

# SMEs development and competition policy in Albania<sup>1</sup>

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<sup>1</sup> A previous version of this article appears in Cernović B. and Uvalić M. (eds.) (2010), *Western Balkans' Accession to the European Union: Political and Economic challenges*, Faculty of Economics of the University of Belgrade – Publishing Center, Belgrade. The volume includes a selection of papers presented at a workshop organized within the 11<sup>th</sup> Mediterranean research meeting by the Robert Schuman Centre for Advances Studies of the European University Institute (EUI) in Florence held in Montecatini Terme on 24-27 March 2010.

## Abstract

Albania was the last country in South-eastern Europe to start implementing the principles of a free market economy after 1990. As a small country, its market is dominated from small and medium firms. In this respect, the development of Albanian small and medium firms is now an important issue for policy-maker and this process is broadly similar to that found in other transition economies. The aim of this paper is to present the main patterns of the small and medium enterprises and the impact on the level of the competition law and policy enforcement in Albania.

In the early transition, competition was an inherent phenomenon of the market, and actions related to it were new to Albanians. Competition went beyond the economic aspect: it affected the broader political and social life because the preceding system had excluded competitiveness from all aspects with the main role played by the State, thus completely eliminating competition related to market price or, rather, competition as a regulator of supply and demand. Like other Western Balkan countries, which are well on their path toward European integration, competition remains a challenge for Albania.

The value and importance of small firms are revealed from various researchers and policy makers. Considering the small scale of the Albanian economy, our discussion, in the second section, addresses the question of why it is important a healthy small and medium firm sector. The implementation of the legal framework for competition, the efforts to increase the independence and responsibility of the institution of Competition Authority, raising market players' awareness of the fact that competition means economic prosperity, stronger institutional cooperation and greater transparency to the public, are the major pillars of the national competition policy.

The paper contents five sections which describes the main barriers of small and medium enterprises to growth in the first section. The second section is focused on the main economic feature and the characteristics of the market size in Albania. The discussion is followed in the third and fourth section aiming to shed light on the implementation of the competition law and policy in Central and East European countries and presents some of the issues faced by the Albanian Competition Authority, mainly. The final remarks indicates the main issues that should be consider in assessing the level of the enforcement of the competition law and policy.

## Keywords

economics, SME, competition policy, law cases, Albania

## 1 The role of SMEs growth in the developing countries

It is widely accepted that the SME sector can play a key role in the process of transition. Most of those countries went through a liberalisation and privatisation process in wide scale, driving to enlargement of the small and medium sector. It is well articulated in theory and empirically that the contribution of SMEs to new job, exports, innovation and regional development is vital to national development. Also, small businesses can be an important factor to foster competition and a vehicle for competitive forces and market efficiency as well. World Bank Group database provides comprehensive statistics on the contribution of the SME sector to total employment and GDP across a broad range of countries (Ayyagari et al, 2003).

Much of the economic theory of the growth of small firms has been concerned with the relationship between growth and firm size and a positive correlation is indicated due to the economies of scale (Cook et al, 2002). In this regard small businesses face special disadvantages such as: in economies of scale compared to larger businesses; in access to seed and development finance and in the costs of raising funds; in the lack of information or capability to apply new technologies; and in resources and expertise to deal with complex tax and regulatory systems. In order to facilitate the small firm sector development, those factors should be considered and reflected in the industrial policy in transition countries.

History of the transition process in the Eastern Europe, indicate that the small and medium firms derived from the privatisation process from state-owner to outsider and /or insider owners, who had incentives to restructuring their enterprises. However, as Bartlett pointed out “...in most transition economies there is not an absence but rather a surplus of new firm entry” (Bartlett, 2002), various researchers have identified some barriers to growth of small and medium firm sector in those countries.

The advantages represented by SMEs such as the encouragement of entrepreneurship; the greater possibilities that SMEs will utilize labour intensive technologies and thus have an immediate impact on employment generation; the rapid establishment, operation and possibility to produce quick returns; the ability of SME development to encourage the process of both

inter- and intra-regional decentralization; and the notion that they may become a countervailing force against the economic power of larger enterprises, confirm the importance of the role of SME's in the economic growth in transition countries. In a broader socio-economic context, the development of SME's accelerates the achievement of wider economic and socio-economic objectives, including poverty alleviation.

The recent literatures (such as Smallbone, 2003; Bartlett and Bukovic, 2001) on this issue address several barriers which can be classified as institutional barriers, internal organizational and resource barriers, external market barriers, financial barriers and social barriers. Also, the literature on transition countries identified a number of external factors that affected small enterprise development.

It is widely accepted that there are a wide range of determinants of the small and medium-size firms development such as: Macroeconomic and microeconomic environment (including procedural requirements for registration and licensing, number of institutions for entrepreneurs to report to, rules and regulations governing entrepreneurial activities, laws to protect property rights, etc.); entrepreneurial and business skills (including entrepreneurial training and business education, availability of information, etc.); social and economic condition for entrepreneurship (including public attitude toward entrepreneurship, presence of experienced entrepreneurs, existence of persons with entrepreneurial characteristics, etc.); financial assistance to small and medium enterprises (including venture capital, alternative sources of financing, low cost loans, etc.); non-financial assistance to small and medium enterprises (including counselling and supportive services, entrepreneurial networks, support for research and development, etc.).

Economists have argued that as a major component of sustainable economic growth for SMEs is related to firm's market access. On other hand, the level of barrier to entry and to exit in a certain market is indicator of the state of the competition. Sound competition policy can help markets work better, and is a key part of the investment climate that can help investor confidence, and provide a level playing field for domestic SMEs. For markets to remain competitive there would be no unnecessary entry barriers, so that new firms can enter when they see business opportunities. Barriers to exit would not be excessive, to allow firms to leave markets when they are unable to operate effectively. An effective competition policy should safeguard the rights of entrepreneurs to enter and to leave markets.

The Austrian and Evolutionary schools, drawing on the influence of Schumpeter, view competition as a dynamic discovery process in which rival

entrepreneurs seek new profit opportunities in a world that is constantly changing. In this respect, market size and structure affect *dynamic efficiency* which involves research and development expenditures designed to create new products and processes. As Gal (2004) has pointed out, some researchers have concluded that large firm size is more conducive to innovative activity than small firm size. On the other hand, it is argued that large size can be a disadvantage in facilitating innovation. Most studies conclude that R&D increases more than proportionally with scale up to a certain size and then decreases as a proportion of sales.

Aiming to highlight the specific economic feature impact on the competition law and policy, the following section presents the patterns of small and medium enterprises in Albania.

## 2 Small and medium enterprises development in Albania

In spite of large differences from country to country, after decades of central planning all transition economies suffered from massive problems. It was recognised that a reorientation toward market-based systems was the only option for achieving economic progress. In the economic sphere, the transition to a market economy requires action in three essential areas of economic policy: such as to liberalise the economy, decentralise decision-making and allow economic agents to assume responsibility for their actions. This means, for Albanian economy in particular, bringing price controls to an end and liberalising the foreign exchange and foreign trade systems to ensure that the domestic economy is opened to international competition. Another requirement concerns the restructuring and creation of the institutions and markets that are needed for a competitive market economy to function effectively. This includes structural reforms such as new tax systems, new or reformed banking and financial systems, the regulation of monopolies and new legal frameworks, especially governing property ownership.

Albanian economy is small by the standards of most other transitional economies. Its unique cultural and social background is reflected in the population's mentality concerning the market system, property rights, and legal and institutional enforcement.

Since transition in the early 1990s, Albania has made impressive progress, achieving macro-economic stability and one of the fastest rates of GDP growth in South Eastern Europe (SEE). The Figure 1 on p. 19 indicates

the dynamics of the real GDP growth and inflation in recent years 2000-2009. The economy was, however, starting from a position of considerable poverty, According to the EBRD (Transition Report 2009), GDP per capita is estimated USD 4,005,9 in 2008; about 21% of GDP is received from agriculture sector and 10.4% of GDP is received from industry, which generally uses out-dated technologies and has only low productivity. Estimates of the contribution of the informal economy to GDP vary between 24% (World Bank) and 58% (Government of Albania)<sup>2</sup>. Remittances sent by Albanians living abroad remain an important mainstay of the economy, and the trade deficit is about 20% of GDP. The workforce is resilient, adaptable and quick to learn; at present, wage rates are also very competitive. The natural landscape offers high potential for tourism, and the country is rich in natural resources, including oil, iron, nickel, copper and chromium.

Nonetheless, it is broadly agreed that over 98% of total active enterprises are micro in scale (employing fewer than five people, according to the national definition). Most of those firms are derived from the privatisation process of the state owned enterprises. According to EBRD (2009), private sector provide 75 percent of the GDP and 83 percent of the employment is working in private sector.

The role of SME sector in the country's development is considered highly important and a priority by the Albanian government. The small and medium-size enterprises have a crucial role in transition process. The SME sector in Albanian economy has a paramount importance because, according to the Albanian Institute of Statistics (2009) (Figure 2, p. 20), those firms are 98 percent of the all active enterprises in Albania (excluding agricultural activity); 82 percent of the turnover is contributed by SMEs; 52 percent of GDP is produced in the SME sector; 57 percent of employment is in small and medium-size firms.

As the Figure 3 on p. 20 shows another feature of SME sector concerns the geographical distribution. Thus, at the end of year 2008, were active 107,342 enterprises, and half of them are concentrated in prefectures Tirana and Durrës. A specific feature of the SME sector in Albania is its structure. According to the survey conducted by INSTAT (2009) 93 percent of the SMEs in Albania are micro-firms with 1-4 employment an average number of employees 1.5 employees, and 1 percent is medium-size enterprises with an average number of 42 employees.

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<sup>2</sup> "The informal economy has reached disturbing levels, constituting a factor of risk and uncertainty for the economic development of the country. It is estimated that the ratio of informal to formal activity in the private sector is 14/10." [http://www.keshillministrave.al/english/programi/Anglisht%20programi.htm#\\_Toc114360441](http://www.keshillministrave.al/english/programi/Anglisht%20programi.htm#_Toc114360441)

There are two ways of transforming an economy dominated by the public sector: through privatisation of the existing state assets and through the entry of new private businesses. Mass privatisation, mainly, caused the increase the number of small and medium enterprises. According to the structural survey conducted by INSTAT (2009), trade activity predominates with 57 percent which is followed by agriculture and construction with 18 percent and 15 percent respectively. The distribution of structure of GDP according to the economic activities is presented in Figure 4 on p. 21.

The role of private sector in the country's development is considered highly important and a priority by the present Albanian Government. Furthermore, considering that SME's have a crucial role in transition process, in overall terms, good progress has been made in setting out and beginning implementation of new policies to support the growth and development of SMEs.

Thus an summary of the main structural reforms undertaken and its impact is presented utilising an OECD approach assessing the regulatory environment. The analysis focuses on six broad dimensions of the framework and environment supporting SMEs growth and development which are considered very important for policy maker in transitional economies from OECD (OECD, 2003).

- a Institutional framework for SME policy.
- b Rule of law and the regulatory environment.
- c Tax policy for small businesses.
- d Financial instruments for fostering small businesses.
- e Advisory services supplied to new and small businesses.
- f Business incubator support to start-ups.

A summary of the above six dimensions investigated and reported by OECD in South East European countries under the Enterprise Policy Performance Assessment programme is presented in Figure nr. 4. The average ratings used to represent the view of entrepreneurs range from 1 to 5 (where 1=very poor, 2=poor, 3=satisfactory, 4=good and 5=very good). The average ratings per dimension of good practice for Albanian SMEs focus group are highlighted in Figure 4 on p. 21. In general, the ratings are low with Business incubators and the Tax system rated the poorest of all (1.6 and 1.7) i.e. between "very poor" and "poor". Business Advisory services and the financial System obtained high ratings (2.5 and 2.3) i.e. between "poor and "satisfactory".

According to the OECD's evaluation of the legal and policy framework in transition countries, Albania is classified as a country with an average qual-

ity of the policy and legal framework. The Albanian government has introduced a number of reforms to the taxation legislation, tax policies and, more recently, tax administration itself. The legal framework is fairly comprehensive and broadly in compliance with the European and international fiscal legislation. However, even when good laws exist, their enforcement is low to some extent. This fact is closely related to the weak institutional framework and people's culture and mentality. This again supports the need to establish and utilise the institutional structure and legal framework, which will enable a further improvement of the microenvironment.

However, Albania has continued to improve the business climate. Following the establishment of a national business registration centre the number of newly registered business in 2008 increased by 29 percent compared with 2007 (EBRD, 2009). A one-stop shop for licences and permits was opened in June 2009 and legal amendments to reduce the time for issuing construction permits from 60 to 45 days were also adopted. However, in 2008/2009 Business Environment and Enterprise Performance Survey (BEEPS IV), companies continue to report practices of unregistered firms operating in the formal economy as one of the most serious obstacles affecting their operation. Bottlenecks in the bankruptcy process were addressed by introducing further amendments to the bankruptcy law.

It is obvious that Albanian economy is a small size market and enhancing competition policy is very important to protect small and medium enterprises from firms rent-seeking with market power. However, the extent of the implementation of competition law and policy is in common with other transition countries.

### 3 Competition and competition policy in transition economies

Competition law comprises a set of rules that affect all aspects of the economy. Its legal and institutional framework varies from one country to another, depending on the particular economic development of a given country, and its regional and international aspirations and obligations.

European Union Competition Policy aims to guarantee an undistorted Single Market. The Treaty of Rome recognized that a common competition policy was essential if the consumer was to enjoy the benefits of European economic liberalisation. All European Union accession countries have adopted modern EU compliant competition laws and established attendant



institutions as part of the harmonisation of their legal framework with the *acquis communautaire*.

As Strum, et al (2000) point out the 'new regulatory state' became a major issue in debates on the development of statehood at the end of the twentieth century. On their path to consolidating a free market economy, countries of Eastern and Central Europe have implemented liberalization, privatization and deregulation reforms. It is obvious that privatization and deregulation in these countries were a necessary precondition for their economic recovery, but furthermore those reforms are determinants for a successful integration process in the Single Market.

After 1990, competition laws and policies were adopted and implemented across transition economies. The adoption of competition policy was relatively uncontroversial at the beginning of the transition. Some saw it as a way to soften the rigor of the market; others as a way to open up markets. But this consensus is dissipating, especially as interest groups realise that competition policy may block transactions that benefit them and so are tempted to bring pressure to bear on the decision-makers.

The group of ten transition countries that became EU member states on 1 May 2004 decreed those laws between 1990 and 1993, with important amendments between 1995 and 1999, which approximated them to the European Union competition law. One important element of the amendments was the particular harmonization with Article 81 and 82 of the Treaty of Rome. Special care was paid to administrative procedures related to investigation and law enforcement, and institutional independence and effectiveness, addressing these issues in more detail. Despite their specific differences, competition policies in those countries have three common pillars:

- 1 **Competition protection** and promotion is useful not only in cases where it is limited, distorted or obstructed by private or public companies through abuse of dominant position and concentration, but also in the cases where obstruction, limitation and distortion is caused by the public administration and regulators themselves. In addition to its implementation, the law also provides fines and sanctions.
- 2 **Competition advocacy.** This has been an important element of competition policies in transition economies. It reflects comments provided by competition authorities on the impact on competition of other policies, particularly in the areas of privatization and regulatory policies. The benefits deriving from the incorporation of competition principles into laws and regulations have been large, particularly because transition economies have also privatized infrastructure networks for which

there has been inadequate regulatory expertise. Through their Comments and recommendations provided to public administrations and regulators, competition authorities have used their official powers as competition advocators in order to embody competition principles in the legislative and regulatory activities and educate all the key competition stakeholders.

- 3 **Institutional effectiveness.** This element depends on the extent of independence of competition authority, their administrative capacities and transparency, and the effectiveness of the appeals process in the courts.

## 4 Albanian experience in implementing competition policy

With the installation of political pluralism and beginning of transition toward a market economy in 1991, Albania implemented a series of structural reforms. Special importance was given to privatization, liberalization of prices and domestic and foreign trade, liberalization of exchange rates, allowing and ensuring foreign investment, reforming the banking and financial system, ensuring market-set interest rates, establishing a tax system, etc. Those were the beginnings of the market economy, which means independence of economic agents and their ability to make independent decisions on their economic activity. In addition to economic freedom of enterprises, however, risks related to anti-competitive practices started to become evident. Like everywhere else, the main sources of similar threats in Albania included (i) public rules and administrative and bureaucratic implementation of those rules; and (ii) market player behaviour.

On 7 December 1995, Law no. 8044, “On Competition,” was adopted, which concluded the stage of institutionalizing competition policy in Albania. The main concern of the government policy at that stage was the establishment of the conditions for better and fuller implementation of free competition. The law addresses such issues as monopoly and dominant position and unfair competition. The adoption of the Law on Competition enabled the establishment of the first competition structure at the Ministry of Industry, Transport and Trade, Department of Commercial Legislation. The period between 1996 and 2001 was characterized by an unstable competition structure; therefore, the training of the staff was not effective. In the context of competition institutional strengthening and in line with EU ex-

pert recommendations on a better operation of structures in the area of competition and consumer protection, the Competition Department was established together with a competition decision-making unit, the Competition Commission, at the Ministry of Economy. Based on its statute, which was approved by the Council of Ministers, the Commission comprised five members, who were appointed by the Minister of Trade.

Law implementation and institutional development began to give results in the area of setting competition policy goals and objectives, and coordinating with other economic policies. At the same time, relevant actions were taken to implement the law. After 2000, it became clear that there was a need for institutional and legal amendments in the area of competition. While the competition policy had developed during that period, the competition legislation had gaps and was a far cry from European Union competition legislation, institutions and policies. It became clear that mere amendments to the existing legislation would simply not be enough: a new law on competition protection and promotion was needed, in which anti-competitive rules would play a key role, and the implementation of which would be ensured by an independent authority. The fact that the existing law excluded the investigation of important sectors of the economy such as services, telecommunications, mail, transport, insurance, agriculture, etc., indicated the indispensable need for changing it.

Therefore, on 28.07.2003, the current Law no. 9121, “On Competition Protection,” was adopted. This is a modern law, which provided for the establishment and operation of the Competition Authority. It also marked the end of the second stage of development of the national competition policy, and the beginning of a new stage. It is applicable to all the sectors of the economy and all types of companies, both public and private, operating in the Republic of Albania. It is also applicable to companies operating abroad that affect the domestic market. The Law is to large extent in line with the European legislation in this area. It contains very clear provisions on the operation of the Competition Authority as an independent public institution with a mission to protect market competition.

Pursuant to Law No 9121 “On Competition Protection”, the Competition Authority has developed the relevant regulations, with GTZ expert support, which were then approved by the Competition Commission. The regulations and instructions are published on the Authority website. The preparation of the secondary competition legislation in line with European Union principles completed the legal framework, enabling full functioning of the Competition Authority as an independent public institution that is responsible for the protection of free and effective competition. With the signing of the

Stabilisation and Association Agreement and the coming into effect of the Interim Agreement, the National SAA Implementation Plan envisages the development and approximation of a series of regulations and guidelines with the EU legislation.

The Competition Commission formulated and approved the National Competition Policy (decision No 43, dated 28.12.2006), which aims at fostering competition by ensuring the improvement of market efficiency and the minimization of the negative impacts on resource distribution related to market power. This is the first document of competition policy in Albania and it has been compiled based on the similar experience of the regional countries which are more advanced in the process of European integration (such as Croatia, Bulgaria, and Rumania), as well as the specific features of developments in the competition culture and legal infrastructure in Albania. This document underlines several objectives such as protecting the freedom of economic activity of market participants; reducing market entry barriers, in order to establish a friendly environment for the promotion of entrepreneurship and the growth of small and medium-sized enterprises; and fostering fairness in business relations. The processes of deregulating specific sectors of the economy, lowering tariffs or removing quota or licenses, which are taking place in our economy, are also important objectives for the management of competition policy.

Building on its modest experience the Competition Authority (CA) has focused particularly on the development of competition policy and the strengthening of institutional capacity taking into account the economic and social conditions and the competition culture in Albania. The Competition Authority can make its contribution to those processes through its active participation in the development of public policies, providing comments and intervening in regulation procedures.

It is widely articulated that competition policy has at least two dimensions. The first, which might be called the formal or institutional dimension, relates to the creation and implementation of policy. The second, the building of a competitive environment, is clearly a more complex and vast area related not only to the policy framework but also with the idiosyncratic, social and cultural aspects of the implementation of competition law. Effective implementation requires the independence and credibility of the Competition Authority and, of course, the necessary human and financial resources. Additionally, other considerations might arise in order to have a consistent competition policy, which requires analyzing the tradable and non tradable sectors. In order to build a competitive environment, it is essential to generate societal awareness of the benefits of competition policy.

In general, this awareness is already weak in Albania and its creation requires educating consumers, firms, and other government authorities.

The law no 9121, date 28.7.2003 “On protection of competition” has power in three main pillars which determine the protection of competition: abuse with the dominant position; prohibited agreements in the form of cartels; and merging or concentration of undertakings.

The main issues which have been followed up by the Competition Authority, in accordance with the law no 9121, date 28.07.2003 “On protection of competition, have been:

#### *4.1 Abuse with the dominant position*

The law on protection of competition prohibits the abuse with dominant position or non-dominant position as such. The law prohibits any kind of abuse by one or/and more undertakings with a dominant position in the market, specifically in the cases of determining directly or indirectly unfair prices for the sale or purchase, or other unfair conditions.

According to the implementation of law, the ACA has taken an important decision on abusing with dominant position in mobile telephony market. According to the Commission decision, both companies Albanian Mobile Company (AMC) and Vodafone Albania, have taken advantage of their dominating position and placed unfair prices in the market of cell phone service providers for the period that was being investigated, during 2004-2005. The companies under investigation have adopted different attitudes with regard to the demand of the Authority for making the information available from them. AMC did not make available to the Authority the required data. Under these circumstances, the Competition Commission made use of the single legal alternative, imposing a fine on the AMC company of 160 million Albanian Lek, a sanction which is provided for in Article 73 of the law no 9121, dated 21.07.2003, “On protection of competition”. For the infringements of competition, AMC and Vodafone are fined with ALL 211 552 000 (approx USD 2.2 million) for AMC and ALL 242 633 000 (approx USD 2.3 million) for Vodafone Albania. Also, the ACA has recommended to the Albanian government and the Telecommunications Regulatory Entity to take all necessary steps to liberalise the Albanian mobile telephony market.

#### *4.2 Prohibited Agreements*

One of the pillars of the law “On protection of competition” deals with the agreements between competitors which restrict competition. These

kinds of agreements are prohibited since they are connected to anti-competitive practices, specifically those agreements which have as their own scope or consequence the setting of prices, sharing of market according to the territory and setting of prices or volume of the sales.

Regarding the cartel agreements, the Albanian Competition Authority has concluded an investigation for an anticompetitive agreement between 8 companies which had decided to control prices and to share the market in pursuance with turnover of the previous year. The Competition Commission decided to interrupt immediately the agreement as illegal and made recommendations to Minister of Finance to liberalize the insurance market. The state still maintains control over prices only in mandatory vehicle insurance, such as TPL. ACA has fined all 8 insurance companies that were part of the agreement.

During this year, ACA has opened in depth investigations into other cartels cases such as the Tirana association of concrete producers, the cartel on bread prices in Fier count and so on.

The ACA has decided to start a sectorial inquiry into the Energy market in Albania after a strong public concern of consumers and public institution on phenomena that might reflect limitations on the competitiveness of the players in this market.

### 4.3 Concentrations

The third pillar of the law “On protection of competition” is connected to the concentration procedures, which are one of the main directions of the activity of the Competition Authority. The forms of concentration are the union, merging of two or more undertakings, the benefit of direct control by one enterprise over another, or the establishment of a joint enterprise, operating independently financially from the enterprises establishing it. Concentration is a part of industrial restructuring, and it is seen as necessary to respond to the challenges of the global economy.

The policy of the control of concentrations should contribute to promoting structural and economic reforms in Albania aimed at the consolidation of the market economy. Through this policy, it is intended to preserve a sufficient number of companies in the market, in order to ensure effective competition and potentially low prices.

Based on the experiences so far, the Competition Authority has established consolidated practices in implementation of the legal framework for the control of the concentration of enterprises. By means of control over concentrations, the Competition Authority prohibits those concentrations

which endanger to establish or strengthen the dominating position of one or more enterprises, thus restricting the effective competition in the market.

The previous experience is characterised by a dynamic development of the financial sector (especially in the banking and insurance market). This dynamics is expressed in the structural changes and the ownership of enterprises which perform their activity in the banking sector. Consequently, during this year, a considerable number of applications have been received at the Competition Authority for the notification of the concentration and merging of banks and insurances companies . With regard to each case considered by the Competition Authority, a close cooperation with the relevant regulatory body is developed.

According to merger or/and concentration, in compliance with Articles 53-63 of the Law (on takeover procedures) the Competition Authority has approved the merger of Albtelekom-Çetel SA, Albanian American Bank-Intesa San Paolo SPA, and the Albanian Popular Bank-Socite General SA, In the insurance market the Competition Commission has approved the takeover of Sigma – TBIH financial Services Group. When granting authorizations for takeovers in the banking sector, the Authority pays great attention to potential abuse with market power. The evidence on the market development in Albania indicates that a wave of mergers and acquisitions is taking place leading to an increase in the concentration of ownership in the financial sector in particular.

The ACA has contributed to the promotion of a competition culture by issuing recommendations on several pieces of draft legislation and producing competition policy documents regulations and guidelines. Building on its modest experience, the Competition Authority has focused particularly on the implementation of competition policy and fostering the institutional independence in terms of law enforcement. The Staff has been doubled and a new structure was approved which includes departments dealing with market analysis and investigation, legal matters and EU integration, and research and analysis development.

The Albanian Competition Authority has played a proactive role in the process of European integration (Stabilization-Association Agreement) according to the reform in competition fields and for approximation of legislation with Acquis communitarian, and based on the best practices issued from the developed and developing countries.

## 5 Final remarks

The role of the private sector in socio-economic development is considered as highly important and a priority in Albania. The small and medium enterprises have a crucial role in the transition process. SMEs already make up the vast majority of private businesses operating in Albania and, because of their size and adaptability, are likely to be an important source of employment generation and innovations in the future. As in a more mature market economy, a vibrant SME sector will eventually become not only a source of employment, but will also be a key source of competition, innovation, entrepreneurship and productivity growth.

Most of the SMEs in Albania are facing a number of constraints and difficulties that may prevent them from achieving their full potential. Unfair competition from the informal economy comes not only from unregistered companies but also from informal activities and illegal practices (tax evasion and unfair competition) of registered companies. As in other small economies the competition law and policy which are in effect in Albania and are enforced by the Albanian Competition Authority include provisions proscribing anti-competitive agreements, abuse of a dominant market position, and merger control regulations.

It is essential that the Albania Competition Authority should consider the specific features of the Albanian markets and particularly the market structure. It would not be a wise policy to interfere with the structure that markets have established by themselves. Being a small economy there are a few players which have significant market power within the Albanian market. Thus the Albanian market tends to develop an oligopoly structure. The big players operating in such a market structure are likely to agree or collude among themselves against the smaller players. Regarding this feature the main challenge for the Competition Agency is to prevent the development of collusion among the members of businesses operating in the relevant market.

The promotion of competition requires the cooperation of all government and regulatory institutions to reduce the barriers to entry. Fostering the advocacy and culture of competition regarding the drafted legislation and regulation is another challenge that we should face.

The lessons from more experienced countries emphasise that this is particularly relevant in countries where the implementation of competition policy is in its early stages. The building of credibility requires consistent behaviour over time. That is to say, to become credible and reliable, the Albanian Competition Authority aims to show that its decisions are consistently well



founded, logically sound and that its authority is not influenced by considerations other than the protection of competition. The Albanian Competition Authority is working to build a reputation of consistency, accountability and transparency, in order to increase its credibility with society, as well as with the other arms of government.

## Figures to the text

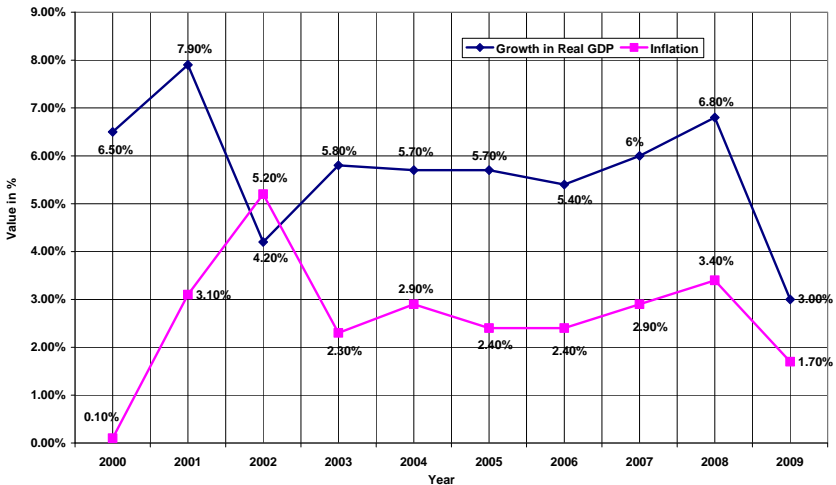


Figure 1: Growth in Real GDP and Inflation  
Source: EBRD, Transaction Report 2009

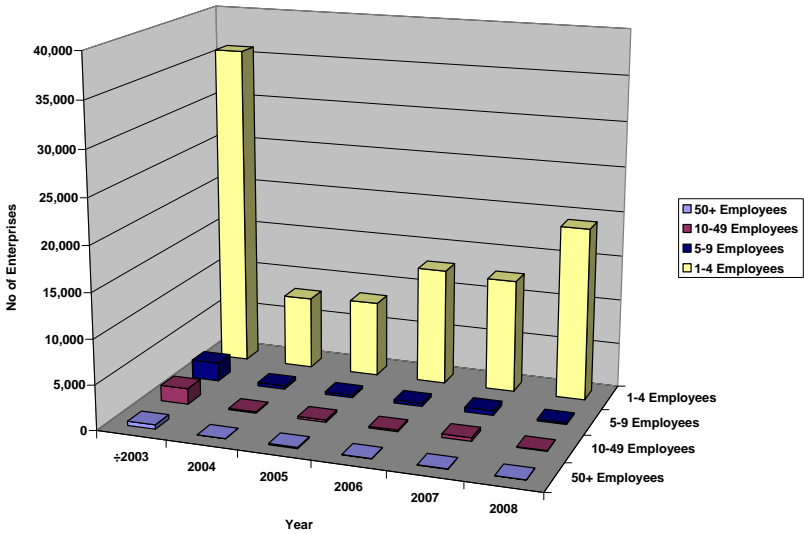


Figure 2: Number of Active Enterprises Grouped by Number of Employees  
Source: INSTAT, 2009

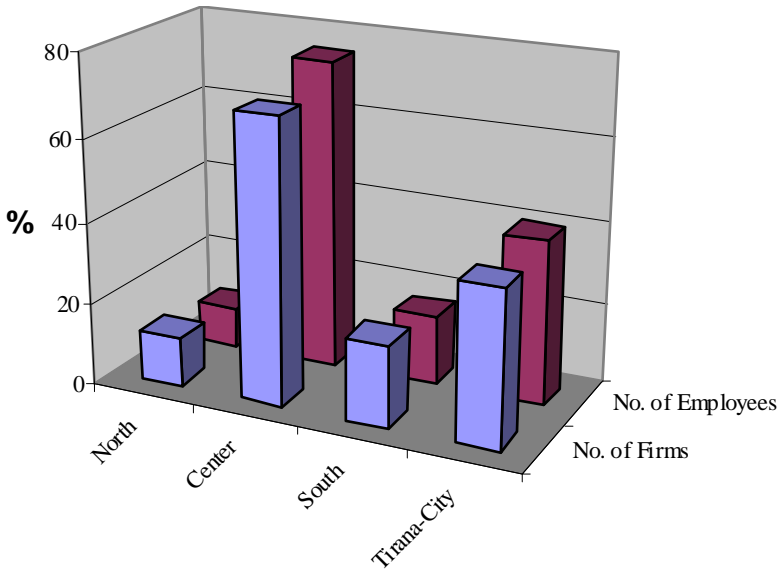


Figure 3: Geographical Distribution of Albanian Firms and Employment in %

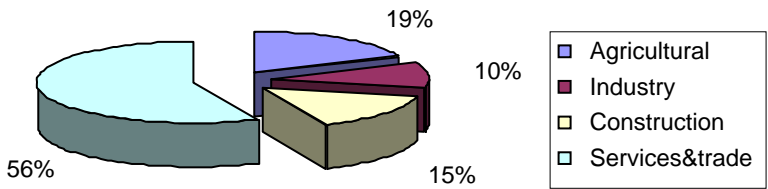


Figure 4: Structure of GDP grouped by sectors, 2008  
Source: INSTAT, 2009

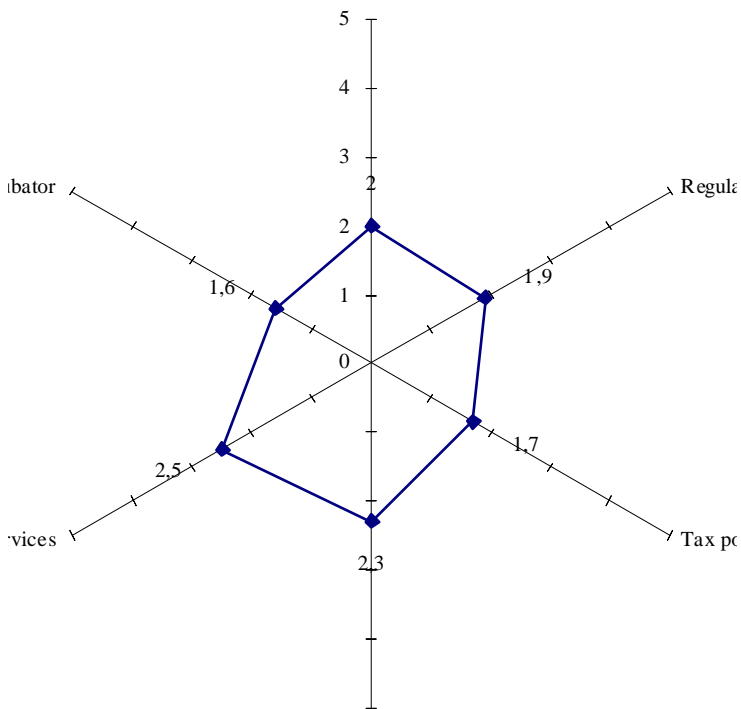


Figure 5: Perceptions of the Six Dimensions of SMEs Supportive Policies  
Source: Adapted from OECD (2003)

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