises. Micro-enterprises have the lowest percentage of exporting only by 0.7%. In small enterprises, only 19.3% of their numbers exports, while medium enterprises perform about 43.1% of their other number.

According to the Register of Enterprises of Statistics Institute (INSTAT) in Albania, SME contribute about 72.9% of GDP and have employed 71.4% of labor force.

Not only for Albania but also for other developing countries, various obstacles hinder the participation of SMEs in trade. Most of them are related to managerial skills, work force capacity and the capability to adopt new technologies.

The reforms of the last years in supporting the SME have increased the opportunities for these companies. AIDA agency offers some funds (Competitiveness Fund, the fund for supporting “Start-up” enterprises, Creative Economy Fund (Handicrafts, Innovation Fund, Women’s Entrepreneurs Fund, and Voucher Scheme Fund), to support the capacities of SME in different sectors but even in different directions as promotion, marketing, partnerships, innovation, competitiveness etc.

Since from the beginning of these measures, a total number of 192 SME’s have benefited from the funds administered by AIDA, with a total amount of about 120 mln ALL. As a result of the implementation of the existing funds, several goals are achieved, including: Increase of SME production capacities of companies that have benefited; higher number of

employees by SME; Identification of new partners in export; Promotion of "Made in Albania" products; improvement of marketing and image in Albanian and foreign markets, etc.

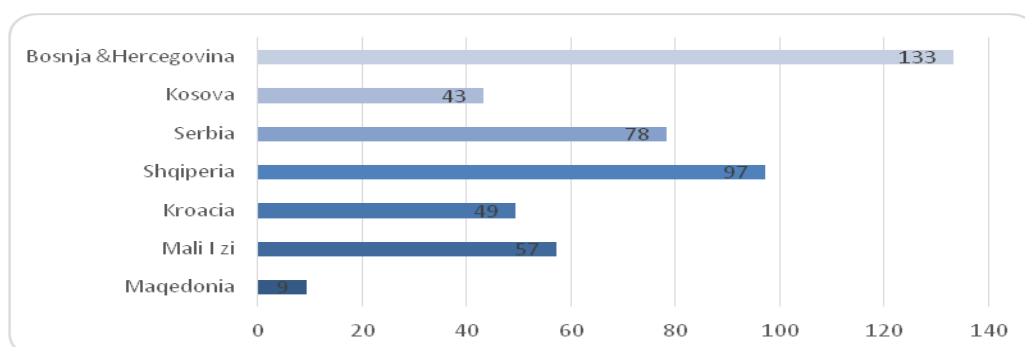
Efforts should be done on supporting SMEs in their local territories by decentralizing the offices in local areas, support on different financing mechanisms such as more inclusion of microcredit or financial institutions, more access to markets, education and training, innovation etc; also in making them aware of intellectual property instruments such as: trademarks, licenses, patents, etc. More should be done on the relation of SME with innovation, considering it as a key driver for employment, competitiveness and growth. The higher cooperation between SMEs and supporting institutions on research and development and innovation will increase the quality of the products, their added value and their position to the highest levels of global value chain.

III. The evaluation of business and investment climate according to international organizations

Reforms undertaken from the Albanian government in direction to improvement of the business environment are valued in the last report of Doing Business of the WB. In this report Albania was ranked 58th out of 190 countries. This is a better placement and Albania has improved by 32 places in the rankings in comparison to one year before.

The improvement in the rankings is a result of better performance in some of the components to this report such as: Construction permits (with 80 places from 186 to the 106th), tax payments (from 109th to the 97th position), in securing energy (from 164th in the 156th) etc. It is noted that the improvement has come from the components that the previous years have been worst of.

Figure 7: Doing Business ranking in the region



Source: Doing Business database, 2015-2016

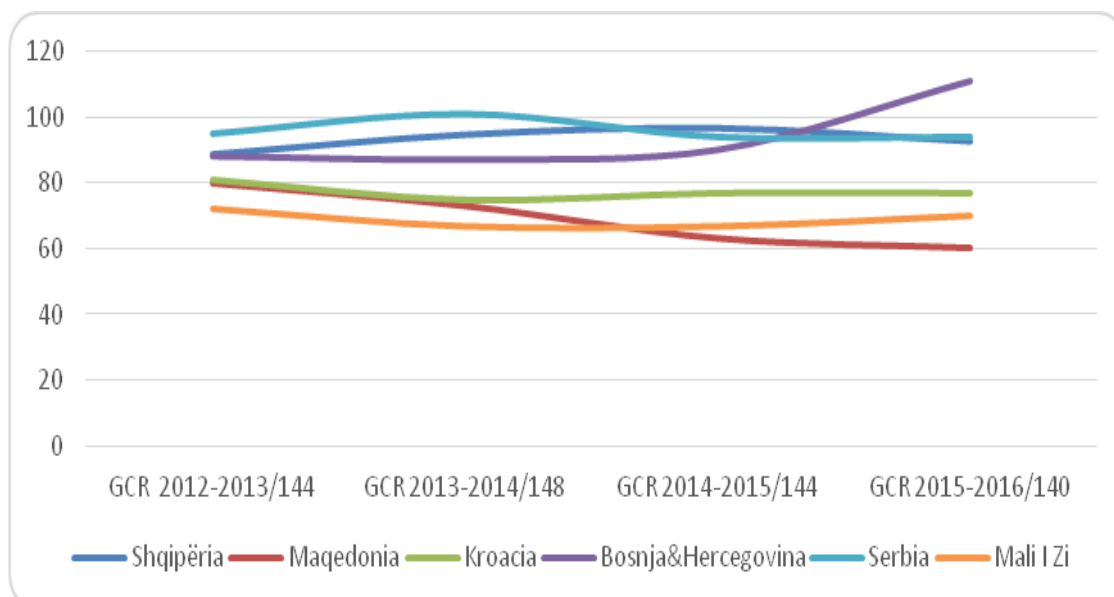
Economic freedom index, 2017 from the Heritage Foundation positions Albania with 64.4 points out of 100 in the 65th out of 180 in global level and 30th in a European level. A better performance in the economic freedom is comprised by: Property rights, tax policies, freedom of business, freedom of investments, trade freedom.

According to the freedom of investment, 2017 reported from the Heritage Foundation our country is estimated very well at 70% out of 100% that is the maximal estimate. This indicator shows how easy is to invest in a country, as higher the estimate the less impediments and barriers to invest there are.

According to the report of Global Competitiveness of World Economic Forum, Albania is positioned 80th from 140 countries, gaining 13 positions if compared with the result of 2014.¹ Albania is included in the group of the countries that are in the second level of development of competitiveness (also “promotion level of economy efficiency”).

In the regional ranking, the first is FYROM. Albania is quite in the same level with Croatia. Meanwhile, the growth of competitiveness of the economy in the last years is result even of the reforms of the government, but for the country to be competitive is necessary to focus on innovation, technological readiness, and further improvement of infrastructure and consolidation of institutions factors.

Figure 8. Report of Global Competitiveness in Balkans region



Source: GCR-Global Competitiveness Report (2016)

¹The Global Competitiveness Report 2015–2016

IV. Conclusions

Fostering business development and growth of investments will enable that in the coming years the Albanian economy will switch from consuming economy to a producing economy. Albania aims that in 2020 it should be a country that develop and improve the business and SMEs climate through a competitive opened market, a dynamic industry and competitive exports. To achieve the aim is necessary to monitor the indicators that show the improvement of the situation and the business climate. The indicators are improving but the challenge is to keep the positive trend of most of the indicators.

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