ANALYSES OF FINANCIAL OBSTACLES FACING SME-S: EVIDENCE FROM ALBANIA

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Abstract: This paper focuses on the analyses of financial obstacles facing small and medium enterprises in Albania. Using data from 2019 Enterprise Surveys (ES) we try to give answers to questions related to financial patterns that characterise Albanian enterprises. The survey was a shared project of the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the World Bank Group (WBG), the data are collected in Albania between January and May 2019. The objective of the ES is to contribute the understanding of what firms experience in the private sector. Collected data are based on firms' experiences and enterprises' perception of the environment in which they operate.
The data are stratified in three levels for Albania: industry, establishment size, and region. Industry stratification was completed as follows: Manufacturing – combining all the relevant activities, Retail, and Other Services. Moreover, 2019 Albanian ES was based on the following size stratification: small (5 to 19 employees), medium (20 to 99 employees), and large (100 or more employees). Regional stratification was done across three regions: Northern Albania comprising Dibër, Durrës, Kukës, Lezhë, Shkodër, Central Albania comprising Tirana and Elbasan, and Southern Albania comprising Berat, Fier, Gjirokastër, Korçë, and Vlorë.
According to the theory, enterprise performance can be hindered by many factors, including lack of finance, corruption, and legal instability. However, one of the most important obstacles to enterprise growth in developing countries seems to be the lack to access to finance. Therefore, it is substantial to further investigate on financial obstacles and factors that contribute to these challenges faced by Albanian enterprises.
To analyse financial obstacles and factors affecting on them we estimate the Ordered Probit model where the dependent variable corresponds to the survey question: "How much of an obstacle: access to finance?". While the vector of independent variables is composed by enterprise characteristics such as firm size, ownership structure, legal status, region, etc. Moreover, dummy variables are used to capture firm's technological capability, and gender ownership.
Empirical results show that financial obstacles tend to be more significant for smaller enterprises, operating not in the central area of the country, and female ownership means more challenges in the financial markets. Additionally, lack of financial challenges has a steadily constructive impact on the productivity of SME-s.
Keywords: Financial access, SME-s, Ordered Probit.

1. INTRODUCTION

The study of enterprise financing represents a topic of great interest both for policy makers and researchers. External financing is important to enterprises because of its contribution in the formation of new businesses, and allows existing businesses in expansion of operations, innovation, and new staff. The strategic use of financial instruments, such as loans and investments, is crucial to the success of enterprises.

The economy of Albania has experienced some important structural changes over the last decade. Internal migration led to a shift from agriculture toward industry and service sector, contributing enterprises development in different economic sectors. Small and Medium enterprises account for about 70 present of formal, non-agricultural employment in the private sector (OECD, 2019). Despite this shift, agriculture remains one of the largest and most important sectors in Albania. Albania's enterprises face several challenges such as poor infrastructure, market limitations, and limited access to credit and grants which delay faster development of enterprises.

The purpose of this article is to explore the obstacles and challenges facing Albanian enterprises. The literature review regarding the main topics is summarized in the first section of the article. The second section presents the methodology and the data base used in the study and the third section discusses the findings.

2. LITERATURE REVIEW

There is a large body of empirical literature on the microeconomic analyses on financial obstacles of enterprises. According to Hashi (2001) the growth of small and medium enterprises in Albania has been disadvantaged by a variety of barriers created, directly or indirectly, by the state. Fiscal constraints particularly high rate of taxes and contributions, financial constraints and the institutional environment have been some of the major barriers. These

barriers have encouraged many enterprises to conduct some or all of their activities in the informal sector of the economy.
The analysis of Xheneti and Bartlett (2012) offers important understandings of the nature of entrepreneurship in a post-communist setting. The age of the firm, education, qualifications, the age and work orientation of the entrepreneur, insufficient information, and corruption, explain the differential growth of enterprises. Older entrepreneurs grow faster suggesting unfulfilled aspirations during communism as well as their access to wider professional, social, and possibly also political connections. The positive effect of corruption on business growth suggests that an ability to cope with a corrupt environment has been a necessary entrepreneurial skill during a period of chaotic change in social and formal institutions that has characterized transition in Albania.
Using a firm level survey database involving 54 different countries, Thorsten et al. (2005) investigate the influence of financial, legal, and corruption problems on firms' growth rates. The authors analyse if these factors hinder growth depends on firm size. It is consistently the smallest firms that are most constrained. Financial and institutional development weakens the constraining effects of financial, legal, and corruption obstacles and it is again the small firms that benefit the most. They found a weak relation between firms' perception of the quality of the courts in their country and firm growth. They also give evidence that the corruption of bank officials hinders firm growth.
Thorsten et al. (2008) investigate how financial and institutional development affects financing of large and small firms, using a database covering 48 countries. Their database covers a variety of financing sources, including leasing, supplier, development, and informal finance. According to the empirical results small firms and firms in countries with poor institutions use less external finance, in particular bank finance. Moreover, small firms do not use excessively more leasing or trade finance compared with larger firms, so these financing sources do not compensate for lower access to bank financing of small firms. They also find that larger firms more easily expand external financing when they are constrained than small firms.
Using data for 34,342 firms from 90 developing countries, the study of Asiedu et al. (2013) evaluates the determinants of firms' financing constraints and appraises whether female-owned firms are more financially constrained than male-owned firms. Their study focuses to gender as a determinant of access to finance. The results show that female-owned firms in sub-Saharan Africa are more likely to be financially constrained than male-owned firms, but there is no gender gap in other developing regions.
Moscalu et al. (2020), using the data on SMEs' access to finance aggregated at the country level for the largest 11 euro area countries during 2009–2015. The data are taken from the European Central Bank/Survey on the Access to Finance of Enterprises (ECB/SAFE). The results suggest that financing constraints hamper SMEs' growth and that the effect is stronger for perceived, rather than actual, financing constraints. They also found that the reduction in financing constraints is crucial in the transmission channel from banking markets integration to growth.
Analyzing survey data and qualitative evidence from a sample of Albanian manufacturing firms (Kalaj, 2015) examines the scale and consequences of corruption and tax evasion at the enterprise level, discussing costs and benefits from an entrepreneur's perspective. The empirical results show that manufacturing firms operating in an environment in which tax evasion is more prevalent are more likely to experience demands for bribes from corrupt officials. Regression analysis shows that tax evasion is a matter of degree and that it is not limited to small and medium-sized enterprises: even quite large firms recognize the hiding part of their sales from the tax authorities. Furthermore, the data predict that corruption and tax evasion are more likely to occur when the principal owner is male rather than female.
Since financial constraints to entreprises has important implication for economic and social development of Albania, our study will investigate financial obstacles facing small and medium enterprises.

3. DATA AND METHODOLOGY

In this paper we use data from 2019 Enterprise Surveys (ES) and focus on financial patterns that characterise Albanian enterprises. The survey was a shared project of the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the World Bank Group (WBG), the data are collected in Albania between January and May 2019. The objective of the ES is to contribute the understanding of what firms experience in the private sector. Collected data are based on firms' experiences and enterprises' perception of the environment in which they operate.
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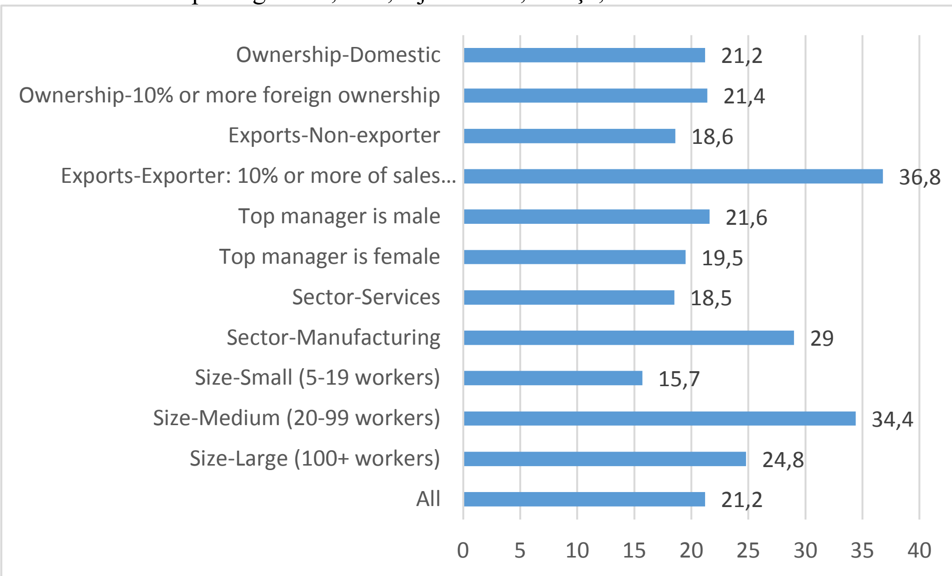

Figure 1: Percentage of firms identifying access to finance as a major constraint

As we can notice from Figure 1, around 34 percent of medium size enterprises identify access to finance as a major constraint in their activity. Moreover, exporter enterprises, intended as firms that export 10% or more of their sales seem to identify access to finance as a major constraint. Issues related to access to finance are more evident in the case of manufacturing sector if compared to service sector.
To analyse financial obstacles and factors affecting on them we estimate the Ordered Probit Model where the dependent variable corresponds to the survey question: “How much of an obstacle: access to finance?”. The five possible answers are: no obstacles, minor obstacles, moderate obstacles, major obstacles, very severe obstacles. Data on table 1 show that around 45 percent face moderate, major, or severe obstacles. This is why we evaluate as apropriate using the Ordered Probit Model (Greene, 2012). We estimate the following equation:

$$y_i = \beta_1 + \beta_2 X_i + \varepsilon_i \qquad (1)$$

Where y_i is the measure of financial constraint of firm i which is categorical and take values from 0 to 4, X_i is a vector of independent variables is composed by enterprise characteristics such as firm size, ownership structure, legal status, region, etc.

How Much of An Obstacle: Access To Finance	Freq.	Percentage	Cum.
Don't know (spontaneous)	7	1.86	1.86
No obstacle	121	32.10	33.95
Minor obstacle	80	21.22	55.17
Moderate obstacle	109	28.91	84.08
Major obstacle	36	9.55	93.63
Very severe obstacle	24	6.37	100.00
Total	377	100.00	

Table 1. Responses of firms related to access to finance

Following the study of Asiedu et al. (2013) we use a second measure of financial obstacles which is dichotomous, meaning y_i equals one if a firm responded that access to finance is moderate, major, or very severe obstacles and zero otherwise. Using this dependent variable, we run a Probit Model to further investigate the access to finance patterns.

4. EMPIRICAL RESULTS

We begin by estimating equation (1) as an Ordered Probit Model. The results about the Ordered Probit Regression are reported in Table 2. We notice that the impact of the independent vary by region. The coefficient for small firms is positive for the three regions but not statistically significant. However, this result gives evidence on the fact that small firms are more likely to be financially constraint than medium firms in the northern part of the country.
According to the regression results manufacturing and firms engaged in exports are more likely to face obstacles to finance if compared to service or non-exporting firms. Results are statistically significant. This effect is more significant in magnitude in the central area of the country. This may be related with the fact that most enterprises operate in the central part of the country mainly in the cities of Durrës and Tirana.
Firms that are sole proprietorship and foreign owned are less financially constraint if compared to other firms. However, coefficients are not statistically significant and further investigation is needed. The interesting result is that there is no gender gap in the access to finance. Female ownership does not mean more financial obstacles if compared to men ownership. Sometimes maybe a question of female self-selection in not preferring to use external financial sources.
To check for robustness of the results we run the logit model using the dichotomous dependent variable of financial obstacles. Regression results still hold for the manufacturing and firms engaged in exports.

	North Albania	**Central Albania**	**Southern Albania**
How Much of An Obstacle: Access To Finance			
Small	0.192	0.521	0.0164
	(0.68)	(1.78)	(0.06)
Medium	-0.121	0.475	0.288
	(-0.43)	(1.60)	(0.99)
Manufacturing	0.215^{*}	0.282^{*}	0.450
	(2.68)	(2.14)	(1.67)
Service	-0.0343	0.253	0.463
	(-0.12)	(1.07)	(1.65)
Sole proprietorship	-0.702	-0.0406	-0.0936
	(-1.87)	(-0.16)	(-0.32)
Foreign owned	-0.147	-0.257	-0.267
	(-0.44)	(-0.73)	(-0.57)
Exporter	0.0641	0.575^{*}	0.0310
	(0.25)	(2.37)	(0.12)
Female owned	-0.264	0.106	0.0601
	(-0.98)	(0.47)	(0.21)
cut1			
Constant	-0.170	0.300	-0.476
	(-0.53)	(0.97)	(-1.52)
cut2			
Constant	0.297	0.835^{**}	0.309
	(0.94)	(2.66)	(1.00)
cut3			
Constant	0.945^{**}	1.649^{***}	1.592^{***}
	(2.94)	(5.03)	(4.73)
cut4			
Constant	1.649^{***}	2.044^{***}	2.292^{***}
	(4.62)	(6.00)	(6.05)
Observations	118	130	122

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 2. Ordered Probit Regression by region

5. DISCUSSIONS AND CONCLUSIONS

In this paper we investigate on the factors affecting enterprises that face financial obstacles. We use Ordered Probit Model for the ordinal dependent variable relying on the survey question: "How much of an obstacle: access to finance?". Manufacturing and exporting firms are more likely to face obstacles to finance if compared to service or non-exporting firms. Results are statistically significant, but the magnitude is higher in the central area of the country. The estimation is still robust when we use Logit Model.

Quite interesting is the lack of gender gap in access to finance. Female ownership does not mean more financial obstacles if compared to men ownership. However, it needs further investigation to capture if self-selection patterns exit.

This study offers an informative frame for the policy formulation and maybe alleviates the financial obstacles to enterprises.

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