

ROLES OF COMMERCIAL BANKS IN THE GROWTH OF SMALL AND MEDIUM ENTERPRISES - CASE OF ALBANIA

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ABSTRACT

SMEs play an essential role to the overall performance of an economy giving their contribution in economic growth, employment, innovation and technology diffusion. In the other hand commercial banks plays play an important role in the country's economic development through promoting firms' development by influencing positively the mitigation of information-related issues between the investor and the borrower by ensuring a more efficient use of depositor funds and securing their own funds. The aim of this study is to give a short view of the banking activity in Albania giving more focus on their role in SME growth. A combination of quantifiable and qualitative research methods is carried out to test the hypothesis of the study in order to have a complete and accurate result. Specifically, the study uses surveys of SMEs (questioner's field by the representatives of SMEs), interviews with Bank's managers and documentary analysis of Bank's activity in Albania. The SMEs chosen to fulfill the questionnaires are located in two cities of Albanian, respectively in Tirana and Durres city. This study will be a reference for other studies focused in the role of financial institutions role in SMEs growth in Albania and the examination of relationship between financial institutions and SMEs growth.

Keywords: Role, Commercial Banks, SMEs growth, Albania.

INTRODUCTION

The bank plays the role of financial intermediaries in collecting savings and allocating them to higher return investments. They provide financial assistance in meeting the different needs of enterprises.

The bank's objective is the collection of free public funds in the form of deposits in order to use them for granting loans. On the other hand, through different actions such as keeping accounts, approving advances and loans, making transfers etc., gives the possibility to banks to recognize the performance of various firms and businesses and to control and impacted on them. Banks promote firms' development by positively influencing in the mitigation of information problems between the investor and the borrower by ensuring a more efficient use of the depositor's funds (Allen and Gale 2008).

The importance of this study first relates to a better understanding of the role and functions of banking financial institutions in Albania and enhances the ability to understand how banks influence in the development of SMEs.

LITERATURE REVIEW

Commercial Bank's Functions

The commercial bank is a financial institution that provides financial services, particularly loans, deposits and payment services, and performs the most extensive financial services for

business companies. While in the concept of regulators of banking activity, the bank is an institution whose current activity is lending and acceptance of deposits by the public (Salko and Dhuci 2008).

Through the banking system of a country is realized (Zaho and Cani 2008):

1. Acceptance of cash deposits by individuals, companies, other legal entities, by the government.
2. Mobilization of deposits on loans and increase of their value.
3. Mediation of payments as well as the execution of all payments and receipts arising and deriving from transactions carried out for a certain period of time.

In summary, the functions of commercial banks can be considered:

- Lending function
- The liquidity function of payments
- Risk management of interest rates and liquidity
- Monitoring the firm's activity
- The service function

Main Developments in the Albanian Banking System Over Years

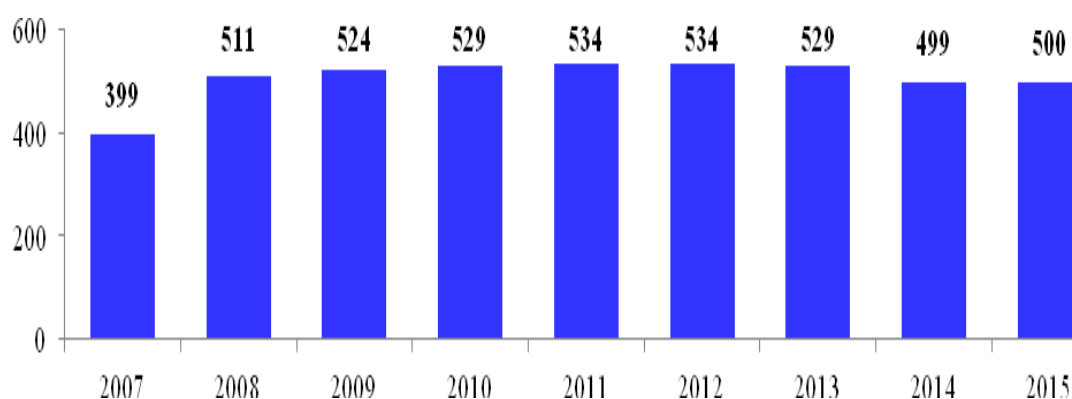
Before year 1990, Albania had a one level banking system and fully centralized. It consisted of the State Bank (the monetary authority and lending authority of the economy), the General Directorate of Savings and Security Shares (serving as a public savings depositor and asset provider) and the Agricultural Bank (provider of agricultural fund.)

After the fall of the communist system in the early 1990s, Albania entered into transitory period, which was accompanied by a series of social and economic changes. Most of the cooperatives and state-owned firms were privatized immediately by creating small family businesses focused mainly on the commodity market. In 1992, the Law "On the Bank of Albania" and "On the banking system in the Republic of Albania" was approved. This change enabled the transition to the two tier system of the financial structure (the first level-Bank of Albania, and the concentration of trading functions at the second level, which at the moment of creation was composed by 3 Banks: Savings Bank, National Commercial Bank and Agrarian Commercial Bank). By the end of 1996 five other banks were licensed.

After the pyramid crisis in 1997, which affected both the economic and social side of our country, the financial system entered in another phase of its development. In addition to the increased number of banks, the banking system has been associated with the privatization of the National Commercial Bank, the Savings Bank, and other restructuring.

By the end of 2015 the number of commercial banks reached 16, operating through 500 branches / agencies (as showed in figure no. 1) located within the territory of the country, while only one bank continues to have a branch outside the territory of the Republic of Albania.

Figure 1. The number of branches/ agencies of banks over the years



Source : Bank of Albania

Banking Lending Activity in Albania

Over the years, lending to the system has had a greater orientation towards business but over the past 3 years this tendency has been moderated, and the relationship between the two groups - business and individuals - has a steady tendency.

The composition of the loan portfolio according to the entity and the respective currency shows that about 60.2% of the loans granted to the business are in foreign currency, with the largest share at 83.6% denominated in EUR, while in USD dollars it is about 16.4% of the foreign currency portfolio.

The table below shows the credit data by sector and purpose of use for the period 2013-2015. By sectors, businesses provided the main contribution to the performance of credit over the 3 periods where Business Overdraft has the largest share of the total loan portfolio

Table 1. Lending by sector and purpose of use (value in billions ALL)

Description	Dec'13	Weight	Dec'14	Weight	Dec'15	Weight
Total Loans	537.4	100%	549.1	100%	534.9	100%
Loans to Businesses:	394.7	73.40%	404.5	73.70%	388.8	72.70%
Overdraft	125.3	23.30%	126.7	23.10%	123.2	23.00%
Working capital	73.2	13.60%	75	13.70%	71.1	13.30%
Investments in equipment purchase	97.3	18.10%	94	17.10%	95	17.80%
Investments in real estate	99	18.40%	108.8	19.80%	99.5	18.60%
Loans to Individuals:	142.7	26.60%	144.6	26.30%	146.1	27.30%
Overdraft	8.2	1.50%	8.2	1.50%	8.4	1.60%
Consumption of non-durable goods	16.4	3.10%	17.3	3.10%	18.7	3.50%
Consumption of durable goods	9	1.70%	10.4	1.90%	11.7	2.20%
For real estate	102.9	19.20%	102.8	18.70%	101.7	19.00%
To operate the activity	6.1	1.10%	5.9	1.10%	5.6	1.10%

Source: Bank of Albania

For the period 2012-2015, long-term loans represent the main share in the total loan portfolio, followed by short-term loans and finally medium-term loans (presented in the table no. 2)

Table 2. Credit outstanding by maturity term (in %)

Credit maturity	December 2012	December 2013	December 2014	December 2015
Short-term	33.2	34.0	33.7	33.9
Medium-term	20.0	17.9	17.9	18.3
Long-term	46.8	48.1	48.4	47.8

Source: Bank of Albania

METHODOLOGY

The study aims to highlight the role of Banks in SME's development in Albania. To achieve this general objective the below hypothesis is developed.

Hypothesis: "The growth of SME's sales is affected by loans issued by Commercial Banks in Albania".

The necessary information for testing the hypothesis is based on the analysis of primary data which are collected through questionnaires delivered to SME's representatives. The questionnaire developed in this research is conceived in two parts: The first part of the questionnaire provides general information on SMEs activity and the second part provides information on the role of banks in SME development.

The list of SMEs selected to fill out the questionnaires is provided mainly by banks selected in this study which have financed SMEs with loans. The number of SMEs those representatives have filled out the questionnaire is 55 and they are located in two cities of Albania, in Tirana and Durres.

In order to assess the relationship between SME growth (sales growth) and financial resources offered by banks, is used the linear regression model as depicted below:

Dependent Variable: Annual Sales of SMEs [SI]

Independent variables: Lending [Le]

$$SL_i = \beta_0 + \beta_1 * (LE_i) + \epsilon$$

Where:

- **SL**: The annual sales of businesses (SMEs) expressed in LEK currency, measured as the average of the years included in the study. Sales are analyzed for years after bank loan is received
- **LE**: Loans issued by commercial banks denominated in LEK currency for the respective firm from 2010 up to 2015.
- **β_0** : the intercept of equation
- **β_1** : the coefficient; the respective influence of any marginal change of the independent variable in SMEs's sale growth

- i -firms taken in the analysis where $i = 1, 2, 3, \dots, 55$
- ϵ : the error term

RESULTS

The results of the regression model used in this study are depicted in the tables below:

Table 1. Regression statistics

Regression Statistics	
Multiple R	0.750372
R Square	0.563058
Adjusted R Square	0.554813
Standard Error	0.6777
Observations	55

Table 2. ANOVA

	df	SS	MS	F	Significance F
Regression	1	31.36742	31.36742	68.29744	4.24E⁻¹¹
Residual	53	24.34167	0.459277		
Total	54	55.70909			

Table 3. Regression coefficients

Factors	Coefficients	Standard Error	t Stat	P-value
Intercept	0.435417	0.218179	1.995685	0.051119
Lending	0.947917	0.114701	8.264226	4.24E⁻¹¹

DISCUSSION

- ❖ As can be noted in the tables above, the generated model results consistent and important: $F = 68.29744$, $p\text{-value} = 4.24E-11$
- ❖ The explanatory variable (lending) results to be significant ($p\text{-value} = 4.24E-11$). P-value has resulted $<5\%$ which implies that there is at least 95% chance that the loan will affect the growth of SME's sale.
- ❖ 75% of the variation ($R^2 = 0.750372$) of the dependent variable (increase of sale) is explained by the explanatory variable (lending).
- ❖ The relation between the two variables is positive (The coefficient showing the relation between the two variables has resulted positive $\Rightarrow \beta_1=0.947917$)

CONCLUSIONS

The regression model used in this study showed a positive relationship between lending by commercial banks, firms age, firm size, internationalization, initial capital and growth of SME sales and SMEs sales, indicating that lending growth affects the growth of SME sales.

Except of financial products, commercial banks in Albania ameliorate SMEs performance and their daily activity through providing a variety of products and services such as deposit, internet banking, domestic & foreign payment etc.

The result of the questioners with the SME's representatives revealed that for 85% of SMEs financial products provided by banks has influenced the development and growth of their activity.

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