

ALBANIA




1. Introduction

Reskilling and upskilling are high on the government agenda, with a strong focus on vocational education and training. While measures have been taken to develop a favourable environment for start-ups, the public and private sector expenditure on R&D remains low and the innovation system is fragmented. Small and medium-sized enterprises (SMEs) have difficulty accessing finance and face a high administrative burden despite the deployment of e-government services, which make it easier for them to digitalise.

The COVID-19 pandemic, combined with the policy decisions taken in response to it, have significantly impacted Albania's economy. In 2020, employment for the economy as a whole dropped by an estimated 1.2%¹, while GDP fell by 7.0%². SMEs were also badly affected, with SME value added declining by 10.2% in 2020³. SMEs in the *accommodation and food services* sector and the *professional, scientific and technical activities* sector were hit particularly hard, with value added dropping by 14.9% and 12.2% respectively. In contrast, SME value added in the *real estate activities* sector grew by 8.0%.

SMEs are particularly important for the Albanian 'non-financial business economy'. In 2018, they generated 68.7% of total value added and 80.0% of total employment, significantly more than the respective EU averages of 52.9% and 64.9%. They employed an average of 4.0 people, slightly more than the EU average of 3.7. SME productivity, measured as value added per person employed, was EUR 7 600, significantly lower than the EU average of EUR 41 600.

Figure 1: Number of enterprises, persons employed and value added in 2018

	 Number of enterprises			 Number of persons employed			 Value added		
	Albania		EU-27	Albania		EU-27	Albania		EU-27
	Number	Share	Share	Number	Share	Share	€ billion	Share	Share
Micro	88 550	93.5%	93.3%	174 721	37.0%	29.6%	0.838	20.1%	18.7%
Small	4 933	5.2%	5.7%	96 706	20.5%	19.7%	0.990	23.7%	17.0%
Medium-sized	1 074	1.1%	0.9%	106 539	22.6%	15.8%	1.037	24.9%	17.3%
SMEs	94 558	99.8%	99.8%	377 966	80%	64.9%	2.865	68.7%	52.9%
Large	172	0.2%	0.2%	94 470	20%	34.8%	1.305	31.3%	47.0%
Total	94 730	100%	100%	472 436	100%	100%	4.171	100%	100%

Source: These data for 2018 are based on data provided by the Institute of Statistics Albania. The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed).

2. Key strengths

Government measures taken to develop a favourable environment for start-ups

In recent years, the government has made major efforts to develop a better start-up environment in Albania, encouraging young people in particular to start a business.

The government has implemented several measures to boost start-up activities in Albania. These include the IDEA challenge by ProSEED/GIZ, the Innovation Investment Fund, the start-up accelerator programme UpLift⁴, the Digital Innovation Lab Oficina, and the Flexible Start-up Support programme⁵ by EU for Innovation, as well as several incubator programmes and a call for proposals.

The National Agency for Information Society launched TechSpace in February 2019. It is now fully operational, being the largest technology lab in Albania helping start-ups and students deliver projects and ideas in the field of information and communication technology. Since its launch, 100 start-up ideas have been registered and it has hosted over 1 000 visitors.

In 2020, the government drafted, introduced and consulted on a new law on start-ups to support and develop innovative start-ups. The new law is expected to close the legal gap in the start-up ecosystem in Albania. Support for start-ups will include not only new policies and fiscal incentives, but also the creation of a friendly ecosystem for innovative start-ups in key sectors and fields with the support of key stakeholders including mentors, incubators and investors. Moreover, this new law includes the creation of an autonomous agency 'Start-up Albania Agency' that will be launched in the first quarter of 2021 and aims to implement the support programme defined in the law. This initiative is based on the growing interest of young people in the field of technology, innovation, software and IT. It will therefore help them develop their business ideas⁶.

The Albanian Investment Development Agency⁷, which promotes investment, SME development and exports, was set up 10 years ago to support SMEs and start-ups, facilitate investments and strengthen the science and technology sector. However, SMEs still perceive the numerous schemes offered by the agency as cumbersome and the financial support on offer rather low⁸.

The development of government e-services supports SME digitalisation

Albania has relatively high-quality online government services in the Western Balkans⁹. Together with Montenegro, Serbia and Kosovo, Albania is among the countries that have integrated a single digital identification system into public services, making it easier for individuals and businesses to access online services¹⁰. The national government portal e-Albania¹¹ enables them to easily access public services through a single platform on the internet. Offering a total of 591 e-services, there were 726 280 registered users in 2018, while in 2019 this number rose to 1 028 348¹². E-Albania offers a wide range of digital services to address business needs. These increase the transparency and efficiency of public administration as well as improve automated state services while helping reduce corruption and excessive bureaucracy¹³.

The government's sizeable efforts to digitalise its services encourage SMEs to digitalise. SMEs are increasingly using digitalisation tools such as, internet, broadband and IT specialists. 97.5% of enterprises used online platforms for business purposes in 2019 (97.3% in 2018). In 2019, the percentage of enterprises with specialists in the field of information and communication technology amounted to 23.4%, against 22.9% in 2018¹⁴.

In its efforts to promote the benefits of digitalisation, the country acted upon the Digital Agenda of Albania 2015-2020. This will be followed by a new SME digitalisation strategy based on the new economic programme reforms for 2020-2030.

While Albania scores the highest in the Western Balkans for its policies to promote the adoption of information and communication technology by SMEs¹⁵, digitalisation is still hampered by the low penetration of fixed internet services (12.5% of the population, ranking 67th out of 141 countries¹⁶) and a low level of digital skills, ranking 81st out of 141 countries in 2019 on digital skills among the active population¹⁷.

Reskilling and upskilling are high on the government agenda

As the number of university graduates in Albania is increasing and the share of the adult population with low skills and the percentage of young people not in employment, education or training continue to be high, the government has taken steps to reskill or upskill Albanian citizens in recent years. The government adopted the National Employment and Skills Strategy 2014-2020 and its related action plan to promote quality jobs and skills opportunities for all Albanians throughout their lifecycle¹⁸. One of the priorities of the strategy was to offer quality vocational education and training (VET) to young people and adults by promoting among other things entrepreneurial learning and women's entrepreneurship as a key competence in order to strengthen the linkages between learning and work, and facilitate the transition to work¹⁹. The strategy has recently been complemented by the Action Plan 2019-2022, which 'aims to increase the employment rate, thus enabling a gradual transition from passive unemployment policies to active and promotional employment ones, and simultaneously focusing on the development of labour force in the country.'²⁰

Thanks to the employment incentive programmes²¹, 8 818 unemployed jobseekers attended vocational training courses in 2019 – around 12% of the total unemployed jobseekers registered in job centres. In 2019, 600 entities and 5 338 individuals benefited from public vocational training

programmes²². In 2020, school development units became operational in Albanian VET schools. However, these schools still face challenges attracting young people, while the new legal framework on this still needs to be operationalised.

Albania receives substantial support from the EU and other multilateral and bilateral donors in the skills and employment sector. For example, with the support of the 'Skills for Jobs' project (part of the Swiss Development Cooperation), cooperation between 9 vocational schools and more than 500 enterprises has been established and strengthened²³.

In addition, Albania is currently preparing the referencing of its national qualification framework to the European Qualifications Framework, which is expected to take place in 2021.

3. Key challenges

Limited access to finance is a challenge for SMEs in the country

Despite being the backbone of the country's economy, SMEs in Albania face significant constraints to accessing finance, with 16% of small firms and 34% of medium-sized firms reporting access to finance as a major constraint²⁴.

Ranking 76th on SME financing and 81st on venture capital availability out of 141 countries in 2019²⁵, Albania's financial sector is dominated by banks that are reluctant to lend to SMEs – they perceive the sector to be risky, seek high collateral and have high interest rates. Providing credit to SMEs is also undermined by the high degree of formality and weak law enforcement²⁶.

Alternative financing options, such as venture capital and equity funds, are limited. Albania is the only country in the Western Balkans that does not have its own angel investor network²⁷.

The lack of business know-how, low financial literacy and high degree of informality also hamper access to finance for SMEs, which require help with business planning and loan applications. Other obstacles that SMEs face in doing business include a low-educated workforce, poor transport, and corruption²⁸.

To support the underfinanced start-up sector in Albania, multilateral and bilateral organisations as well as the government provide several grant programmes. While this is a positive step in supporting this underfinanced sector, the amounts are often too small to create a significant impact and are not properly monitored in general²⁹.

Public and private sector expenditure on R&D is low and the innovation system is fragmented

Ranking 83rd out of 131 countries in the Global Innovation Index 2020³⁰, Albania ranks particularly low on innovation capability (110th out of 141 in 2019) and R&D (126th) in the 2019 Global Competitiveness Index³¹.

The innovation system in Albania is highly fragmented, with few linkages between science and the private sector and weak innovation support infrastructure (despite the emergence of incubators, accelerators and innovation centres in recent years)³². Moreover, the government's definition of 'innovation' has been ambiguous, is used inconsistently and does not take the local context into consideration³³.

The insufficient capacity for technological absorption and research, development and innovation is reflected in low levels of public and private sector expenditure on R&D. Public spending on research is negligible (0.2% of GDP), ranking 98th out of 141 countries in the 2019 Global Competitiveness Index³⁴.

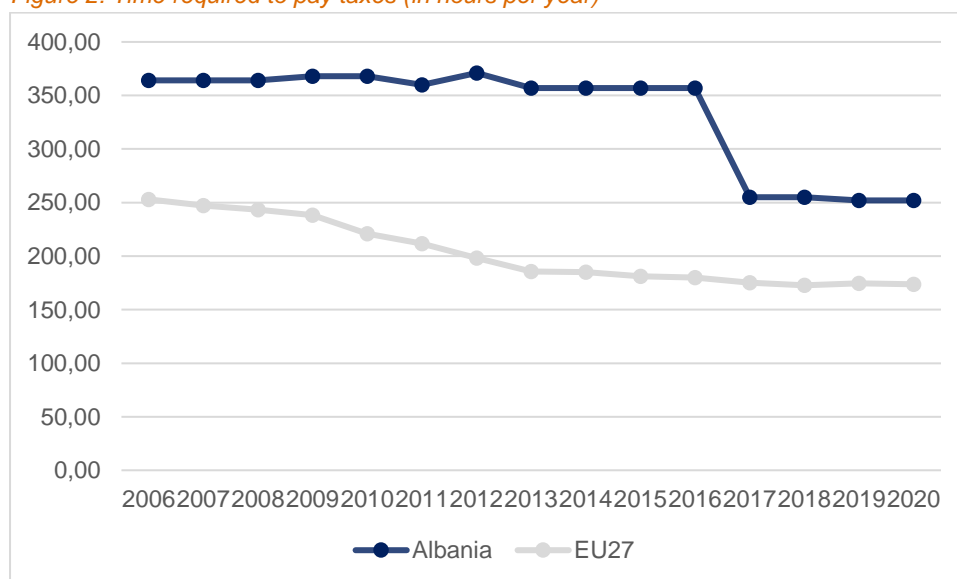
While traditional businesses are prominent in the country (9 out of 10 are not in the R&D business)³⁵, the proportion of small firms investing in R&D (around 13.5%) is the second lowest in the Western Balkans. A survey on SME innovation by the Institute of Statistics Albania highlighted that only 46.9% of SMEs conducted innovative activities. For 73.5% of enterprises, the most important factor hindering innovation is extremely high innovation costs. Another hurdle reported is the high level of competition in the market (72.9%). Only 5.9% of enterprises that report having developed innovation activities received public funding in 2016-2018. The EU provided most funding (84.7%), while 71.3% of enterprises with innovation activities received funding from the central government (including central government agencies or ministries)³⁶.

SMEs face high administrative burden

One of the key challenges for SMEs in Albania remains the high administrative burden. In the World Bank's Doing Business Report 2020, Albania ranks 123rd out of 190 countries on the burden caused by tax payments. In the Western Balkans, Albania is the country to have progressed least on this indicator. In addition, it ranks 53rd on the procedures, time, cost and paid-in minimum capital to start a limited liability company, and 120th for the time and cost to resolve a commercial dispute and the quality of judicial processes³⁷.

The heavy administrative burden, characterised by complex procedures and frequently changing tax rules, leads to a sizeable informal economy (between 25-50% of GDP). This constitutes an obstacle for doing business in the country³⁸.

Figure 2: Time required to pay taxes (in hours per year)



Source: World Bank Doing Business, 2020³⁹

In recent years, the government has introduced several measures to decrease the administrative burden, including a continuous decrease in social contribution taxes and the introduction of simplified administration procedures, by providing e-services. The online platform for administration procedures and paperwork has helped make paying taxes easier and faster by

upgrading the internal electronic tax system (e-Albania portal), where 92% of services are now provided online.

In addition, the national '2030 zero profit tax' plan for all small businesses aims to implement significant measures for the private sector and small businesses by 2029. The plan includes a tax exemption for all small businesses with a turnover of up to ALL 14 million. The increase in profit tax, as referred to by the Prime Minister, may be accompanied by the abolition of value added tax.

4. Other key SME-related brief insights



IMPACT OF COVID-19 CRISIS ON SMES

The policy decisions adopted to combat the COVID-19 crisis led to the loss of 34 000 jobs and saw the unemployment rate rise by 0.6% to 12.5% in Q2-2020⁴⁰.

Based on a survey of Albanian businesses, the COVID-19 situation seems quite problematic for them, with 86% having no approved emergency business plan. Overall, 47% of companies stopped working altogether during COVID-19, while the other 53% have continued to work normally or in part. Among all economic sectors, tourism was the most affected, with a 75% activity closure. In contrast, the agriculture sector continued to operate normally or in part (81% activity)⁴¹. The most common challenges faced by companies were a shortage of clients, lack of liquidity, difficulties with paying salaries and complying with tax obligations.

The Albanian government responded immediately with monetary policy tools and fiscal stimulus packages to counteract the economic downturn⁴². Most of the implemented measures aimed to preserve jobs and ensure liquidity for SMEs from March to December 2020. The Bank of Albania reacted by cutting its key policy rate from 1% to 0.5% and providing liquidity to banks and non-bank financial institutions. This in turn eases the burden on companies and individuals affected by sharp disruptions.

The first state guarantee loan to the tune of ALL 11.0 billion was aimed at companies having difficulty paying salaries. The government covered interest expense in full, with no collateral required from companies. The loan served to cover the salaries of employees for a period of 3 months, not exceeding ALL 150 000 per worker per month.

Employees of SMEs with annual revenues of up to ALL 14 million, which were forced to close as a result of the restrictions imposed on businesses because of COVID-19, benefited from monthly payments equal to the minimum wage (ALL 26 000) from April to June 2020. This measure targeted 38 702 businesses and benefited 65 115 employees, unpaid family workers and the self-employed.



GREEN TRANSITION OF SMES

In December 2020, the European Bank for Reconstruction and Development stepped up its efforts to support companies in Albania impacted by the coronavirus pandemic. It provided a EUR 10 million loan to a second tier bank in Albania (ProCredit Bank Albania) to help

Albanian companies invest in modern technology, participate in energy efficiency projects, and expand their market share⁴³.

The implementation of an ambitious Green Agenda for the Western Balkans will require substantial public and private funding at national, regional and international level. The Instrument for Pre-Accession Assistance (IPA III) proposal provides for a dedicated window in the programming framework to implement the Green Agenda and sustainable connectivity⁴⁴.



The National Strategy for Development and Integration 2015–2020 (NSDI II) is the main policy document that outlines Albania's development vision, with all its components directly related to achieving specific UN sustainable development goal targets⁴⁵.

Some initiatives, like the 'Green Ideas' competition in 2019⁴⁶, launched by Partners Albania, an independent non-governmental organisation, aim to support business initiatives that promote social inclusion and local economic development through integration, employment and environmentally friendly ideas.

The labour market has become more inclusive. The percentage of firms created by women increased from 13.1% in 2013 to 20.7% in 2019, while the proportion of female permanent full-time workers increased from 45.4% in 2013 to 52.8% in 2019⁴⁷. These numbers reflect the results of measures introduced by the Albanian government in recent years, such as the grant support schemes for women by the Albania Investment Development Agency, the IDEA-Grant scheme, the temporary bridging scheme for self-employed entrepreneurs, and the Challenge Fund launch for innovative ideas and start-ups.



Albania made some progress on market access by endorsing the Investment Policy Reform Action Plan as part of the Multi-annual Action Plan for a Regional Economic Area (MAP-REA) regional efforts on investments. This involves, maintaining incentives to stimulate investment in the tourism sector and implementing an innovation support programme.

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- ² GDP is based on forecast data produced by the European Commission. https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/autumn-2020-economic-forecast_en
- ³ Value added data for 2019 and 2020 are estimates produced by DIW Econ, based on 2012-2018 data from the Institute of Statistics Albania as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat).
- ⁴ Uplift, startup accelerator programme Albania, available at: <https://uplift.al/>
- ⁵ EU for Innovation (2019), *Launching Flexible Start-up Support programme*, available at: <http://euforinnovation.al/launching-flexible-start-up-support-programme/>
- ⁶ Ministry of Finance and Economy (2020), Start-ups for Innovation, open public consultation for the new draft law, available at: <https://financa.gov.al/start-up-et-per-inovacionin-hapet-konsultimi-publik-per-projektligjin-e-ri/>
- ⁷ Albanian Investment Development Agency, available at: <http://www.aida.gov.al/en/>
- ⁸ Organisation for Economic Co-operation and Development (2019), *SME Policy Index. Western Balkans and Turkey 2019. Assessing the Implementation of the Small Business Act for Europe*, available at: <https://www.oecd-ilibrary.org/docserver/g2g9fa9a-en.pdf?expires=1612535886&id=id&accname=guest&checksum=609212FE92D89DBA593B6945A165972C>
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- ¹¹ E-Albania, available at: <https://e-albania.al/>
- ¹² Increasing Civic Engagement in the Digital Agenda – ICEDA project (2020), *Digital Agenda Observatory. Baseline research of the state of e-government development and digital literacy in the target western Balkan countries 2020*, available at: <https://cirta.rs/en/digital-agenda-observatory/>
- ¹³ E-Albania, available at: <https://e-albania.al/>
- ¹⁴ Institute of Statistics Albania (2020), *Informacioni dhe Teknologjitë e Komunikimit*, available at: <http://www.instat.gov.al/al/temat/shkenc%C3%ab-teknologji-dhe-inovacion/informacioni-dhe-teknologjit%C3%ab-e-komunikimit/>
- ¹⁵ Organisation for Economic Co-operation and Development (2018), *Competitiveness in South East Europe: A Policy Outlook*, available at: <https://www.oecd-ilibrary.org/docserver/9789264298576-15-en.pdf?expires=1612455233&id=id&accname=guest&checksum=3ED7E330B7D5488868824AB399057692>
- ¹⁶ World Economic Forum (2019), *The Global Competitiveness Report*, available at: http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf.
- ¹⁷ *Ibid.*
- ¹⁸ United Nations Development Programme (2018), *Mid-Term Review 2014 – 2020 - UNDP in Albania*, available at: http://www.al.undp.org/content/dam/albania/NewPublications/WEB_Mid-Term%20Review.pdf
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- ²⁶ World Bank (2020), *Albania Credit Guarantee Scheme Management*, available at: <https://openknowledge.worldbank.org/bitstream/handle/10986/34322/Albania-Credit-Guarantee-Scheme-Assessment.pdf?sequence=1&isAllowed=y>
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- ³⁰ World Intellectual Property Organization (2020), *Global Innovation Index 2020*, available at: https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2020.pdf
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- ³² EU for Innovation (2019), *EU for Innovation programme in Albania*, available at: <http://euforinnovation.al/about-us/>
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³⁴ See Note **Error! Bookmark not defined..**

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³⁶ Institute of Statistics Albania (2019), *Innovation in Small Enterprises and Medium Enterprises*, available at: <http://www.instat.gov.al/media/6357/inovacioni-n%C3%AB-nd%C3%ABmarrjet-e-vogla-dhe-t%C3%AB-mesme-2016-2018.pdf>

³⁷ World Bank (2020), *Doing Business 2020 – Economy profile Albania*, available at: <https://www.doingbusiness.org/content/dam/doingBusiness/country/a/albania/ALB.pdf>

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⁴³ European Bank for Reconstruction and Development (2020), *EBRD unlocks fresh funding for SMEs in Albania*, available at: <https://www.ebrd.com/news/2020/ebd-unlocks-fresh-funding-for-smes-in-albania.html>

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