

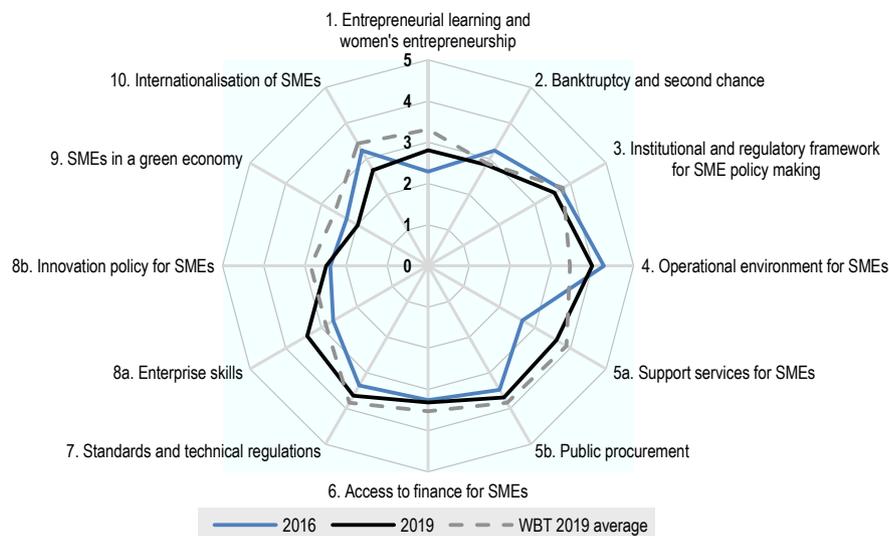
## Chapter 13. Albania: Small Business Act profile

*This chapter covers in depth the progress made by Albania in implementing the Small Business Act for Europe (SBA) over the period 2016-18. It starts with providing an overview of Albania's economic context, business environment and status of its EU accession process. It then provides some key facts about SMEs in the Albanian economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period, and suggests targeted policy recommendations.*

The full version of this chapter is available at <https://doi.org/10.1787/g2g9fa9a-en>.

## Key findings

Figure 13.1. Small Business Act scores for Albania (2016 and 2019)



*Note:* A direct comparison of the scores between the 2016 and 2019 assessments for Dimension 1 (entrepreneurial learning and women's entrepreneurship) and Dimension 8a (enterprise skills) should be treated with caution as the assessment methodology has changed significantly. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Albania has made moderate progress in implementing the Small Business Act (SBA) since publication of the previous report, the *SME Policy Index: Western Balkans and Turkey 2016* (Table 13.1) Most of the developments during the reference period relate to improving delivery of public services and simplifying regulations. These have helped to reduce the administrative burden on small and medium-sized enterprises (SMEs), as well as improving the overall business environment. The main achievements that have helped Albania improve its performance in this assessment are as follows:

**Procedures for regulatory impact analyses (RIAs) have been set up.** Albania introduced the requirement to conduct RIAs when adopting laws and by-laws in 2018. Up to 15 RIAs are expected to be carried out by the end of 2018. For the first time, the impact of new legislation on business competitiveness will be gauged.

**The legal framework on insolvency proceedings has been strengthened.** The new Law on Bankruptcy, adopted in 2017, includes many features left out of previous legislation and now provides the basis for efficient insolvency procedures. By allowing debt reorganisation, the new legal framework is expected to resolve insolvencies faster and more cheaply.

**Registering a business and applying for licences and permits have been streamlined.** Following the merger of the national registration and licensing centres to create the National Business Centre (NBC) in 2016, entrepreneurs can now obtain services such as business registration, permits and licences in just “one stop”. The NBC's establishment has played a pivotal role in reducing unnecessary bureaucracy and procedures for SMEs.

**Digitalisation of government services has reduced the administrative burden on SMEs.** The e-Albania system, managed by the NBC, allows businesses to access more

than 300 relevant services on line. Most notably, taxes can be filed and paid on line, reducing the compliance burden on SMEs.

**Strengthened quality infrastructure has improved SME trade competitiveness.** Under the National Plan for European Integration 2017-2020, Albania has made rapid strides in transposing European Union (EU) standards and strengthening its institutional capacities for quality infrastructure. This will improve SMEs' capability to compete in EU and other international markets.

### *Priority areas*

Despite the progress mentioned above, the majority of the SME policy areas in Albania have visibly stagnated. Implementation of its strategies has slowed down, and few new initiatives targeting SMEs have been launched. The scope and size of the support programmes provided to SMEs remain relatively moderate, and leave room for further enhancement. This report identifies eight priority areas in which Albania should intensify its activities:

- **Underpin the institutional capacity of institutions responsible for SME policies.** Effective implementation of the SBA principles hinges on building Albania's human resources and institutional capacity. By making the best use of accumulated institutional memory, staff should be continuously trained with a view to increasing their competence in understanding enterprises' needs and developing the necessary measures.
- **Improve SMEs' uptake of business support services by redesigning existing schemes.** SMEs perceive the numerous schemes offered by the Albanian Investment Development Agency (AIDA) to be cumbersome and they are further deterred from applying by the rather low amounts of financial support on offer. There is a pressing need for well-designed and properly funded instruments to support SMEs.
- **Step up the support for innovation infrastructure to advance business-academia collaboration.** Many vital elements of an innovation ecosystem are missing or insufficient in Albania, including technology transfer offices and science and technology parks. The lack of these facilities is an obstacle to knowledge transfer and the commercialisation of new products and services.
- **Increase awareness of alternatives to bank finance.** Although the underlying legal frameworks are all in place, uptake of non-bank financial instruments remains very limited, particularly factoring services. A centralised information platform could be pivotal for guiding SME owners and managers towards financing opportunities other than standard bank loans.
- **Embed entrepreneurship learning in school curricula.** Deficiencies in entrepreneurial learning remain in both the formal and non-formal education systems. Integrated government action is warranted to overcome these by involving the relevant stakeholders, most notably businesses.
- **Provide guidance to SMEs on adopting environmentally sound practices.** SMEs need to be nudged to adopt resource efficiency measures. This will require activities that raise SMEs' awareness about how resource efficiency can offer high returns for low-cost investments. This would constitute the first milestone on Albania's long path towards a green economy.

- **Roll out supplier development programmes.** AIDA's current financial schemes fall short of truly helping SMEs integrate into European and global value chains. New support programmes need to be developed that can help underpin links between SMEs and multinational enterprises.
- **Increase support to stimulate e-commerce practices among SMEs, as foreseen in the Digital Agenda.** Albania lacks an institution responsible for e-commerce promotion and a centralised website that provides easily accessible information on e-commerce. The concrete programmes foreseen under the Digital Agenda Strategy are yet to be implemented.

## Economic context and role of SMEs

### *Economic overview*

Albania is an upper-middle income economy with a population of 2.87 million and an income per capita of USD 4 537 (at current prices in 2017), the second-lowest in the Western Balkans. Although the economy is led by the services sector, industry and agriculture still play an important role. In 2017, the services sector contributed 47.3% to total gross value added, followed by industry (including construction) at 21.1% and agriculture at 19% (World Bank, 2018<sup>[1]</sup>). However, agriculture employed 40.3% of the population, far larger than its contribution to the economy, and slightly less than services at 41.1%. The share of industry in total employment was 18.6% (ILO, 2018<sup>[2]</sup>).

The economy is expanding, driven by a favourable domestic and external environment. Real growth in gross domestic product (GDP) reached 3.8% in 2017, mainly reflecting increases in capital investments, but also rising private consumption (Table 13.1). Private consumption has picked up thanks to accelerating job creation, increasing wages and growing household credit. Capital investments have gained momentum due to two energy-related projects, the Devoll hydropower plants and the Trans Adriatic Pipeline. However, growth is expected to become more subdued, with the two energy projects projected to end by 2020. Albania's current account deficit remained sizeable at 7.5% of GDP in 2017, although it has fallen from 10.8% in 2014 (EBRD, 2018<sup>[3]</sup>). Net exports increased to 31.5% of GDP in 2017; imports declined slightly but remained stubbornly high at 46.6% of GDP (EC, 2018<sup>[4]</sup>). Net exports are projected to increase at a solid pace in light of growing demand from the EU market, but their contribution to GDP growth is expected to be fully offset by the growth in imports (EC, 2018<sup>[5]</sup>).

Albania's export basket continues to be highly concentrated. Just three product categories accounted for 76% of exported goods in 2017:<sup>1</sup> textiles and footwear (43.6%); minerals, fuel and electricity (16.6%); and construction materials and metals (15.9%) (EC, 2018<sup>[5]</sup>). This lack of diversification and the low-tech character of the export basket further contribute to the large external deficit, leaving the economy exposed to industry-specific shocks. The current account deficit is offset by a large volume of remittances by Albanians living abroad – reaching 8.6% of GDP in 2017 (Table 13.1). A surge in tourism exports also bodes well for Albania's current account balance and the tourism sector is projected to expand by an average of 7.8% a year over the next three years (EC, 2018<sup>[5]</sup>).

Albania successfully concluded a three-year Extended Fund Facility programme with the International Monetary Fund (IMF) in 2017, contributing to enhanced fiscal stability and a falling level of public debt, although it is still high at 71% of GDP. Persistently low levels of tax revenue remain a challenge. Tax revenue accounted for 22.5% of Albania's GDP in 2015, significantly lower than the OECD average of 34.3% (OECD, 2018<sup>[6]</sup>).

Inflation remained low at 2% in 2017 and well below the Bank of Albania's target rate of 3% in the medium term (Table 13.1). Despite interest rates remaining low – at 1.25% since May 2016 – and the banking sector's ample liquidity, bank lending to businesses remains subdued. Citing appreciation of the national currency (the Albanian lek or ALL), and the need for additional capital to meet higher demand for loans, the Bank of Albania decided to further cut its key interest rate by 25 basis points in June 2018 to a historic low of 1% (Bank of Albania, 2018<sup>[7]</sup>).

In 2017, the unemployment rate fell by 1.5 percentage points to 14.1% (Table 13.1) while the labour force participation rate increased to 58%, the highest in the Western Balkans and Turkey (WBT) region.<sup>2</sup> In 2015, male activity rates were 64.3%, above those of EU Member States, but female participation in the labour market was 47.3%, lower than the EU average of 51.5% (ILO, 2018<sup>[2]</sup>). Albania was the first economy in the region whose labour participation rate rose above 50% (World Bank, 2018<sup>[8]</sup>). Albania's youth unemployment is the lowest in the Western Balkans region, at 25.9% (World Bank, 2018<sup>[8]</sup>).

Albania's improving performance in science, reading and mathematics, according to the results of the 2015 OECD Programme for International Student Assessment (PISA), indicates it is paying increasing attention to helping its youth improve their skills, and ease their access to the job market. Since 2009, Albania's mean performance has improved by 37 score points in science and 36 score points in mathematics, which are respectively the third largest and largest improvements among education systems with comparable data (OECD, 2018<sup>[6]</sup>). Despite these improvements, its latest PISA results are still below the OECD and EU averages.

**Table 13.1. Albania: Main macroeconomic indicators (2013-18)**

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth <sup>1</sup>	% year-on-year	1.0	1.8	2.2	3.4	3.8	3.6*
Inflation <sup>1</sup>	% average	1.9	1.6	1.9	1.3	2.0	2.1*
Government balance <sup>1</sup>	% of GDP	-5.2	-5.2	-4.1	-1.8	-2.0	-2.0*
Current account balance <sup>1</sup>	% of GDP	-9.3	-10.8	-8.6	-7.6	-7.5	-7.5**
Exchange rate LEK/EUR <sup>1</sup>	Value	140.3	140.1	139.7	137.4	134.1	128.6***
Exports of goods and services <sup>1</sup>	% of GDP	28.9	28.2	27.3	28.9	31.5	34.0**
Imports of goods and services <sup>1</sup>	% of GDP	47.0	47.2	44.5	45.7	46.6	49.7**
Net FDI <sup>1</sup>	% of GDP	9.6	8.2	8.0	8.7	8.6	9.7**
External debt <sup>2</sup>	% of GDP	60.5	56.1	63.0	61.9	63.2	..
Gross international reserves <sup>1</sup>	Ratio of 12 months imports of goods moving average	5.2	5.3	6.9	7.0	6.7	..
Unemployment <sup>1</sup>	% of total active population	16.4	17.9	17.5	15.6	14.1	13.4*
National GDP <sup>3</sup>	EUR billion	9.63	9.97	10.27	10.74*	11.58*	..

Note: \*: projection. \*\*: average of 1<sup>st</sup> and 2<sup>nd</sup> quarter. \*\*\*: average of 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> quarter.

Sources: <sup>1</sup> EC (2018<sup>[4]</sup>), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018", <http://dx.doi.org/10.2765/319761>; <sup>2</sup> EBRD (2017<sup>[9]</sup>), Transition Report 2017-18: Sustaining Growth, [www.ebrd.com/transition-report-2017-18](http://www.ebrd.com/transition-report-2017-18); <sup>3</sup> Eurostat (2018<sup>[10]</sup>), *National Accounts (Including GDP)*, <https://ec.europa.eu/eurostat/web/national-accounts/data/database>.

### ***Business environment trends***

In spite of a positive economic outlook, Albania's business environment continues to present significant structural impediments to strengthening competitiveness and fostering growth. As indicated in Albania's Economic Reform Programme 2018-2020, the main problems are informality and high levels of perceived corruption (Box 13.1).

#### **Box 13.1. Economic Reform Programmes**

Since 2015, all EU candidate countries and potential candidates are obliged to prepare Economic Reform Programmes (ERPs). ERPs prepare the enlargement countries for their future participation in the EU's economic policy co-ordination procedures. They also play a key role in improving economic policy planning and steering reforms to sustain macroeconomic stability, boost competitiveness and improve conditions for inclusive growth and job creation.

The ERPs contain medium-term macroeconomic projections (including for GDP growth, inflation, trade balance and capital flows), budgetary plans for the next three years and a structural reform agenda. The structural reform agenda includes reforms to boost competitiveness and improve conditions for inclusive growth and job creation in the following areas:

1. public finance management
2. energy and transport markets
3. sectoral development
4. business environment and reduction of the informal economy
5. trade-related reform
6. education and skills
7. employment and labour markets
8. social inclusion, poverty reduction and equal opportunities.

The European Commission and the European Central Bank then assess these seven programmes. This forms the basis for a multilateral economic policy dialogue involving the enlargement countries, EU Member States, the Commission and the European Central Bank. The dialogue culminates in a high-level meeting during which participants adopt joint conclusions that include country-specific policy guidance reflecting the most pressing economic reform needs.

The findings of the Small Business Act assessment for the Western Balkans and Turkey provide the analytical background and guidance to the seven EU candidates and potential candidates in identifying the key obstacles to competitiveness and economic growth, and in developing structural reform measures to overcome them.

*Source:* EC (2018<sup>[11]</sup>), *Economic Reform Programmes: Western Balkans and Turkey*, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf>.

Due to Albania's large informal sector, the tax burden is borne by a relatively small number of enterprises, giving informal enterprises an unfair advantage. As a result, formal enterprises may be unable to enter into or expand within a market because they simply cannot compete with the lower business costs of their informal competitors. Albania also performs below par for corruption levels. The country scored 36 in Transparency International's 2018 *Corruption Perceptions Index*, which positioned it as

the 99<sup>th</sup> least corrupt economy out of 180 countries and territories (Transparency International, 2019<sub>[12]</sub>).<sup>3</sup>

Other vulnerabilities include insufficient clarity over land ownership, weak contract enforcement and limited access to finance, especially for SMEs (EC, 2018<sub>[5]</sub>). Entrepreneurial skills remain a very acute issue, further exacerbated by endemic brain drain. In addition, interviews conducted with SME owners for this assessment indicated poor institutional support – further aggravated by the restructuring of the public administration following the parliamentary elections in June 2017. Although this restructuring is perceived to be temporary, it has reduced the capacity of public institutions and created uncertainty for SMEs in interacting with government.

Currently, Albania’s foreign direct investment (FDI) regime is less restrictive than that of the average OECD or EU economy according to the OECD *FDI Regulatory Restrictiveness Index* (OECD, 2017<sub>[13]</sub>). However, it is less open to FDI than all the other Western Balkan economies (OECD, 2016<sub>[14]</sub>). To remove FDI restrictions further, the government plans to adopt a unified investment law by the end of 2018. Among other principles, the new law will further guarantee that the government will not expropriate foreign and domestic investment except in circumstances where it is a last resort, and in line with the principles of international law. The new law also aims to put into place the principles of international investment treaties and encourage and improve investor confidence by creating mechanisms for handling investor grievances to be managed by the Albanian Investment Development Agency (AIDA).

**Table 13.2. Recent business reforms in Albania**

	Reforms making it easier to do business	Reforms making it harder to do business
Doing Business 2019	<b>Enforcing contracts became easier</b> by amending the code of civil procedure to establish a simplified procedure for small claims and introduce time standards for certain court events.	None
Doing Business 2018	<b>Access to credit has been strengthened</b> by amending the Albanian Civil Code and the Law on Securing Charges, and by adopting a new Insolvency Law. It is now possible to grant a security interest over any type of movable property – including tangible and intangible assets – and secured creditors are given absolute priority within insolvency proceedings. <b>The labour market regulations have been amended</b> to reduce the maximum number of hours allowed in a working week and to mandate that women and men be given equal remuneration for work of equal value.	None
Doing Business 2017	<b>Dealing with construction permits became easier</b> by resuming the issuing of building permits and streamlining the process of receiving the final inspection and compliance certificate. <b>Getting electricity became easier</b> by speeding up the process for obtaining a new connection. <b>Paying taxes became easier</b> by introducing an online system for filing and paying taxes.	<b>Trading across borders became more difficult</b> by introducing mandatory scanning inspections for exports and imports, which increased the time and cost for border compliance.

*Note:* Only reforms which had either a positive or a negative impact on conducting business were considered.  
*Source:* World Bank (2018<sub>[15]</sub>), *Business Reforms in Albania*, [www.doingbusiness.org/en/reforms/overview/economy/albania](http://www.doingbusiness.org/en/reforms/overview/economy/albania).

In the World Bank’s *Doing Business 2019*, Albania moved up two places compared to the previous report, and now ranks 63<sup>rd</sup> (World Bank, 2018<sub>[16]</sub>). However it is still lagging behind all the regional economies except Bosnia and Herzegovina. It has made progress

in enhancing access to credit and strengthened its insolvency regime with the new insolvency law that entered into force in May 2017. Albania has also made it easier to get electricity, although its power supply remains notably unreliable, with relatively long electricity blackouts. Table 13.2 summarises the reforms affecting the ease of doing business in Albania.

### *EU accession process*

With the Stabilisation and Association Agreement (SAA), which was signed in June 2006 and entered into force in April 2009, the EU’s co-operation with Albania has intensified. The SAA provides the framework for relations between the EU and Albania for establishing a free trade area, as well as identifying common political and economic objectives. Albania submitted its formal application for EU membership in 2009 and the European Commission recommended granting EU candidate status to Albania in October 2012, subject to completing key measures in the areas of judicial and public administration reform and revising the parliamentary rules of procedures. Albania was granted EU candidate status in June 2014.

February 2018 saw renewed momentum for EU accession among the Western Balkans economies following a statement from the European Commission seeking “a credible enlargement perspective for and enhanced EU engagement with the Western Balkans” (EC, 2018<sup>[17]</sup>). The EC launched its new Western Balkans accession strategy, which details six flagship reform initiatives in the areas of rule of law, security and migration, increased connectivity and neighbourly relations.

In June 2018, the General Affairs Council of the Council of the European Union set out the path towards opening accession negotiations with Albania in June 2019. However, the Council also underlined the critical need for Albania to further consolidate its progress on judicial reform, in particular through the vetting of judges and prosecutors, and to deliver further tangible results in the fight against corruption at all levels and in combatting organised crime.

In the meantime, EU progress reports assess the readiness of Albania to move closer to the EU *acquis*. The findings and recommendations published in the *SME Policy Index: Western Balkans and Turkey* provide monitoring and guidance for Albania to prepare for and meet the further requirements related to Chapter 20, “Enterprise and Industrial Policy” when negotiating its accession into the EU. This chapter aims to strengthen competitiveness, facilitate structural change and encourage a business-friendly environment. Implementation of the ten SBA principles is one of the requirements under the chapter.

According to the latest report in 2018, Albania is assessed as being moderately prepared for a market-based economy, which includes its ability to withstand market forces and competitiveness from the EU and its capacity to implement Chapter 20 (EC, 2018<sup>[18]</sup>). The report calls on Albania to:

- take steps to enhance SMEs’ ability to handle new technologies and business processes
- raise the effectiveness of the implementation of the triple-helix action plan
- speed up the full alignment of its legislation with the late payment directive
- pursue the reduction of the regulatory burden more ambitiously and vigorously address the main business environment challenges in the policy areas concerned.

### *EU financial support*

The EU is the largest provider of financial assistance to Albania. Under the Instrument for Pre-Accession Assistance (IPA) it has allocated a total of EUR 1.24 billion for the period 2007-20 (EC, 2018<sup>[19]</sup>). Since 2009 Albania has also received EUR 135 million from the EU for sector budget support programmes and EUR 359 million in European Investment Bank loans. Following the 2015 floods in Albania, the EU also allocated EUR 14.9 million in disaster relief (EC, 2018<sup>[19]</sup>).

In 2015, Albania joined the EU's Competitiveness for Enterprises and Small and Medium-Sized Enterprises (COSME) programme. COSME aims to make it easier for SMEs to access finance during all phases of their lifecycle – creation, expansion or business transfer. More recently, the European Investment Fund (EIF) and Raiffeisen Bank established a guarantee agreement to support SMEs in Albania via a guarantee facility under the Western Balkans Enterprise Development and Innovation Facility (WB EDIF). The Western Balkans Guarantee Facility agreement aims to facilitate access to finance for Albanian SMEs by providing credit coverage on a EUR 17 million portfolio of SME loans for the period 2017-19 (EIF, 2017<sup>[20]</sup>).

Financial support for SMEs is also provided through raising capital for start-ups and fostering their skills and financial education. This support is offered and co-ordinated through the EIF, the Western Balkans Investment Framework, the European Investment Bank, the European Bank for Reconstruction and Development, and the WB EDIF through various other programmes, including InnovFin (Horizon 2020), the Programme for Employment and Social Innovation, European Structural and Investment Funds, and the SME Instrument.

### *SMEs in the national economy*

Albania's 2002 Law No. 8957 on Small and Medium Enterprises defines SMEs according to their number of employees, annual turnover and balance sheet. In 2008, the definition was amended by Law No.10042 to align it with the EU's definition in terms of employee numbers (Table 13.3).

As in the EU and the other WBT economies, SMEs dominate Albania's economy. In 2016, there were 44 325 SMEs, an increase of 31.5% from the total of 33 686 in 2013, and these SMEs account for 99.7% of all enterprises in Albania (Figure 13.2). They contribute more to employment in the business sector than on average in the EU – 77.5% compared to 66.6% – and create two-thirds of value added in the non-agricultural private sector (56.7% in the EU). Micro enterprises generated the most employment in 2016, although their share of both employment and value added has fallen by 2.2% since the previous assessment. On average, each SME in Albania employs 8.9 people.

Since the last assessment, SMEs' contribution to Albania's total exports has increased significantly, from 41% to 57%. However, more SMEs are involved in importing than in exports. In 2016, 7.4% of SMEs were importers, while only 2.4% were exporters (INSTAT, 2018<sup>[21]</sup>).

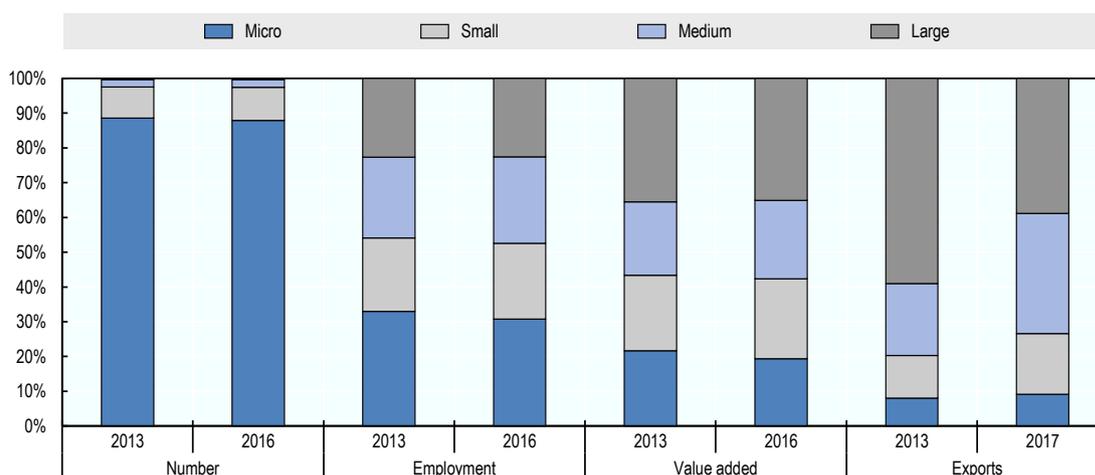
**Table 13.3. Definition of micro, small and medium-sized enterprises in Albania**

	EU definition	Article 4 of the Law No. 8957 on SMEs
Micro	< 10 employees = EUR 2 million turnover or balance sheet	< 10 employees = ALL 10 million (Albanian lek, equivalent to EUR 78 000) turnover and/or balance sheet
Small	< 50 employees = EUR 10 million turnover or balance sheet	< 50 employees = ALL 50 million (EUR 390 000) turnover and/or balance sheet
Medium-sized	250 employees = EUR 50 million turnover = EUR 43 million balance sheet	< 250 employees = ALL 250 million (EUR 1.9 million) turnover and/or balance sheet

*Note:* Albania’s Institute of Statistics (INSTAT) in its reports defines company size based on the number of people employed, which is different from the number of employees. “Employed” means people who work at the enterprise regardless of whether they are paid or not. Thus, employed includes employees, owners and unpaid family members.

*Source:* Republic of Albania (2002<sub>[22]</sub>), *Law No.8957, on Small and Medium Enterprises*.

The share of businesses owned by women in Albania is not known, as the Statistical Agency of Albania does not collect data on this indicator as part of its structural business statistics.

**Figure 13.2. Business demography indicators in Albania (2013 and 2016)**

*Note:* These are estimates for 2016 produced by Albania’s Institute of Statistics using the EU definition of SMEs (Table 13.3). The data cover the non-financial business economy, which includes the Statistical Classification of Economic Activities in the European Community (NACE) sectors of industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries.

*Source:* Albania’s Institute of Statistics (INSTAT).

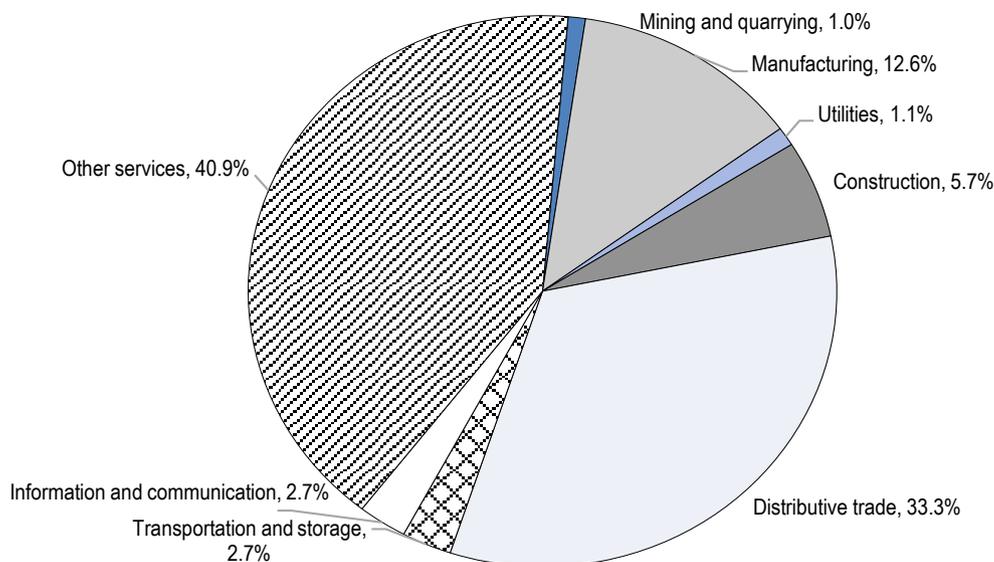
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According to INSTAT’s Structural Survey of Enterprises, investments by SMEs have grown by 86% since 2013 and accounted for 74.9% of total investments in Albania in 2016 (INSTAT, 2018<sub>[21]</sub>).<sup>4</sup> The same survey found SMEs in the mining and quarrying sector achieved the highest apparent productivity per employed person, measured as a

ratio of value added to employment. Meanwhile, the lowest productivity was found among SMEs in the accommodation and food services sector.

The largest share of Albanian SMEs (33.3%) is engaged in the distributive trade sector, followed by manufacturing at 12.6% and construction at 5.7%. The sectoral distribution of SMEs has not changed significantly since 2013. The most notable changes are the 3.3 percentage point increase in the share of SMEs operating in distributive trade, and the 2.4 percentage point decrease in the construction sector.

**Figure 13.3. Sectoral distribution of SMEs in Albania (2016)**



*Note:* Agriculture excluded. The sector classification generally follows the Statistical Classification of Economic Activities in the European Community (NACE) Rev.2 classification of productive economic activities with the following exceptions: “Utilities” represents the sum of “Electricity, gas, steam and air conditioning supply” (D) and “Water supply, sewerage, waste management and remediation activities” (E); “Distributive Trade” covers “Wholesale and retail trade; repair of motor vehicles and motorcycles” (F); and Other Services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.

*Source:* Albania’s Institute of Statistics (INSTAT).

The largest share of Albanian enterprises are located in Tirana (33% in 2017; Table 13.4). However, this share has been falling since 2013 and the number of SMEs continues to grow in other economic hubs, including Berat, Elbasan, Fier, Korçë and Shkodër. According to INSTAT’s Regional Structural Business Statistics, the district of Tirana also made the largest contribution to the growth rate of value added in 2016, increasing by 6.1 percentage points, followed by Durrës and Vlorë districts, with growth of 0.9 percentage points each (INSTAT, 2016<sub>[23]</sub>).<sup>5</sup>

**Table 13.4. Number of registered companies in Albania by enterprise size and district (2013 - 2017)**

District	Year	Enterprise size, by employment				Total	Share of total number of enterprises
		0-9	10-49	50-249	250+		
Berat	2013	4 366	151	27	13	4 557	4.10%
	2017	8 542	170	40	11	8 763	5.39%
Dibër	2013	1 897	145	30	5	2 077	1.87%
	2017	2 702	165	31	8	2 906	1.79%
Durrës	2013	9 989	461	129	22	10 601	9.54%
	2017	12 090	655	190	28	12 963	7.98%
Elbasan	2013	7 096	292	44	10	7 442	6.70%
	2017	12 792	336	58	15	13 201	8.13%
Fier	2013	9 441	308	67	14	9 830	8.84%
	2017	20 331	374	87	26	20 818	12.81%
Gjirokastrë	2013	2 619	159	29	8	2 815	2.53%
	2017	4 634	167	37	9	4 847	2.98%
Korçë	2013	6 430	241	47	10	6 728	6.05%
	2017	13 435	313	50	16	13 814	8.50%
Kukës	2013	945	92	20	5	1 062	0.96%
	2017	1 829	93	18	6	1 946	1.20%
Lezhë	2013	3 011	138	32	8	3 189	2.87%
	2017	5 093	215	31	15	5 354	3.30%
Shkodër	2013	5 600	276	58	13	5 947	5.35%
	2017	11 157	361	68	17	11 603	7.14%
Tirana	2013	44 676	2 113	620	133	47 542	42.77%
	2017	50 254	3 055	809	173	54 291	33.42%
Vlorë	2013	9 008	293	56	7	9 364	8.42%
	2017	11 468	393	74	11	11 946	7.35%
Albania	2013	105 078	4 669	1 159	248	111 154	100.00%
	2017	154 327	6297	1 493	335	162 452	100.00%

Note: These are estimates for 2013 and 2017 produced by INSTAT using Albania's definition of SMEs (Table 13.3).

Source: Albania's Institute of Statistics (INSTAT).

## Assessment and recommendations

### Process

The Small Business Act (SBA) assessment cycle was launched in Albania with a kick-off meeting in Tirana on 17 October 2017. The meeting was organised in co-operation with the Ministry of Finance and Economy, nominated by the European Commission as the SBA Co-ordinator, responsible for implementing the SBA principles.<sup>6</sup>

During the meeting, the new assessment framework (see the Policy Framework and Assessment Process chapter for details) was presented to line ministries and public institutions so they could contribute to the information collection process. The two

documents making up the assessment framework – the questionnaire and statistical data sheet – were explained in depth to the participants, directing particular attention to the newly added questions and indicators.

Following the launch event, the Directorate of Economic Development Policies under the Ministry of Finance and Economy distributed the questionnaire to the appropriate counterparts in the ministries and government agencies, and sent the statistical sheet to the National Statistical Office of Albania. From October 2017 to January 2018, the necessary data and documentation were compiled, subsequent to which the questionnaire was completed. In so doing, a score for each policy dimension was assigned, accompanied by a justification. The completed questionnaires and statistical data sheet were sent to the OECD team on 19 January 2018 for review.

The review of the inputs by the OECD and the partner institutions revealed the need for additional information on certain elements. This was requested from the Directorate of Economic Development Policies (Ministry of Finance and Economy). The updated questionnaire was then revised, and sent back on 28 March 2018.

Meanwhile, an independent assessment was also conducted by the OECD and its partner organisations. This was based on inputs from a team of local experts in Albania who collected data and information, and conducted interviews with key public and civil society stakeholders, as well as with SME representatives.

Following the completion of the government self-assessment and independent assessment, a reconciliation meeting was organised by the OECD and the European Bank for Reconstruction and Development (EBRD) in Tirana on 3 May 2018. The meeting aimed to fill any remaining information gaps in the questionnaire. It was also an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies, and what else can be done across different policy areas to improve SMEs' performance and competitiveness in Albania. For the two policy dimensions whose assessment was led by the ETF (entrepreneurial learning and women's entrepreneurship, and enterprise skills), similar meetings took place in Tirana on 20-22 February 2018.

The reconciliation meeting allowed the assessment findings to be consolidated. The OECD and its partner organisations decided on the final scores under each policy dimension presented in this report. The preliminary findings and scores were subsequently presented to SBA Co-ordinators at a meeting in Paris on 14 July 2018. The draft SME Policy Index publications and the SBA Assessment profile of Albania were made available to the Albanian Government for their review and feedback during August-October 2018.

### *Scoring approach*

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 13.5).

For further details on the SME Policy Index methodology and how the scores are calculated, as well as the changes in the last assessment cycle, please refer to Annex A.

**Table 13.5. Description of score levels**

Level 5	Level 4 plus results of monitoring and evaluation inform policy framework design and implementation
Level 4	Level 3 plus evidence of a concrete record of effective policy implementation.
Level 3	A solid framework, addressing the policy area concerned, is in place and officially adopted.
Level 2	A draft or pilot framework exists, with some signs of government activity to address the policy area concerned.
Level 1	No framework (e.g. law, institution) exists to address the policy topic concerned.

## Entrepreneurial learning and women’s entrepreneurship (Dimension 1)

With a score of 2.94 for entrepreneurial learning and 2.62 for women’s entrepreneurship, Albania performs below the regional average in this policy dimension (Table 13.6). Its performance is hampered by poor co-ordination of its monitoring and evaluation framework.

**Table 13.6. Scores for Dimension 1: Entrepreneurial learning and women’s entrepreneurship**

Dimension	Sub-dimension	Thematic block	Albania	WBT average	
Dimension 1: Entrepreneurial learning and women’s entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	3.33	3.73	
		Implementation	3.47	3.61	
		Monitoring and evaluation	1.00	2.57	
		<b>Weighted average</b>	<b>2.94</b>	<b>3.43</b>	
	Sub-dimension 1.2: Women’s entrepreneurship	Planning and design	3.00	3.57	
		Implementation	2.71	3.16	
		Monitoring and evaluation	1.80	2.37	
		<b>Weighted average</b>	<b>2.62</b>	<b>3.12</b>	
	Albania’s overall score for Dimension 1			<b>2.81</b>	<b>3.31</b>

### *State of play and key developments*

#### *Entrepreneurial learning*

In Albania, the cross-government National Strategy for Development and Integration (NDSI II) 2014-2020 and the Albania Economic Reform Programme (2018-2020) both express the need for an entrepreneurial culture and support for entrepreneurial learning. In addition, the National Employment and Skills Strategy (2014-2020) and Business Investment Development Strategy (2014-2020) both contain a strong commitment to entrepreneurial learning.

Albania has still not developed a joined-up approach involving ministries, agencies and implementing partners in driving lifelong entrepreneurial learning and system-wide change, despite the previous assessment finding that Albania had recognised such an approach was needed. This makes it difficult to implement a coherent, evidence-based approach to formulating entrepreneurial learning policies, comprehensive actions and monitoring.

However, Albania has made some progress in implementing lifelong entrepreneurial learning across all levels, even if it is not yet system wide. These include practical entrepreneurial experiences such as student companies and entrepreneur clubs. In higher education, entrepreneurial learning is implemented through project-based activities that are part of the learning and assessment process. Islands of excellence can be found, primarily in donor-supported institutions and programmes.

Albania’s progress in developing entrepreneurship as a key competence is focused on policy development and competence-based curricula; it has made little progress in implementing concrete changes in its education and training provision. The National Pre-

University Curricula Framework is the primary reference and incorporates entrepreneurship education as one of the key competences in all pre-university programmes. This is detailed in the sub-competences, expressed through learning outcomes. Entrepreneurship key competences fall under competences for life, entrepreneurship and the environment, as well as “basics of entrepreneurship”. In vocational schools, key competences are part of the vocational education and training (VET) curricula in the 12<sup>th</sup> and 13<sup>th</sup> grades. In practice, however, these policy developments have not yet translated into concrete changes and teaching practices across all education and training provision.

The General Professional Standards for Teachers, a document produced by the Institute for Educational Development, includes entrepreneurship as a key competence. Even so, entrepreneurship key competences are not a priority for the government, and other actors (such as Kulturkontakt Austria and Junior Achievement) have been supporting the development of teaching and learning materials as well as teacher training (in some VET schools).

The challenge for Albania is to move from developing policies and tools, and piloting their application, to full implementation of the entrepreneurship key competences across the education system, in all classrooms. The economy’s ongoing long-term educational system reform, begun in 2015, continues to offer opportunities to integrate entrepreneurial learning and entrepreneurship key competences into the education system in a more systematic way so that the changes needed in educational content and outcomes can reach every student.

### *Women’s entrepreneurship*

An advisory group for co-ordinating and monitoring the implementation of the Action Plan for Women Entrepreneurs (2014-2020) was mandated to bring together and co-ordinate women’s entrepreneurship actions among public, private and non-government institutions. In practice, however, the advisory group – which consisted of seven ministries, the Institute of Statistics and the Bank of Albania – has convened only four times and has not met since the lead ministry, the Ministry of Economic Development, Tourism, Trade and Entrepreneurship (Order No. 340, dated 19. 6.2014), was dissolved in September 2017. Therefore, although the action plan included a framework for monitoring women’s entrepreneurship support policies, without an institutional co-ordination mechanism, no monitoring took place. The new Ministry of Finance and Economy has now proposed restarting the co-ordination mechanism and reviewing the action plan.

Actions to support women’s entrepreneurship and to exchange knowledge have continued even in the absence of a formal support mechanism. Four government funds managed by AIDA over the period 2014-17 have benefitted 77 women entrepreneurs through dedicated finance for the creative economy, competitiveness, innovation and start-ups. The Municipality of Tirana has run a dedicated fund to support aspiring women entrepreneurs to prepare business plans, funding 22 women through grants. Its annual events, such as “Women of the Year” and “The Golden Bee”, have been effective at raising the visibility of women entrepreneurs, sharing practical experiences and offering role models. Other provinces and municipalities are less active, however.

### *The way forward for Dimension 1*

- **Establish a joined-up approach to lifelong entrepreneurial learning.** As the previous assessment recognised, Albania has not made a deep commitment to prioritise implementing entrepreneurial learning across all the relevant ministries. A co-ordinating body, under the leadership of the Ministry of Education, Sports and Youth, would help to solidify commitment across ministries. It would also help pull together data for decision making and monitoring purposes as entrepreneurial learning is integrated into various national sector strategies, such as the Strategy for Pre-University Education, the National Strategy for Employment and Skills, and the Business Investment Development Strategy 2014-2020.
- **Undertake further professional development of teachers to implement an entrepreneurship key competence approach.** More work is required to broaden the entrepreneurship key competence approach to include more schools, training centres and university faculties and to make entrepreneurial learning, in addition to broader practical work experience, a priority in education and training provision. To strengthen implementation of this approach, teachers need to be able to develop their students' entrepreneurial learning key competences. Adequate teacher training by institutions such as the Institute for Educational Development will be needed to facilitate this shift in pedagogy and approach to learning. A new competence-based assessment model needs to be adopted as an integral part of both pre- and in-service teacher training at all levels.
- **Restart the Advisory Group on Women Entrepreneurs to increase women's participation in the labour market and reduce the gender gap.** Activate the proposal by the new Ministry of Finance and Economy to bring together seven ministries, as well as the Institute of Statistics and the Bank of Albania, to steer collaboration among stakeholders in supporting the implementation of the Action Plan for Women Entrepreneurs. Monitoring of economic opportunities and actions on women's entrepreneurship should inform the National Economic Council, the Council of Ministers, relevant ministries and implementing partners.
- **Strengthen dialogue with non-government organisations (NGOs) for women's entrepreneurship.** Dialogue and networking among NGOs working on women's entrepreneurship at the grassroots level need to be revitalised. Although good examples of women entrepreneurs are currently being used to motivate others, lessons from their experiences could be unpacked into good practices. These examples could also be used to understand how women's enterprises survive and grow – intelligence that could be disseminated more broadly to identify the obstacles and policy bottlenecks preventing women's broader participation in entrepreneurship.

## Bankruptcy and second chance for SMEs (Dimension 2)

Albania is one of two economies in the WBT (alongside the Republic of North Macedonia) that has regressed on this dimension during the assessment period. Its score has fallen from 3.23 to 2.83 (Figure 13.1) slightly below the regional average of 2.87 (Table 13.7). However, it should be emphasised that a new bankruptcy law entered into force in May 2017 and its implementation is not yet completed, so it will be a number of years before the real impact can be fully assessed.

**Table 13.7. Scores for Dimension 2: Bankruptcy and second chance**

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		2.29	2.39
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	3.67	3.71
		Performance, monitoring and evaluation	2.44	2.46
		<b>Weighted average</b>	<b>3.18</b>	<b>3.21</b>
	Sub-dimension 2.3: Promoting second chance		1.90	1.93
Albania's overall score for Dimension 2			2.83	2.87

### *State of play and key developments*

#### *Preventive measures and bankruptcy procedures*

In October 2016 parliament approved the Law on Bankruptcy which entered into force in May 2017. The rationale behind establishing an entirely new law was to overcome the gaps in the old framework, which was based on German law. The old legal framework was mainly focused on liquidation procedures without extending the law to the other parties involved or offering alternatives such as business reorganisations or debt restructuring.

The new law on bankruptcy largely conforms with international standards. The law specifies that an insolvency proceeding can be initiated for corporations in financial difficulties, with the exception of “public entities subject to administrative law”. The debtor or the creditors can initiate bankruptcy proceedings in writing and in accordance with the requirements set by this law. Contrary to the previous law, the tax authorities no longer have any specific rights to open a case, but are subject to the same rules as other creditors. However, tax claims for one year prior to a filing for bankruptcy are treated as preferential claims.

The Law on Bankruptcy provides two options: 1) adopting a reorganisation plan for the survival of the debtor; and 2) liquidating the debtor or selling the company.

The new regulation offers SMEs the possibility of a reorganisation plan, which needs to be reviewed and voted on by creditors. If such a plan is prepared and submitted to the court, out-of-court procedures can start once they have been approved. If an SME's reorganisation proposal is rejected by the court, then it will be liquidated. However, the law is contradictory when it comes to the protection of creditors. It allows reorganisation plans to be approved by the court even if creditors vote against them. The law sets out the order in which the court considers the plans: first the debtor's plan, then the

administrator's plan and finally the plans submitted by creditors. Consequently, creditors' opinions have only a minor influence in this process because they can be outvoted.

There is also another reorganisation process, called accelerated reorganisation: the legal framework allows enterprises the possibility of overcoming a situation of imminent insolvency if an agreement can be reached between the debtor and its creditors. An enterprise is considered to be in a situation of imminent insolvency when it is foreseeable that it will not be capable of paying its debts within six months or less. However, both procedures have to be validated in court, so they cannot be considered a pre-bankruptcy out-of-court settlement or a fast-track procedure. In order to fill this gap the legislature has prepared a draft by-law "On out-of-court restructuring agreements for financially distressed debtors", which is expected to be adopted in 2019. It is a voluntary procedure, providing a contractual stay on enforcements for 90 days and only binding on the parties that have agreed to it. Further, those creditors that do not agree with the proposed restructuring plan can be overruled by creditors holding 60% of the total debt. Thus, the rights of SMEs, who usually hold the minority debt, are not properly protected. However, the draft regulation is still in development, and this analysis should not be considered conclusive.

In addition, the overall legal framework offers the possibility of mediation, though this remains largely a civil procedure and cannot be directly linked with the reorganisation process. Information from private sector interviews shows that this process is rarely used among entrepreneurs.

Unless a reorganisation plan is submitted within the time frame provided by the law, the court opens liquidation proceedings. Debtors also have the obligation to file for liquidation if they realise that they cannot comply with the reorganisation plan. The first step of liquidation proceedings is to remove the debtor from managing the company. The administrator takes over the assets of the bankrupt estate that should be sold.<sup>7</sup> The bankruptcy court requests the administrator to prepare a plan for the liquidation in accordance with the law. Following the liquidation, the new law classifies the order in which creditors will be paid: 1) claims of preferential creditors; 2) claims of unsecured creditors; 3) claims of subordinated creditors; and 4) claims of the partners for partnerships and the shareholders of commercial companies.

The legal framework also regulates the procedures of restrictions such as creditors' consent when a borrower files for bankruptcy or the fact that secured creditors are to be paid first in case of liquidation. However, the regulations do not cover areas such as the seizure of collateral by secured creditors after reorganisation (see also Section Operational environment for SMEs (Dimension 4)).

Following liquidation, the law does not provide any formal discharge for companies; the legal framework does allow a discharge for natural persons and the process is not automatic. The evidence shows that the discharge process is relatively demanding for debtors. According to Articles 156, 157 and 158, the law provides for a five-year discharge period. Once completed, if discharge is not revoked the bankruptcy is closed. Debtors, however, shall be discharged with respect to any creditors, co-debtors, guarantors or any other persons having claims against them. The discharge of residual obligations (remaining payments) is initiated at the written request of the debtor. Before discharge can be validated, creditors have 20 days to submit any allegations or opposition. If there is no ground for refusal, the bankruptcy court approves the discharge and it is publicly announced in the National Business Centre<sup>8</sup> and the National Bankruptcy Agency. In the case of a refusal, it will be assumed that the debtor gave a

false or incomplete financial statement and will be convicted accordingly of a criminal offence under the criminal code.

The Law on Bankruptcy defines the National Bankruptcy Agency as the competent state authority entrusted with the supervision, training and licensing of bankruptcy administrators (Articles 202-206). The agency monitors the administrators' implementation of the bankruptcy laws and procedures but the information collected is not publicly available and there is no information about the process and outcomes.

Albania has seen the third slowest increase in recovery rates since 2008 in the WBT region, after Turkey and Bosnia and Herzegovina. In 2018 the average recovery rate was 44 cents in the dollar, much less than the OECD average of 68.8 cents. It takes approximately 2 years to complete liquidation proceedings in Albania, compared with the OECD average of 1.8 years. The average cost is 10% of the estate, which is 0.5% more than the OECD average.

When it comes to **preventive measures**, Albania has made no major progress since the last assessment. The economy's early warning infrastructure remains undeveloped. The central bank publishes data from different banks on blocked accounts of entrepreneurs on its website, allowing financially distressed companies to be identified before they file for bankruptcy. However, the system does not currently allow enough time or information for a customised reorganisation. The regulations oblige the central bank to publish data on instances of forced collection procedures, including the names of the legal entities/entrepreneurs, their registration numbers, the blocked accounts and the number of days of uninterrupted account blockage.

Albania's example demonstrates how banks can complement public institutions in assessing companies' financial situations. The system in place was created with the aim of avoiding non-performing loans, thus potentially preventing SMEs from filing for bankruptcy. In that respect, some banks and some private credit registries developed their own mechanisms to assess customers' credit performance, by drawing on information from multiple sources such as tax declaration, social security declaration, and balance sheets. These credit information sources could be co-ordinated under a potential "insolvency register", allowing the government to have an overview of credit performance.

### *Promoting second chance*

Albania has no specific national strategy to promote second chances for entrepreneurs. Following the European Commission's recommendation (EC, 2016<sup>[24]</sup>), providing a second chance to entrepreneurs is one of the priorities of the Business and Investment Development Strategy 2014-2020 (BIDS), which aims to reduce unnecessary procedures. However, there is not yet apparent evidence of the implementation of these measures.

## *The way forward for Dimension 2*

- **Develop a fully fledged early warning system.** SME owners tend to underestimate their financial difficulties and resist taking action to alleviate financial hardship. Therefore, Albania should consider introducing a system which would convince entrepreneurs to initiate recovery measures without delay. While this system might take different forms, the first step should be to devise special detection procedures that would screen SMEs and monitor them for early signs of financial difficulties. Second, these SMEs need to be approached and

offered advice on objectively assessing their financial situation, and the various options available to them for recovery. Once they are better informed, SMEs will be able to take the required steps earlier, thus increasing their chance of survival. Early warning mechanisms established by EU Member States could offer a blueprint for Albania (Box 13.2).

- **Allow the automatic discharge of entrepreneurs after liquidation.** Clear rules on the automatic discharge of debt would allow bankrupt entrepreneurs to efficiently re-integrate as soon as the judicial decision is taken. This will lower the administrative burden on courts, and help to reduce the length and the cost of bankruptcy proceedings. Widening the discharge procedure by not limiting it to natural persons could be a good basis for further developing second chance policies.
- **Introduce short-cut bankruptcy proceedings for SMEs and entrepreneurs.** The Albanian authorities should strongly consider developing a bankruptcy procedure with fewer administrative and financial burdens for SMEs. The current law only provides creditors with votes in proportion to the amount of debt they hold. A secondary rule allowing for majority votes by creditors for smaller bankruptcies should be considered. Such a rule would cover the rights and opinions of the many SME creditors, who together may hold a minority debt, especially for votes on reorganisation plans. Small bankruptcies should not be governed by creditors' committees and their reorganisation plans should not have to meet the current complicated standards for more complex large bankruptcies.
- **Implement and enhance the by-law on out-of-court restructuring agreements for financially distressed debtors.** A pre-bankruptcy out-of-court settlement can accelerate the process of reorganisation by reducing the number of stages that the debtor goes through. The current draft provides a controvertible binding to ordinary bankruptcy proceedings and undermines creditors' rights of proper settlement.
- **Improve and further develop the articles regulating the activities of the Bankruptcy Estate Agency.** The Albanian authorities should consider clarifying the functions of the Independent Regulatory Body under the agency. Thus, it should develop and introduce the National Standards for Management of the Bankruptcy Estate.<sup>9</sup>

#### Box 13.2. Early Warning Europe

The international project Early Warning Europe (EWE) was developed with the objective of promoting SMEs' growth across Europe by assisting them during financially difficult periods. In 2016, Early Warning Europe applied for funding through Europe's Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME) programme and obtained almost EUR 5 million. The first wave of the project ran for three years and focused on setting up a full-scale early warning mechanism in Poland, Italy, Greece and Spain.

The consortium is comprised of 15 partners in 7 countries including mentor partners Early Warning Denmark, TEAM U in Germany, Dyzo in Belgium, authority partners such as the Danish Business Authority, the regional government of Madrid and the Polish Agency for Enterprise Development, as well as EU-level associations such as the,

European Small Business Alliance, Eurochambres and SME United. The Early Warning Europe project is financed by COSME and aims to provide assistance to businesses and entrepreneurs in trouble, as well as those who wish to better anticipate problems. The project builds new best practice and draws on existing experience from these 15 organisations. Currently, five new EU Member States are in the process of joining the EWE community, and several others have expressed their interest. EWE is open to all COSME countries, and the expansion in phases gives access to the early warning mechanisms foreseen in the upcoming EU Directive on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures.

The consortium is composed of three groups of organisations: 1) mentor organisations with substantial experience in providing support to companies in distress; 2) national or regional organisations that intend to implement early warning mechanisms; and 3) organisations that are responsible for supporting the pan-European communication and dissemination activities of the project.

Through EWE, entrepreneurs can receive help from consultants to get a clear overview of the company, identify the areas which are causing problems, and propose further remedial activities. The second step of the restoration process is collaboration with a mentor. Mentors work closely with the entrepreneur providing expertise, knowledge and support to get the enterprise back on the right track. Alternatively, they can guide companies toward a quick, organised closure when this is the best option for the company. This also contributes greatly to the company owner's chances of a second start and reduces the loss for the owner, the creditors and society as a whole.

Independent evaluations show a highly positive impact on society of the Early Warning system in terms of jobs saved and savings for the public treasuries. Evaluations show a general saving of 20% for the public treasuries on company closures under the Early Warning mechanism, a high level of job preservation and significantly better first-year turnover and growth after the Early Warning intervention.

An innovative element of the project is the introduction of artificial intelligence and the processing of big data in detecting early signs of distress in companies. Early Warning Europe has developed a data model that identifies the probability of distress in companies in Poland, Italy, Greece and Spain based on publicly accessible data, allowing the network partners to proactively assist companies that may not otherwise realise their problems before it is too late.

Currently the project has the support of more than 500 mentors. The support provided is impartial, confidential and free-of-charge. In the first wave, EWE provided support to 3 500 companies in distress in Poland, Spain, Italy and Greece. In its second wave (2017-19) the project will support the establishment of early warning mechanisms in five additional EU Member States, with the ultimate goal of establishing early warning mechanisms in all EU Member States.

*Source:* Early Warning Europe (2018<sup>[25]</sup>), Early Warning Europe website, [www.earlywarningeurope.eu/](http://www.earlywarningeurope.eu/).

### Institutional and regulatory framework for SME policy making (Dimension 3)

With a score of 3.55, Albania's performance in this dimension is weaker than in 2016 (Figure 13.1). This is mainly due to slow progress in implementing and particularly monitoring policy actions in the legislative simplification and public-private consultation sub-dimensions (Table 13.8).

**Table 13.8. Scores for Dimension 3: Institutional and regulatory framework for SME policy making**

Dimension	Sub-dimension	Thematic block	Albania	WBT average	
<b>Dimension 3: Institutional and regulatory framework for SME policy making</b>	Sub-dimension 3.1: Institutional framework	Planning and design	4.17	4.06	
		Implementation	4.13	4.06	
		Monitoring and evaluation	4.14	3.92	
		<b>Weighted average</b>	<b>4.15</b>	<b>4.03</b>	
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis	Planning and design	3.24	4.00	
		Implementation	2.76	3.25	
		Monitoring and evaluation	1.51	3.23	
		<b>Weighted average</b>	<b>2.65</b>	<b>3.47</b>	
	Sub-dimension 3.3: Public-private consultations (PPCs)	Frequency and transparency of PPCs	3.44	3.86	
		Private sector involvement in PPCs	4.50	4.26	
		Monitoring and evaluation	2.33	2.73	
		<b>Weighted average</b>	<b>3.64</b>	<b>3.79</b>	
	<b>Albania's overall score for Dimension 3</b>			<b>3.55</b>	<b>3.79</b>

### State of play and key developments

#### *Institutional framework*

As in the previous assessment, the Business Investment Development Strategy 2014-2020 (BIDS) remains the key strategic document in the SME policy area. When the BIDS was adopted, the Ministry of Economic Development, Tourism, Trade and Entrepreneurship was responsible for SME policy design and co-ordination, but since the government restructuring in September 2017, this role has been carried out by the newly established Ministry of Finance and Economy.

The BIDS is complemented by an action plan which clearly outlines measures and allocates a budget to them. It also includes monitoring mechanisms. The implementation of the planned activities was regularly tracked until the government restructuring in September 2017. The last available annual review was published at the end of 2016, covering the period 2014-16. It stated that 72.6% of the planned short-term activities had been carried out (61 out of 84).

AIDA is the main institution in charge of implementing the strategy. It is managed by a board of directors which has both public and private sector members and is chaired by the Prime Minister of Albania.

The informal economy has been recognised as one of the key impediments to doing business in Albania and the government therefore initiated the Fight Against the Grey Economy campaign in September 2015. This campaign gained major institutional support, with the Ministry of Finance, the Ministry of Internal Affairs and the General Prosecutor's Office signing a memorandum of co-operation on the Fight against Evasion and Informality. This inter-institutional approach has been reconfirmed by a series of co-operation agreements signed for this purpose by other relevant ministries.

As part of this campaign, an action plan was adopted in December 2016 aimed at imposing stricter measures against: 1) unregistered businesses; 2) businesses that do not introduce fiscal devices as stipulated by law; and 3) businesses that do not declare their employees and income. Following the adoption of the action plan in January 2017 the General Taxation Directorate established a working group to track its implementation. By also monitoring the number of newly registered businesses, the directorate aims to have a better understanding of to what extent these activities are increasing formality among enterprises. The monitoring report was being prepared at the time of writing.

### *Legislative simplification and regulatory impact analysis*

Legislative simplification is embedded in the BIDS 2014-20 strategy, whose major objectives include improving the business climate, mainly through simplifying business-related legislation. The main measures focus on improving the World Bank *Doing Business* indicators, particularly in areas concerning construction permits, business registration and access to electricity.

A legislative review process has been going on during the assessment period, leading to the elimination of redundant legislation. However, no data could be obtained on how much legislation had been reviewed, simplified or eliminated. The government has made some significant efforts to simplify registration and licencing procedures. It has eliminated fees for all the procedures carried out through the electronic service window of the National Business Centre, which serves as the Albanian one-stop shop (for more information see Section on Operational environment for SMEs (Dimension 4)).

Following unsuccessful attempts during 2009-14, Albania introduced a requirement to conduct regulatory impact analyses (RIAs) for major regulations in 2018. Initially, the government carried out two pilot RIA studies to test the methodology. Based on these pilots, the Council of Ministers formally introduced RIA for the most important legislation through amendments to the Rules of Procedures of Government. Implementation has started and its scope will gradually increase. By the end of 2018, the government conducted 13 RIAs.

### *Public-private consultations*

There is a formal requirement to conduct public-private consultations (PPCs) for all business-related regulations. The ongoing consultations are listed in a single government website, which was launched in December 2016 and is managed by the National Agency for Information Society (NAIS). However, the portal has not been regularly updated and it is left up to each line ministry whether to publish the information on their PPC processes. There are also other portals that publish information on ongoing consultations, such as the National Economic Council's website and the Office of the Prime Minister's website.

PPCs take place regularly, in line with the regulation requirements. Of all the WBT economies, Albania has adopted the fewest laws through an urgent procedure, i.e. without conducting any consultations. In 2016, only 5% of all laws were adopted circumventing PPCs (OECD, 2017<sup>[26]</sup>).

The National Economic Council was created in 2014 as a platform for dialogue between the government and business representatives to discuss legislation and policies relevant to enterprises. Since the last assessment, it has not lived up to expectations. There are no formal records on its activities, such as the number of consultations held or the level of private sector participation. Private sector interviews indicated that its meetings are rather sporadic, and it fails to exert any influence on the SME policy agenda.

A second consultative body – the Investment Council (IC) – was set up as a platform in 2015 by the Council of Ministers with the support of the EBRD. Its main purpose is to intensify the dialogue between the government and the private sector, improve the business climate, and promote good governance through a broad consultation process. The IC is chaired by the Minister of Economy and Finance, and has 15 members (high-level government officials, and representatives from business associations, the private sector and international partners). Between 2015 and 2017, the IC held 12 meetings, discussing deregulation reform, the informal economy, dispute resolution, investment incentives, enforcement of contracts, and tax and customs procedures.

Monitoring and evaluation of PPCs are non-existent in Albania, and statistical data on PPCs are also unavailable.

### *The way forward for Dimension 3*

Overall, Albania has seen a slight deterioration in this policy area – a result of its slow progress in implementing and monitoring its SME policy measures. Moving on, it should address the following points:

- **Enhance the institutional capacity of institutions responsible for SME policies.** Following the government restructuring in 2017, staff should be continuously trained with a view to increasing their competence in understanding enterprises' needs and developing the necessary measures. By making the best use of accumulated institutional memory, the implementation of the BIDS, as well as its monitoring, should continue to advance.
- **Systematically conduct regulatory review and simplification processes in co-operation with businesses.** Business regulation needs to be renewed in close dialogue with the business community to identify the most burdensome areas, and propose simplification measures. Platforms such as the National Economic Council and the IC are currently excluded from these processes, and there is no evidence that private sector views, in particular those of SMEs, are taken into consideration. Denmark could serve as a blueprint for making businesses an integral part of the process (Box 13.3).
- **Ensure regular monitoring of SME policy measures.** Albania should improve its monitoring efforts of SME policy measures in order to ensure their effective implementation and introduce corrective actions if needed. This particularly applies to legislative simplification and public-private consultations. The government needs to make sure that the process of legislative simplification is continuous and systematic, following the annual plan and programme. Data on the proportion of business-related legislation that has been reviewed need to be

collected in a systematic manner. The government also needs to regularly track the outcomes of PPCs in order to check the effectiveness of government actions on building an open government.

### Box 13.3 Denmark’s Business Forum for Better Regulation

The Business Forum for Better Regulation was launched by the Danish Minister for Business and Growth in 2012. The objective of the forum is to ensure the renewal of business regulation in close dialogue with the business community by identifying those areas that businesses perceived as the most burdensome, and proposing simplification measures. These measures might include changing rules, introducing new processes or shortening processing times. The forum’s definition of a burden is a broad one and includes compliance costs and adaptation costs (“one-off” costs related to adapting to new and changed regulation) as well as administrative burdens.

The members of the Business Forum comprise industry and labour organisations, businesses, and experts in regulation simplification. They are invited by the Ministry for Business and Growth either in their personal capacity or to represent an organisation. The forum meets three times a year to decide which proposals to send to the government. So far, its proposals have covered 13 themes, ranging from the employment of foreign workers to barriers to growth. Interested parties can also submit proposals for potential simplifications through the forum’s website. All the information on meetings and the resulting initiatives is available on line.

Proposals from the Business Forum are subject to a “comply or explain” principle, meaning that the government must either implement the proposed initiatives or justify why it has not. As of October 2016, 603 proposals had been sent to the government, of which 191 have been fully implemented so far and 189 partially implemented. The cumulated annual reduction in burden of some initiatives has been estimated at DKK 790 million (Danish crowns, or EUR 106 million). Information on the progress of the implementation of all proposals is available through the forum’s website. The results are updated three times a year. The Business Forum publishes annual reports on its activities, while the Danish Minister for Business and Growth sends annual reports on the activities of the Business Forum to the Danish parliament.

*Sources:* OECD (2017<sup>[27]</sup>), *OECD Best Practice Principles on Stakeholder Engagement in Regulatory Policy*; Business Forum for Better Regulation (2018<sup>[28]</sup>), Business Forum for Better Regulation website, [www.enklerleger.dk](http://www.enklerleger.dk).

- **Enhance the quality of the PPC process.** Currently, not every institution publishes reports on the e-portal on the PPCs it has conducted, or draft regulations that should be subject to consultation. The situation is aggravated further by the proliferation of other websites that also serve as portals but that only publish some ongoing PPCs. Overall, the absence of a central unit to check whether PPCs were conducted on time and whether SMEs’ feedback and concerns were taken into consideration means there are no quality checks on the process. To overcome these issues and increase compliance with the PPC requirements, Albania should consider introducing a central co-ordination unit within the Ministry of Finance and Economy or the Office of the Prime Minister to supervise the use of the single government portal for consultations and act as a quality check and control mechanism for PPCs.

## Operational environment for SMEs (Dimension 4)

Despite its score falling from 4.32 to 3.99 since the last assessment (Figure 13.1), Albania is still the regional leader for the operational environment of SMEs (Table 13.9). Thanks to the strides made in business registration and licensing, as well as delivery of public services, this policy dimension represents Albania’s strongest performance in the whole assessment.

**Table 13.9. Scores for Dimension 4: Operational environment for SMEs**

Dimension	Sub-dimension	Thematic block	Albania	WBT average	
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for enterprises	Planning and design	4.39	4.07	
		Implementation	3.40	3.47	
		Monitoring and evaluation	3.67	2.05	
		<b>Weighted average</b>	<b>3.76</b>	<b>3.29</b>	
	Sub-dimension 4.2: Company registration	Design and implementation	5.00	4.48	
		Performance	3.93	3.72	
		Monitoring and evaluation	4.31	3.59	
		<b>Weighted average</b>	<b>4.51</b>	<b>3.97</b>	
	Sub-dimension 4.3: Business licensing	Licence procedures	4.64	3.67	
		Monitoring and streamlining of licence system	3.72	3.18	
		<b>Weighted average</b>	<b>4.18</b>	<b>3.43</b>	
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores		
		Monitoring and evaluation of SME-specific tax measures			
	<b>Albania’s overall score for Dimension 4</b>			<b>3.99</b>	<b>3.45</b>

*Note:* A new sub-dimension 4.4 on tax compliance procedures for SMEs was added at the request of the assessed economies, to better reflect the complexity of the overall picture of the operational environment for SMEs, however, as it is a pilot analysis this sub-dimension has not been included in the scoring.

### State of play and key developments

#### Digital government services for enterprises

In April 2015, The Council of Ministers adopted the cross-cutting strategy, the Digital Agenda of Albania 2015-2020. The strategy aims to develop Albania’s information and communications technology (ICT) structure, increase Internet penetration and the number of online services, and provide public services through online contact points and one-stop shops. Since then, it has extended the range of services provided and adjusted its legal framework.

The e-Albania website (<https://e-albania.al>) was created in 2013 as a single multifunctional governmental portal for citizens and businesses. During the reference period for this assessment it has substantially enhanced its range of services. It is administered by the NAIS and serves as a one-stop single-entry point where users can access e-services provided by the public institutions.

Since the previous assessment, the government has enhanced the legal framework for electronic public services as part of the Digital Agenda. In October 2017, the Council of Ministers adopted Decision n°495 “On the adoption of rules to benefit from electronic

public services” to give legal validity to the administrative documents generated through the e-Albania portal. As a result, all documents provided by the portal have an electronic seal with an authenticity guarantee. Businesses that need to deliver documents to private institutions can download them directly from the portal, and they come equipped with a digital seal and carry full legal value. In total, 450 000 e-sealed business-related documents have been downloaded within a year.

The e-portal is also connected to an interoperability platform called Government Gateway which links 48 electronic systems from different public institutions. The portal provides a total of 293 e-services to businesses, such as e-tax, e-permits, e-inspections, e-notary, e-cadastre and e-payment (Table 13.10). Around 60% of the application forms for e-services are pre-filled, thanks to the interoperability system, facilitating application processes.

Digital authentication is available for all existing services. Business can log in to e-Albania using their Unique Number of the Entity (NUIS) obtained during the company registration process. In addition, the use of electronic signatures is fully accepted by the administration.

**Table 13.10. An overview of e-services in Albania**

Main e-service type	Overview of related content
<b>Building permits</b>	Online application for building permits, detailed description of the steps of the procedure to be followed, the equipment with the necessary digital tools.
<b>Cadastre</b>	Application for registration, authentication documents, certificates, copies of maps.
<b>Depositing annual balance sheets at the National Business Centre (NBC)</b>	Online submission, information on the electronic balance settlement process.
<b>Various certificates with legal validity</b>	Proof of payment of contributions by the entity, proof of tax liability, Certificate of Investor Registration, proof of payment of obligations, status verification (active, passive including date), turnover certificate for the last 3 years, Registration Certificate, co-ordinated information on any real estate, official property Information for Individuals and Institutions, consultation of the Immovable Property Card, release copy of assets file, release copy of the cadastral map fragment, issuance of ownership attestation.
<b>Licence applications</b>	Over 100 e-services allow online application for a broad range of licenses to the NBC.
<b>Online customs services</b>	Listed services that enable the obtaining of authorisations for customs procedures, accompanied by a detailed procedure on the equipment with the necessary digital means.
<b>Participation in fairs</b>	Businesses can submit a request to the National Tourism Agency to participate in various activities at home or abroad.
<b>Tax</b>	Online filing and payment.

Albania became a member of the Open Government Partnership in 2011 and is finalising the commitments made under the third National Action Plan for Albania for the period 2016-18. The NAIS is currently working on the Open Data Portal project. This platform is intended to serve as an information resource for publishing open government data (OGD) to the public, including businesses, as well as a consultation place for citizens and decision-making institutions. The portal will be connected to the Governmental Interoperability Platform, automatically receiving data from connected institutions.

The NAIS is responsible for monitoring the use of digital services by SMEs. It collects feedback from SMEs and citizens who have benefitted from online government platforms. SMEs can file complaints and suggest changes to e-Albania. Over the years, the information collected on e-services has evolved so as to respond more closely to the needs and expectations of SMEs. However, apart from receiving this online feedback, there is no systematic evaluation of the services' quality or use by enterprises.

### *Business registration and licensing*

Entrepreneurs in Albania are able to register their companies and apply for licences and permits at the National Business Centre (NBC), which became operational in April 2016. It operates as a one-stop shop in 33 municipalities and communes. The process works according to the “silence is consent” principle: if the relevant public body fails to answer a request within a prescribed timeframe as detailed in the relevant legislation, consent to the request is automatically conferred. The NBC operates under the newly established Ministry of Finance and Economy and is the result of a merger of the National Licensing Centre and the National Registration Centre.

The system in Albania has allowed full online company registration since 2016, and the NBC provides information on the relevant processes in both English and Albanian. Newly created entities are assigned an NUIS number which companies use in their interactions with the public administration and the private sector.

These administrative processes make Albania a leading example in the region of the coordination of the different services affecting SMEs' operational environment. It started simplifying registration procedures in 2009 with a reform to consolidate tax, health insurance, and labour registration into a single application. This has allowed Albania to remain the front runner in terms of the time needed to start a business in the WBT region. It takes just five days to register a business in Albania, due to electronic registration, and the elimination of minimum capital requirements and the need for notarised incorporation documents. The average number of procedures needed to register a company has been reduced from 8 in 2008 to 5 in 2018, equalling the OECD average. However, the cost of starting a business remains the second highest in the region after Bosnia and Herzegovina, at 11.3% of income per capita.

The NBC provides entrepreneurs with guidance material and information on the required fees and licensing criteria. There are three categories of licences for businesses (Table 13.11). All permit and licence requests can be submitted on line through the NBC, and once the request is registered, the electronic system checks the documents and digitally assigns an officer responsible for delivering the licence or permit.

Table 13.11. Categories of licences for businesses

Licence group	Process of fulfilment of criteria	Time limit for approval/rejection	Responsible authority
Group 1	Based exclusively on the self-declaration of the applicant.	Two working days from the date of submission of the application.	National Business Centre.
Group 2	Based exclusively on self-declarations and proof documents submitted by the applicant.	Four working days from the date of submission of the application.	National Business Centre.
Group 3	In addition to the requirements of the first and second category, the evaluation of fulfilment of criteria is based on a process of inspection, test, contest, interview, hearing or any other evaluation method.	Same time limit depending on the group for evaluations made by NBC; for the evaluation of other criteria the time limit is determined by the Council of Ministers.	National Business Centre for the criteria which fall under Groups 1 and 2. The responsible authority depending on the competences for the evaluation of other criteria.

*Note:* The time limit is administered under the “silence is consent” principle.

*Source:* Adapted from Law No. 10 081, Republic of Albania (2009<sup>[29]</sup>), *Law on Licences, Authorisations and Permits*, [www.qkr.gov.al/media/1255/1-law-no-10-081-dated-2322009.pdf](http://www.qkr.gov.al/media/1255/1-law-no-10-081-dated-2322009.pdf).

### *Tax compliance procedures for SMEs*

The Ministry of Economy and Finance is in charge of fiscal policy. It conducts evaluations of the tax rates and incentives applied to businesses. These studies and evaluations are part of the fiscal package that accompanies the state budget every year. However, they focus mainly on the budget rather than on the effective tax burden imposed by the tax regime.

Albania does not offer a wide range of tax simplification measures to businesses. SMEs can benefit from only two simplification procedures, regardless of the sector.

For **income tax simplification**, both incorporated and unincorporated SMEs with an annual turnover of up to ALL 8 million (around EUR 60 000) are subject to a presumptive income tax scheme. Those with an annual turnover of ALL 5-8 million pay a 5% income tax rate instead of 15%, while if their annual turnover is below ALL 5 million (around EUR 40 000) they are exempt from paying income tax. Starting from January 2019, the ALL 8 million threshold will be increased to ALL 14 million (around EUR 110 000). The tax is payable on line. Agricultural businesses pay a fixed 5% rate of income tax, regardless of annual turnover.

For **value-added tax (VAT) simplification**, businesses with a turnover of up to ALL 5 million are not obliged to register for or pay VAT. In April 2018, the threshold was reduced to ALL 2 million (EUR 15 600). Business with an annual turnover of between ALL 2 million and ALL 5 million can submit their VAT declarations on a monthly basis. In 2017, to inject stimulus into the tourism sector, the government offered some additional fiscal incentives to enterprises operating in the hospitality sector. The VAT rate for these businesses was reduced from 20% to 6%, and the income tax rate was also lowered to 5%.

Albania has no simplified schemes for calculating VAT liability and businesses are not allowed to use cash accounting for VAT purposes. No simplified schemes for return filing and payment are foreseen in the near future.

### *The way forward for Dimension 4*

- **Continue efforts to improve open government data.** Open government data can not only increase transparency and help reduce corruption, but also carve out new forms of citizen involvement. SMEs' use of OGD remains low, mostly due to the lack of sophisticated analytical tools needed to analyse large datasets. Spain's Aporta initiative offers an example of promoting the reuse of OGD by SMEs (Box 13.4).
- **Regularly monitor and evaluate tax simplification measures.** While tax simplification schemes should reduce tax and compliance burdens for small firms, they should not create tax-induced disincentives for firms to grow. In many countries, presumptive or simplified tax regimes create a lock-in effect in the sense that the change from the simplified to the regular regime results in an overly large increase in the tax burden.

In Albania as in the rest of the region, simplified tax schemes are not regularly evaluated for SMEs' compliance, economic impacts or tax revenue collection. Simplified tax schemes should be regularly monitored and evaluated to gauge whether they reach the targeted group of businesses and are effective in reducing income and VAT compliance costs while at the same time stimulating economic growth.

#### **Box 13.4. Aporta: Adding value to open government data in Spain**

In 2009, the Aporta Initiative was launched by the Spanish Ministry of Industry, Energy and Tourism together with the Ministry of Finance and Public Administration. The aim of the initiative was to create an ecosystem which stimulates the availability and use of OGD among private, academic and public entities, and encourages them to add further value. Aporta manages a portal, <http://datos.gob.es>, launched in 2011, and which allows users to freely access data on the state administration and other regional and local administrations in Spain.

As well as maintaining and updating the portal, Aporta focuses on promoting the use of OGD among private sector companies and citizens to create a positive economic and social impact. For instance, it provides training materials (guides and good practice examples) on open data and their potential reuse. Through organising competitions (the Aporta Challenge) and payments for private sector companies which suggest innovative ideas for the commercial use of OGD, Aporta creates incentives for them to integrate OGD into their businesses. It also organises countrywide meetings to promote the culture of reusing public information. These promotional activities seek to encourage the use of OGD. In parallel, Aporta helps public institutions to openly publish information according to existing EU directives (EC, 2018<sup>[17]</sup>). It also helps them to identify strategies and methods for integrating OGD into their operations. Aporta monitors and publishes use figures for the OGD portal, and has established a forum on its website which allows users to request data relevant for their own purposes. Through this interactive forum, Aporta seeks to create a demand-driven OGD environment in which the data provided are valuable in economic and social terms.

According to the OECD's *OURdata Index*, Spain ranked fourth for government support for data reuse in 2017 (OECD, 2017<sup>[30]</sup>). The most recent report by the Spanish Multisectorial Information Association recorded 636 companies operating in the Spanish infomediary sector in 2016, i.e. companies whose activity is based on the reuse of public

and/or private data. They employ more than 19 000 employees and generate annual returns of over EUR 1.7 billion. The infomediary sector has been expanding since 2015 in both revenues and numbers of employees

Aporta's key success factor is its concentration on creating value that is relevant and valuable for its users. Throughout its activities, Aporta seeks to connect potential beneficiaries of OGD to enhance communication and ensure the provision of data.

*Source:* datos.gob.es (2018<sup>[31]</sup>), *Acerca de la iniciativa Aporta [About the Aporta Initiative]*, <http://datos.gob.es/es/acerca-de-la-iniciativa-aporta>.

## Support services for SMEs (Dimension 5a)

Albania has improved its performance in this dimension since the last assessment, increasing its overall score from 2.65 to 3.61 (Figure 13.1). Its higher overall score reflects improvements made in both sub-dimensions. Despite this progress, Albania still scores slightly below the WBT average of 3.89 (Table 13.12).

**Table 13.12. Scores for Dimension 5a: Support services for SMEs**

Dimension	Sub-dimension	Thematic block	Albania	WBT average	
Dimension 5a: Support services for SMEs	Sub-dimension 5a.1: Business support services provided by the government	Planning and design	3.67	3.84	
		Implementation	2.79	3.68	
		Monitoring and evaluation	2.60	3.19	
		<b>Weighted average</b>	<b>3.01</b>	<b>3.63</b>	
	Sub-dimension 5a.2: Government initiatives to stimulate private business support services	Planning and design	5.00	4.67	
		Implementation	3.43	3.85	
		Monitoring and evaluation	5.00	4.07	
		<b>Weighted average</b>	<b>4.21</b>	<b>4.14</b>	
	<b>Albania's overall score for Dimension 5a</b>			<b>3.61</b>	<b>3.89</b>

### *State of play and key developments*

The Business Investment Development Strategy 2014-2020 (BIDS) is Albania's main strategy document for the provision of business support services (BSSs). It was based on an assessment of the existing situation including the main challenges faced by potential entrepreneurs starting a business. The strategy is accompanied by an action plan with an implementation timeline and measurable targets, for example, training about 2 000 young potential entrepreneurs in how to start a business by the end of the implementation period (2020).

As in the other WBT economies, several public institutions provide financial and non-financial support to SMEs, such as the Regional Economic Development Agency, the Ministry of Finance and Economy, and the National Employment Service. However, AIDA has been the dedicated public institution providing BSSs to SMEs since its establishment in 2010. In 2018, AIDA's overall budget was approximately EUR 2.3 million. While AIDA does provide BSSs to SMEs in the form of general information (e.g. on relevant legislation for starting a business, how to develop a business plan, and what financial and non-financial BSSs are available), it does not deliver training or mentoring services to SMEs directly. On its website, AIDA provides a link to the Bpifrance university e-learning portal and provides co-financing schemes (called "funds") with specific objectives and target groups.

In 2018, AIDA offered four funds: 1) the Competitiveness Fund; 2) the Fund for Supporting Start-up Enterprises; 3) the Creative Economy Fund; and 4) the Innovation Fund. Each fund has clearly defined eligibility criteria, a co-financing mechanism and payment methods. For example, an SME accepted by the Fund for Supporting Start-up Enterprises, which had a budget of ALL 10 million (around EUR 78 000) at its disposal in 2018, can be co-financed for up to 70% of admissible costs up to ALL 500 000 (around

EUR 3 900). Admissible costs include: 1) investment in equipment and technology for the promotion of a product/service; 2) marketing of products and promotion; 3) qualifications and training to enhance entrepreneurship skills; 4) web page design and the publication of promotional material; and 5) attendance at trade fairs or exhibitions in Albania or abroad as a visitor or exhibitor. An SME accepted by the fund receives co-financing of 50% of the project costs when its project is approved and 50% upon completion of the project against invoices for expenses.

SMEs' uptake of AIDA's BSSs has been relatively low. In 2017, only 1.2% of all SMEs in Albania used a BSS provided by AIDA. In comparison, 18.6% of SMEs in Turkey used a publicly funded BSS in 2017, and 3.7% of SMEs did so in the other five Western Balkan economies on average. The Independent evaluation and private sector interviews revealed that SMEs perceive the application procedures for AIDA's funds to be cumbersome, and the low levels of financial support further deters them from making the effort to apply. SMEs that do apply for the funds are required to visit AIDA, which only has one office, located in Tirana (Memi and Shkodrani, 2017<sup>[32]</sup>). This can be an obstacle for SMEs in other regions and explain their reluctance to apply for AIDA's BSS.

AIDA monitors the implementation of its co-financing schemes and reports to the Ministry of Finance and Economy. In contrast to the last SBA assessment in 2016, AIDA has also started requesting feedback on its schemes from beneficiaries. However, unlike the other leading BSS-providing institutions in the WBT economies, AIDA's monitoring reports are not publicly available. In 2017, AIDA benefitted from an independent in-depth evaluation of its co-financing schemes (Box 13.5).

#### **Box 13.5. The independent evaluation of AIDA's co-financing support funds**

In 2017, independent experts conducted a technical evaluation of all co-financing support mechanisms for SMEs operated between 2013 and 2017. The report's development was supported by the German development agency *Gesellschaft für Internationale Zusammenarbeit* (GIZ).

The 70-page document includes quantitative data on the uptake of each funding scheme (number of applicants and number of beneficiaries) and evaluates the funds' administration based on two sources of qualitative information – interviews with staff from AIDA and the Ministry of Finance and Economy who had been involved in the funds' management, and interviews with applicants and beneficiaries of the funds – as well as a questionnaire distributed to 50 SMEs.

Based on the findings and international good practice examples, the evaluation provides general recommendations for all funds offered by AIDA. It also describes the strengths and weaknesses of each fund, and makes recommendations to address them.

Overall, the report argues for stronger co-ordination and consolidation of the BSSs offered by the various institutions, such as AIDA, the Regional Economic Development Agency, the Ministry of Finance and Economy, and the National Employment Service. In order to avoid overlapping services and to use scarce resources more effectively, it proposes co-ordination of BSSs by these public institutions as the main way forward.

*Source:* Memi and Shkodrani (2017<sup>[32]</sup>), *Evaluation and Analysis of Government Support Funds for MSME Operated by AIDA*.

### *The way forward for Dimension 5a*

Despite Albania's improvement in the provision of BSSs, challenges remain. These could be resolved through the following steps:

- **Simplify the procedures for applying for BSSs and increase their attractiveness.** Given that two-thirds of Albanian SMEs were not located in Tirana in 2017, AIDA might consider, first, fully digitalising its application process, and, second, collaborating with local institutions, such as municipalities or chambers of commerce. Such collaboration could also be used to promote AIDA's funds, which might also improve uptake. Establishing an electronic information exchange system between AIDA and other relevant state bodies, such as the NBC and the Tax Office, would free SMEs from spending their limited resources on acquiring the application documents they need individually. The budget and support limit per beneficiary should be also increased to attract greater interest by SMEs. The upper support limit under the Start-up Fund was increased from ALL 300 000 (approximately EUR 2 200) to ALL 500 000 (approximately EUR 3 900) between 2017 and 2018. However, the upper support limits for the Innovation Fund and the Creative Economy Fund remained unchanged, at ALL 400 000 (approximately EUR 3 100) and ALL 500 000 respectively.
- **Complement co-financing schemes with free BSSs.** While AIDA offers co-financing schemes to SMEs, it does not provide training or mentorships directly. BSSs provided by public institutions are an important instrument for ensuring SMEs have access to crucial information, advice, training and mentoring. Although offering co-financed BSSs helps to stimulate BSS provision through the private sector, relying exclusively on them risks moving services out of reach of micro and small enterprises, which are generally unable to afford private consultancy fees, even if co-financed. In order to address the low uptake of its services, AIDA should complement its co-financing schemes with free training and advisory services directly provided by its staff.
- **Conduct regular training needs analyses (TNAs)** to better develop and adapt BSSs to SMEs' actual skills needs. While Albania's National Employment Service conducted a wider employers' survey in 2017, no comprehensive TNA was carried out among SMEs during the current assessment period. Regular TNAs would help to fill the gaps in BSS provision, better target the support provided and create more effective services. In particular, it would help to tailor the BSSs on offer to the needs of micro and SMEs, their sector, their stage of development, and their actual experience in the market.
- **Introduce a quality assurance mechanism, such as an accreditation system, for private sector consultants and trainers delivering co-financed support.** SMEs in Albania can currently freely choose the private sector consultants or trainers they use under a co-financed programme. AIDA should consider introducing an accreditation system to make sure that private sector providers have a minimum level of experience and qualifications. It could then limit SME co-financing support to accredited private sector consultants and trainers. This would guarantee the quality of services delivered and encourage SMEs to seek the benefits from privately delivered BSSs more enthusiastically, while also having a positive impact on SMEs' growth.

## Public procurement (Dimension 5b)

Albania received an overall score of 3.69 for this dimension (Table 13.13), the fourth best score in the region, but worse than in 2016 (Figure 13.1).

**Table 13.13. Scores for Dimension 5b: Public procurement**

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 5b: Public procurement	Sub-dimension 5b.1: Public procurement	Policy and regulatory framework	3.51	3.92
		Implementation	4.28	4.05
		Monitoring and evaluation	2.50	3.24
Albania's overall score for Dimension 5b			<b>3.69</b>	<b>3.84</b>

### *State of play and key developments*

The basic act regulating public procurement in Albania is Law No. 9643/2006 on Public Procurement (PPL). The basic principles referred to by the PPL are non-discrimination and equal treatment of bidders, transparency of procurement procedures, and equal treatment in the requirements and obligations of bidders or candidates. The PPL was last amended in 2017, strengthening the independence and impartiality of institutions responsible for reviewing appeals submitted by economic operators. The amended law states that members of the independent review body – the Public Procurement Commission – are to be nominated by and accountable to parliament. Albania has yet to implement the provisions of the 2014 EU public procurement directives.

The main strategic document on public procurement is the Strategy of Management and Public Finance 2014-2020; however, it does not provide any specific actions for the participation of SMEs in public procurement.

Neither the PPL nor its implementing regulations provide for preferential (privileged) treatment of domestic economic operators over foreign companies. Access to public procurement is therefore open to foreign companies, regardless of where they are based, on equal terms to domestic companies. The public procurement provisions do contain the typical kinds of solutions which can be useful for SMEs. For instance, tenders or requests for participation in public procurement procedures may be submitted by groups of economic operators (consortia), not just by individual suppliers. However, in order to submit a tender or a request to participate, the contracting authorities require groups of economic operators to assume a specific legal form. A consortium must be officially established by means of a notarised declaration by the participating operators, stating the size and nature of each of their contributions.

The PPL states explicitly that the qualification requirements for procurement should be drawn up in a manner that encourages the participation of SMEs and in compliance with public procurement rules. The PPL also allows the contracting authorities to divide public procurement contracts into smaller parts (lots). The implementing regulations particularly encourage the use of lots in order to increase the participation of SMEs. Contracting authorities are not allowed to establish criteria, requirements or procedures for the qualification of economic operators that would discriminate against or among suppliers or contractors or against their categories. The requirements for bidders must be related and proportionate to the object and the value of procurement. Economic operators are in principle allowed to subcontract part of a contract they were awarded to other economic

operators. According to the implementing regulations, contracting authorities should allow subcontracting particularly to promote the participation of SMEs. However, the procurement provisions require the subcontracted part of the contract to be proportionate to the value of the contract and not exceed 40% of the overall contract value – a limitation that does not comply with the EU *acquis*. The implementing regulations require all procurement procedures to be conducted electronically, except for negotiations without prior publication, contracts with a value lower than ALL 100 000 (approximately EUR 800), the second phase of design contests, consultancy procedures and the purchase of electrical power.

The PPL enables economic operators to challenge any contracting authorities' decisions that are contrary to the public procurement regulations. Any person having or having had an interest in a procurement procedure, and who has been or risks being harmed by a decision made by a contracting authority which infringes the PPL, may challenge such a decision. Appeals are submitted first to the relevant contracting authorities. The time limit for submitting an appeal is seven days, which is shorter than the time period required by the relevant EU rules.

The central administrative body for public procurement matters is the Public Procurement Agency (PPA). Its tasks include preparing draft implementing regulations related to public procurement, promoting and organising the training of public procurement officials, issuing the Public Notifications Bulletin containing public procurement notices, preparing standard tender documents to be used in awarding procedures, providing advice and technical assistance to contracting authorities as requested, and monitoring the application of public procurement provisions. Every year, the PPA prepares an annual report to the Council of Ministers on the overall functioning of the public procurement system in Albania.

The PPA portal is an important source of high-quality information for contracting authorities, economic operators and other stakeholders and includes legislative acts, standard tender documentation, manuals, training materials and annual reports. Although the PPA's annual reports provide statistical information on the functioning of the public procurement system, they do not contain information about the share of SMEs in awarded public procurement contracts. Apparently, the PPA does not collect and analyse information about the obstacles encountered by SMEs in access to public procurement contracts. The PPA does not offer economic operators training in public procurement.

### *The way forward for Dimension 5b*

Albania has established a solid institutional and regulatory framework for public procurement. However, there is room for further improvement in the institutional support for SMEs and in monitoring the application of public procurement rules. Albania should consider placing more emphasis on the following points:

- **Further align national legislation with EU rules and international good practice.** In particular:
  - remove restrictions on subcontracting, such as the maximum share of a procurement contract which may be subcontracted
  - remove obstacles to joint bidding, such as requiring suppliers who want to submit a joint tender to adopt a specific legal form
  - adjust the time periods for appeals to meet the requirements of EU directives.

- **Improve the monitoring and evaluation of SMEs' participation** in public procurement by collecting and meaningfully analysing statistical information including the share of contracts awarded to SMEs, the percentage of procedures in which procurement was divided into lots, and the share of procurement procedures in which groups of economic operators were participating.
- **Constantly monitor and analyse the obstacles faced by SMEs in accessing public procurement markets.** The PPA should proactively approach SMEs, through questionnaires or targeted events, in order to better grasp the difficulties they face in applying the public procurement law. This would allow the PPA to identify any problematic provisions, and to develop the necessary measures to increase SME participation in public procurement tenders.

## Access to finance for SMEs (Dimension 6)

The access to finance score for Albania has only marginally improved since the last assessment – from 3.26 to 3.32 (Table 13.14; see also Figure 13.1). This reflects the very few changes it has made to its policies to facilitate SMEs’ access to finance. There have been some improvements in the legal and regulatory framework to support bank lending, but performance in other areas remains largely unchanged, and the high level of informality among micro and small businesses is still a key challenge in this area.

**Table 13.14. Scores for Dimension 6: Access to finance for SMEs**

Dimension	Sub-dimension	Thematic block	Albania	WBT average	
Dimension 6: Access to finance for SMEs	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	4.44	4.20	
		Registers	4.42	4.58	
		Credit information bureaus	4.43	4.55	
		Banking regulations	3.50	3.79	
		Stock market	1.31	2.93	
		<b>Weighted average</b>	<b>3.86</b>	<b>4.14</b>	
	Sub-dimension 6.2: Bank financing	Banking lending practices and conditions	2.48	2.92	
		Credit guarantee schemes	2.48	2.30	
		<b>Weighted average</b>	<b>2.48</b>	<b>2.67</b>	
	Sub-dimension 6.3: Non-bank financing	Microfinance institutions	4.83	3.57	
		Leasing	2.46	2.84	
		Factoring	2.63	2.45	
		<b>Weighted average</b>	<b>3.31</b>	<b>2.95</b>	
	Sub-dimension 6.4: Venture capital ecosystem	Legal framework	1.67	2.32	
		Design and implementation of government activities	1.57	2.48	
		Monitoring and evaluation	1.00	1.48	
		<b>Weighted average</b>	<b>1.49</b>	<b>2.22</b>	
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	2.26	2.44	
		Monitoring and evaluation	1.00	1.19	
		<b>Weighted average</b>	<b>2.01</b>	<b>2.19</b>	
	<b>Albania's overall score for Dimension 6</b>			<b>3.32</b>	<b>3.53</b>

### State of play and key developments

#### *Legal and regulatory framework*

The legal framework for secured transactions has been reformed to allow secured creditors to be paid first in insolvency proceedings. This strengthens secured creditor rights and may encourage banks to increase lending. Despite an adequate legal framework, enforcement remains difficult in practice. In June 2017, the banks ceased to work with bailiffs, claiming high charges and poor service. New regulation to resolve these issues is being drafted, but has not yet been passed.

Albania has a cadastre system in place which is accessible to the public. However, it is still not fully available on line, reducing its ease of use and reliability, which is a major concern for investors and financial institutions. The register is not unified, but organised by regions, with different offices applying different standards. The information may also

not be up to date, not least due to illegal construction activities. This makes even the registration of immovable assets unreliable. Albania also now has a publicly accessible register for security rights over movable assets, which is a positive development since the last assessment. However, these records are not available on line and the system is heavily reliant on paper documents, which limits access and often results in movable assets not being accepted as collateral.

A public credit registry exists and coverage has increased substantially since the last assessment: more than half of the population is covered, compared to around 16% in 2015. This is mainly due to the Bank of Albania adding reporting by many non-bank financial institutions. However, given that public registries usually do not collect information beyond financial institutions, there is limited scope to increase coverage further by collecting information from other sources such as retailers or utilities, without the establishment of a private credit bureau. To allow for broader coverage and full credit scoring, the Albanian Association of Banks has initiated a project to set up such a credit bureau, though this is in its early stages.

The implementation of Basel III has not yet started. To protect unhedged borrowers, banks are required to disclose the risks of foreign exchange borrowing to their clients.

*Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)*

Lending to the private sector remains lower than in Albania's regional peers, with domestic credit to the private sector standing at about 35% of GDP. About 42% of lending went to SMEs, compared to an average of 48% in the region. A historically low central bank rate of 1% has pushed interest rates down. Even though it has the highest non-performing loan (NPL) ratio in the Western Balkans, Albania has made major progress with non-performing loans, which fell from over 20% of total loans in August 2016 to 13.7% in February 2018. This decline is largely attributed to mandatory write-offs and the Bank of Albania's proactive approach to resolving large borrowers' NPLs as part of an action plan for NPL resolution. On the other hand, NPL sales have been limited due to low expected recovery rates and tax impediments. Overall, this development is an important step towards a healthier lending environment. Nevertheless, the loan-to-deposit ratio remains very low compared to other Western Balkan economies. Given that many NPLs were caused by larger companies, there is some interest in lending to SMEs. However, a new provision which requires banks to base their loan appraisals on official tax records may make it more difficult for many small businesses to get adequate financing. High levels of informality in the economy already contribute to the inaccessibility of finance for many small businesses.

The Bank of Albania has stepped up efforts to promote local currency lending which has resulted in fewer loans being denominated in foreign currencies. In order to protect consumers, banks have to disclose foreign exchange risks and explain them with the help of illustrations and examples. Even so, just over half of new loans to private non-financial corporates in 2017 were denominated in a foreign currency.

There are support programmes to facilitate access to finance for SMEs, such as the EBRD's Albania Agribusiness Support Facility, funded by the Government of Albania; the Albanian-Italian Programme for the Development of Albanian SMEs; and the European Fund for Southeast Europe. However, their scope remains limited and take up has sometimes been low. In addition, as described in Section Operational environment for

SMEs (Dimension 4), the Ministry of Finance and Economy has four targeted funds implemented through AIDA which are effectively grant programmes.

Non-bank finance remains very limited. Microcredit, leasing and factoring are available and backed by well-developed legal frameworks, but penetration is low. Microcredit, including from 13 savings and loan associations, is by far the most common type of financing, accounting for two-thirds of all loans by non-bank financial institutions. Financial leasing institutions are next, accounting for less than 30%, while factoring contributes a marginal share. Although leasing and factoring volumes have increased in recent years, these instruments remain underused. Contributing factors appear to be a low level of awareness and understanding. Combined with the lack of any systematic approach to financial education (see Financial literacy, below), there is a clear lack of information about the different financing options available to entrepreneurs.

Albania has no operational stock exchange. A new platform called ALSE has recently been created and will start by trading government debt, meaning that a move to trading other assets is still some time away.

Venture capital remains practically non-existent in Albania, explaining the very low score of 1.49 in this sub-dimension. Significant efforts are needed to establish a functioning ecosystem. The BIDS envisages the setting up of venture capital and business angel schemes, but no actions have been taken to date. Start-ups find it very difficult to obtain financing, although AIDA has a start-up fund which was increased to ALL 10 million (EUR 78 000) in 2018 (see Section 0). The eligibility criteria have been changed to grant access to this fund by firms that have been in existence for under a year.

### *Financial literacy*

Low levels of financial literacy, particularly amongst SMEs, remain a major obstacle to accessing finance. Albania scores particularly poorly in the Standard & Poor's financial literacy survey.<sup>10</sup> Less than 14% of the adult population is deemed to be financially literate according to this survey, compared to an average of 27.5% in the region. As mentioned above, it is very difficult for small firms to obtain information about financing or training opportunities as no centralised platform exists.

### *The way forward for Dimension 6*

Small businesses still struggle to access financing in a context of negative credit growth and a lack of knowledge about and availability of alternative instruments. High levels of informality exacerbate this problem. Despite some progress, further efforts are needed to facilitate SME financing:

- **Increase efforts to reduce informality among micro, small and medium-sized enterprises**, which is considered a key obstacle for SME access to finance. Measures could include reforming the tax regime and strengthening enforcement procedures, or introducing cash registries to automatically recognise trade activities. Other activities should include raising awareness about the importance of financial transparency and accounting amongst businesses, and improving the level of financial literacy among business owners and managers.
- **Increase awareness of alternative financial instruments to increase the uptake of non-bank financing.** This could be done through a central information platform (for example on line) that is easily accessible and has clear guidance on different aspects of access to finance. Such a platform could also be used as a first

point of call for financial education, guiding business owners and managers towards financing and training opportunities.

- **Improve the reliability and accessibility of registers for securities over immovable and movable assets.** Systems should be easily accessible to users and ensure records are up to date and reliable to encourage lending against such collateral.
- **Broaden the available credit information.** Including information from retailers and utility companies could help small businesses build a credit history to ease their access to finance. This could be done by encouraging the establishment of a private bureau.

## Standards and technical regulations (Dimension 7)

Since the last assessment, Albania's overall score has increased from 3.35 to 3.64 for this dimension (Figure 13.1), the largest improvement of all the WBT economies. However, it still scores slightly below the regional average of 3.83 (Table 13.15). Although it has made significant improvements in accreditation and market surveillance, Albania is only moderately prepared in the area of the free movement of goods.

**Table 13.15. Scores for Dimension 7: Standards and technical regulations**

Dimension	Sub-dimension	Thematic block	Albania	WBT average	
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures	-	2.75	3.12	
	Sub-dimension 7.2: Harmonisation with the EU <i>acquis</i>	Technical regulations	3.53	3.87	
		Standardisation	4.25	3.97	
		Accreditation	4.15	4.53	
		Conformity assessment	3.53	3.65	
		Metrology	4.33	4.47	
		Market surveillance	4.20	4.43	
		<b>Weighted average</b>	<b>4.00</b>	<b>4.15</b>	
	Sub-dimension 7.3: SME access to standardisation	Awareness raising and information	4.25	4.24	
		SMEs participation in developing standards	2.50	2.57	
		Financial support to SMEs	1.80	2.39	
		<b>Weighted average</b>	<b>2.85</b>	<b>3.07</b>	
	Albania's overall score for Dimension 7			<b>3.64</b>	<b>3.83</b>

### State of play and key developments

#### *Overall co-ordination and general measures*

The Internal Market Division of the Ministry of Finance and Economy is in charge of the overall policy co-ordination for quality infrastructure. However, its co-ordinating role excludes market surveillance activities and the heavy industry sector, which prevents the holistic co-ordination of its “pillars”. The National Plan for European Integration 2017-2020 is the overarching policy document for harmonisation with the EU *acquis* and, together with the 2020 Strategy on Consumer Protection and Market Surveillance, guides the process of transposing the *acquis* in the area of quality infrastructure.

Albania is yet to establish a single point of contact for exporters or introduce a designated portal to provide SMEs with the relevant information needed for exporting to the EU Single Market. As a consequence, SMEs currently have to gather the relevant information from various ministries and government agencies.

#### *Harmonisation with the EU acquis*

Albania has the horizontal legislation and the relevant administrative structures in place to cover technical regulations, standardisation, accreditation, conformity assessment, metrology and market surveillance.

The transposition of EU sectoral legislation is still under development, but Albania has adopted a methodology to identify the highest-risk products that should be the priority for

transposition. Following this approach, which also takes business requirements and inputs from the market surveillance inspectorate into account, Albania transposed the regulation for elevators in 2017 and plans to transpose the legislation on electrical appliances in the last quarter of 2018.

Significant progress has been made in transposing European standards into national standards. As of September 2018, Albania had adopted 98% of European standards. The General Directorate of Standardisation (DPS) adopted 2 839 standards in 2017: 2 146 European standards and 693 other standards from the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC). However, in most cases the transposition is done using the “cover page” method, where only the cover page is translated into Albanian, which makes it difficult for SMEs to easily grasp the content of the standards. Only the Eurocodes have been adopted by translating them into Albanian.<sup>11</sup> In June 2018, Albania fully transposed EU Regulation No. 1025/2012 on European Standardization, thereby meeting the target set by the National Plan for European Integration 2017-2020.

The DPS is operational and adequately staffed. It is a full member of the European Telecommunications Standards Institute, an affiliate member of the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC). The DPS has also conducted a needs assessment to participate fully in the EU standards system and plans to apply for full membership of CEN/CENELEC by the end of 2020. It is a correspondent member of the ISO and an associate member of the IEC. Sales of standards have increased by 42%, from 500 in 2016 to 713 in 2017, but revenues from these sales go directly to the state budget. This weakens any incentive for the DPS to further increase sales of standards, or to increase revenues from other publications, training and other services.

Albania’s legislation on the accreditation of conformity assessment bodies (CABs) is in line with the relevant provisions of Regulation (EC) No. 765/2008, which sets out the requirements for accreditation. Moreover, it has already adopted all secondary acts in the field of accreditation. Currently, there are 69 accredited CABs in total (47 laboratories, 15 inspection bodies and 7 certification bodies), up from 46 in 2016. SMEs can easily find CABs through an online register on the website of the General Directorate of Accreditation (DPA), Albania’s national accreditation body, but a lack of local CABs means SMEs need to look abroad for conformity assessments for electrical appliances and food sectors. The DPA is supporting laboratories to extend the scope of their activities, which is also reflected in the steadily increasing number of accredited CABs.

The DPA is a full member of the European co-operation for Accreditation (EA) and was assessed positively in its peer evaluation in 2017. The EA Multilateral Agreement (EA MLA) signed by the DPA covers only testing (excluding medical laboratories), inspection and management system certification laboratories. In comparison, the EA MLAs for Turkey and Serbia cover seven and six scopes of accreditation respectively. The DPA is a full member of the International Laboratory Accreditation Cooperation (ILAC), an ILAC Mutual Recognition Agreement signatory and a member of the International Accreditation Forum. While the DPA is operational, it is not adequately staffed, with 14 employees and 60 external auditors and technical experts. Albania has allocated more funds to hire additional auditors and technical experts to handle the growing number of applications from CABs.

In the field of metrology, Albania’s legislation is yet to be fully aligned. However, it has made progress since the previous assessment, transposing the Measuring Instruments

Directive 2014/32/EU in 2017. With 100 employees, the Albanian Metrology Institute is adequately staffed and operational. It is an associate member of the European Cooperation in Legal Metrology, a member of the European Association of National Metrology Institutes and of the International Organisation of Legal Metrology and an associate member of the International Bureau of Weights and Measures.

Since the last assessment, Albania has made progress by further strengthening its market surveillance. To overcome the challenge of overlapping competences (in secondary legislation and in practice) among the National Food Authority, Agricultural Directorate, Public Health Directorate, State Health Inspectorate and local government agencies, it established the State Inspectorate for Market Surveillance in 2016. Since then, a number of market surveillance activities have been merged. The inspectorate is operational and has clearly defined competences and tasks. A needs assessment in 2017 revealed the need to recruit specialised staff, and its budget has been amended accordingly to increase the number of employees from 60 to 90. In 2017, it carried out more than 400 inspections and around 700 products were withdrawn from the market. It now also has standard operating procedures for market surveillance inspectors and a methodology in place for the classification of risks and serious risk assessment.

#### *SME access to standardisation*

Albania seeks to raise awareness about the importance of standards, in particular by publishing quarterly bulletins that provide information on the adoption of new standards and on amendments to the existing ones. The bulletins are published on the DPS website and disseminated by e-mail and through the Chamber of Commerce. The DPS also publishes annual catalogues of Albanian standards, and distributes them in both paper and compact disc versions. According to its 2017 annual report, it also published 26 different promotional materials. However, it does not provide practical guides on the implementation of standards and has not prepared any case studies on the benefits of standards.

Although the Chamber of Commerce and Industry of Tirana and AIDA have organised several awareness-raising events in the past, the DPS did not play an active role in them. In 2017, it organised one event at the University of Tirana to raise awareness about standards. Training events on implementing standards are also infrequent and irregular, mainly due to limited budgets.

Albania has not introduced any financial measures to help SMEs to buy standards or reduce the cost of their participation in standardisation. SMEs and other stakeholders that are involved in the work of Technical Committees do benefit from a 50% discount on acquiring standards and participation in the work of the committees remains free. The Competitiveness Fund run by AIDA supports SMEs exporting their products to foreign markets by reimbursing up to 70% of their costs related to product certification, conformity assessment and the introduction of quality management systems. However, SMEs can be deterred from applying by perceptions of the cumbersome requirement to demonstrate their ability to finance the entire project costs.

#### *The way forward for Dimension 7*

Despite Albania's progress in transposing EU standards and strengthening its institutional quality infrastructure capacity, several remaining challenges can be addressed through the following steps:

- **Increase the EA MLA’s coverage** to facilitate SME access to export markets and to strengthen the competitiveness of their exports. The EA MLA provides confidence that national accreditation is harmonised and consistent with the accreditation procedures in the European Union. This makes exporting and access to new markets easier and less expensive for SMEs because having once been tested or certified by an EA MLA-accredited body, there should be no need to retest or recertify their products. Currently, Albania only has EA MLA coverage for testing, inspection and management system certification laboratories. As a result, SMEs that undergo conformity assessment from CABs for calibration, certification of (both) products and persons, or medical laboratories, may not be accepted in the EU Single Market and other export markets. The DPA should therefore aim to expand the EA MLA coverage and ensure it has adequate capacity for the ensuing peer evaluation process.
- **Seek additional channels to raise awareness of the benefits of standards among SMEs.** Currently, the DPS’s activities to raise awareness of standards are limited to publishing quarterly bulletins and various promotional materials. Although it strives to disseminate its publications to SMEs through a variety of channels, SMEs are often not interested. The DPS needs to take more proactive measures to reach out to SMEs. It could develop sets of standards relevant for particular sectors or disciplines and present them to SMEs at events of interest to their sector. The start-up packages used by Austrian Standards International (ASI) are a good example of how to raise awareness of the benefits of standards among particular segments of the SME population (Box 13.6). Moreover, the ASI’s co-operation with start-up networks shows the positive results of creating standards-related communities.

#### **Box 13.6. Austrian Standards International’s start-up packages**

Austrian Standards International (ASI), the national standards body of Austria, co-operates with three start-up networks in the country: weXelerate, Austrian Startups and Start-up Live. Building on the ASI’s customised start-up package, this platform helps to make start-ups aware of the importance of Austrian standards (ÖNORM), as well as European standards and ISO standards, for their innovation processes. It aims to assist start-ups in bringing their products and services to market and in growing sustainably.

The ASI’s start-up package is customised to meet the needs of the innovative start-up community. It allows young entrepreneurs to draw on existing standards and best-practice solutions even in the set-up phase. The start-up package includes:

- a free info check: employees of ASI discuss with start-ups which existing standards could support and help them in a specific market
- an initial set of freely selectable standards at a reduced flat rate for getting started
- reduced participation fees for seminars and courses for quickly acquiring the know-how needed
- success stories of Austrian enterprises applying standards.

The ASI also co-organises start-up events and sometimes hosts them at its premises, including a three-day international pitching event in October 2018. At this event, young entrepreneurs can present their ideas, but also get feedback from ASI experts on how to

benefit from standards to grow their start-up.

Sources: Austrian Standards (2018<sup>[33]</sup>), *Standards Support Start-ups Right from the Start*, [www.austrian-standards.at/en/newsroom/release/standards-support-start-ups-right-from-the-start/](http://www.austrian-standards.at/en/newsroom/release/standards-support-start-ups-right-from-the-start/); Austrian Standards (Austrian Standards, 2018<sup>[34]</sup>), *Start-up Package*, [www.austrian-standards.at/en/products-services/managing-standards-professionally/weitere-informationen-speziell-fuer-ihren-bedarf/start-up-package/](http://www.austrian-standards.at/en/products-services/managing-standards-professionally/weitere-informationen-speziell-fuer-ihren-bedarf/start-up-package/).

## Enterprise skills (Dimension 8a)

With a score of 3.40, Albania is among the top performers in the region for this dimension (Table 13.16).

**Table 13.16. Scores for Dimension 8a: Enterprise skills**

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 8a: Enterprise skills	Sub-dimension 8a.1: Enterprise skills	Planning and design	3.50	3.38
		Implementation	3.50	2.83
		Monitoring and evaluation	3.00	2.29
		<b>Weighted average</b>	<b>3.40</b>	<b>2.87</b>
<b>Albania's overall score for Dimension 8a</b>			<b>3.40</b>	<b>2.87</b>

### State of play and key developments

Labour skill shortages in Albania have been reported as a severe constraint for companies (UNESCO, 2017<sup>[35]</sup>). There is also evidence of an inadequate supply of skills in the labour market, largely due to the lack of preparation and training in the pre-university education system (World Bank, 2015<sup>[36]</sup>). Since 2018, Albania has been moving forward with implementing smart specialisation,<sup>12</sup> for which a sufficient stock of quality skills are important, particularly for growing enterprises and export-oriented companies.

Albania received support under the EU's Instrument for Pre-Accession Assistance (IPA 2007) to develop and conduct annual TNAs in order to ensure a regular overview of current and future SME training needs and develop a guiding framework. The Business and Investment Development Strategy (BIDS) foresees the biennial collection and analysis of SME training needs, including disaggregated data on women entrepreneurs. This role was entrusted to AIDA in 2010. However, the decision was not accompanied by budgetary resources and in practice no further SME TNAs have been conducted.

The National Employment Service (NES) implements a wider employers' survey which is carried out biennially when donor funding is available. The survey does not address the specific management training needs of the owners of SMEs, though it does distinguish between Albanian-owned and foreign or joint ventures. The 2017 Skill Needs Analysis, conducted in all 12 regions, identified skills shortages and the occupations where employees lack the required skills or are hard to recruit. The results of the TNA reveal significant skills gaps, with 38% of micro, 55% of small, 56% of medium-sized and 65% of large companies reporting unsuitable qualifications among jobseekers as their major employment-related concern. The survey also analysed the extent of in-company training provision. Training levels are much higher in foreign-owned or joint ventures.

AIDA is at the helm of most financial support mechanisms and co-ordinates donor support to pre-start-ups, youth and women's start-ups. However, the BIDS' strategic objective of increasing SME competitiveness and stimulating new enterprises is not matched by the size and visibility of funds allocated to the entire growth pipeline from the seed stage onwards.

### *The way forward for Dimension 8a*

Although Albania is doing well in this dimension, the following challenges remain:

- **Maximise the value of overall skills intelligence by establishing a dedicated and fully resourced co-ordinating body.** Ensure AIDA has the necessary resources (human and technical) to conduct SME TNAs in practice and to engage ministries and agencies at different levels of government, the private sector and civil society in contributing to policy design, implementation, donor co-ordination and the monitoring of SME skills. Alternatively, the NES's survey could be expanded to collect intelligence on SME-specific training needs which would allow decision makers to match training provision with the requirements of SMEs, to improve training participation and effectiveness.
- **Expand TNAs to identify the specific management training needs of SME owners.** Albanian SMEs, and in particular the many micro and rural companies, need to improve their innovation and growth capacity. AIDA's TNA should be expanded to identify and target the specific training needs of SME owners. The capacity to innovate requires a complex set of skills, networks and processes which the government should nurture through training, coaching, mentoring and networking.
- **Expand training provision in order to ensure adequate supplies of skills in the labour market.** In view of global competition and in preparation for EU accession, the government should explore options for allocating additional resources to ensure that SMEs' sustainability and growth are not hindered by skills gaps, including in key competences. Investments, possibly through AIDA, could target business skills through training and coaching SMEs, and vocational or professional skills for specific sectors once they are identified through the smart specialisation approach.
- **Encourage co-operation between education and businesses through easy access to information.** Currently several online platforms provide information on training opportunities to SMEs, such as the online job portal "DUAPUNE" and the Chamber of Commerce and Industry of Tirana (also through Facebook). Albanian SMEs would benefit from a single source of information about SME policies, training and funding, good practice, information and contacts. Closer co-operation at sector or regional/local level between SMEs and education and training providers could be an important part of the solution for strengthening SME skills for growth and competitiveness. As AIDA is in charge of co-ordinating most of the existing financial support mechanisms, it could take on this role.

## Innovation policy for SMEs (Dimension 8b)

Albania is a mid-level performer on innovation policy in the region, being ranked fifth out of the seven WBT economies for this dimension. With a comparable score to Montenegro (2.53), Albania only outperforms Kosovo\* (2.40) and Bosnia and Herzegovina (1.86). It has effectively stagnated since the 2016 assessment, with its score rising from 2.38 to 2.48 in 2019 (Figure 13.1). There are no particular areas of innovation policy in which Albania stands out as it scores close to the regional average across all sub-dimensions (Table 13.17).

**Table 13.17. Scores for Dimension 8b: Innovation policy for SMEs**

Dimension	Sub-dimension	Thematic block	Albania	WBT average	
Dimension 8b: Innovation policy for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	3.60	3.46	
		Co-ordination of innovation policy	2.33	2.97	
		Implementation of innovation policy	2.57	3.04	
		<b>Weighted average</b>	<b>2.83</b>	<b>3.15</b>	
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	1.71	2.99	
		Technology extension services for established SMEs	2.50	1.74	
		<b>Weighted average</b>	<b>2.03</b>	<b>2.49</b>	
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	3.80	3.76	
		Indirect financial support	1.00	1.38	
		<b>Weighted average</b>	<b>2.68</b>	<b>2.81</b>	
	Sub-dimension 8b.4: SME and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	2.00	2.52	
		Institutional infrastructure for industry-academia co-operation	1.80	2.72	
		Intellectual property rights	2.50	3.00	
		<b>Weighted average</b>	<b>2.02</b>	<b>2.70</b>	
	<b>Albania's overall score for Dimension 8b</b>			<b>2.48</b>	<b>2.86</b>

### *State of play and key developments*

#### *Policy framework for innovation*

The policy framework for innovation in Albania is spread across three documents: the National Strategy on Science, Technology and Innovation (2017-2022); the Business and Investment Development Strategy (2014-2020); and the Innovation Action Plan of the Policy Framework for Innovation (2017-2022), which was prepared in co-operation with the OECD. The government plans to establish a working group on innovation to co-ordinate innovation policy horizontally but this group has not yet been formed. In the meantime the Council of Higher Education and Scientific research is the key advisory

\* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

body to the government on innovation policy. Several agencies play some role in implementing innovation policies in Albania, including NAIS, AIDA and the Agency for Research, Technology and Innovation (ARTI). However, there is little co-ordination among these agencies and they all have very limited resources to implement programmes.

#### *Government institutional support services for innovative SMEs*

Albania has no public incubator support programmes. Until recently, the Innovation Hub in Tirana provided some support for young entrepreneurs and was funded by the Italian-Albanian debt-for-development swap programme but it ceased operations in 2017. It is expected to reopen but details of its future activities or funding sources are still unavailable.

Despite the lack of public funding to support innovation infrastructure, some donor-funded incubator and accelerator programmes do still exist. Notable examples include the Korca Incubator Center Oficina Accelerator Programme, PROTIK, the Albanian Innovation Accelerator, and the virtual business incubator Marin Barleti.

AIDA offers technology extension services in the form of technology audits performed by staff who have been trained as technology brokers. However, AIDA is in the process of restructuring its support for innovative SMEs in light of the independent evaluation conducted by GIZ (see Section 0 for more information). This study concluded that its existing programmes are ineffective and put unnecessary administrative burdens on companies, explaining the generally low interest in these types of support (Memi and Shkodrani, 2017<sup>[32]</sup>). One of the recommendations of the report was to merge all funds into one instrument which would then provide substantial support to the best proposals.

#### *Government financial support services for innovative SMEs*

Since 2013, AIDA has been running the Innovation Fund, providing financing for innovative companies. Prior to 2018, AIDA had been giving grants, known as innovation vouchers, of up to ALL 350 000 (approximately EUR 2 700), covering up to 85% of project costs, but there was little interest in this instrument due to the administration involved. A total of 29 companies were funded through this programme over the period 2013-18.

In 2018, the government allocated ALL 15 million (approximately EUR 115 000) to the fund. Enterprises can now benefit from up to ALL 400 000 (approximately EUR 3 100) for a project, and ALL 600 000 (approximately EUR 4 700) for the purchase of technological equipment. Grants can cover up to 50% of total costs within these limits.

Due to the generally low interest shown in its co-financing schemes, AIDA has started organising awareness-raising activities called Info Days; in 2018 it organised a total of six events in different municipalities.

No indirect financial support exists in the form of research and development (R&D) tax incentives other than reduced tax rates for SMEs involved in software production.

#### *SME and research institution collaboration and technology transfer*

Albania has no programme to directly fund business-academia collaboration although both businesses and research organisations are eligible to apply for ARTI calls for proposals (which are limited in the amount of funding offered due to low budget allocations). In 2015, AIDA organised, in partnership with the OECD, a pilot triple-

helix<sup>13</sup> competition which brought together 25 consortia consisting of business, academia and government representatives to develop project proposals. Three of the best proposals were supported. The government plans to continue this competition as a way of forging co-operation among these three key groups of stakeholders.

No universities have technology transfer capacities. However, there are five established government agriculture technology transfer centres which provide agriculture businesses and farmers with agriculture extension services. With regards to intellectual property (IP) regulation, a general legal framework for IP exists but it does not define ownership of IP produced through publicly funded research.

### *The way forward for Dimension 8b*

Many challenges remain in boosting SME innovation in Albania:

- **Create well-designed, properly funded and reliable financing instruments.** Rather than spreading scarce government resources over several funding instruments – which generate little interest from businesses and do not provide sufficient funding to accomplish proposed objectives – focus on creating one instrument, designed according to good practices, which gives the best companies enough seed funding to conduct proof-of-concept and R&D activities. Ensure that decision making is performed in an independent and expert manner and regularly monitor and evaluate these instruments.
- **Improve co-ordination of innovation policies.** With a number of agencies and ministries having some link to innovation policy, a horizontal co-ordination mechanism is needed. Placing this co-ordination at a high political level would also ensure that innovation is at the heart of economic policies.
- **Further advance collaboration between business and academia.** Albania lacks many elements of an innovation ecosystem, including technology transfer offices, business incubators, accelerator programmes, and science and technology parks. In general, innovation support organisations such as these can help bring together actors in the innovation ecosystem and can support business-academia collaboration, knowledge transfers and commercialisation activities. When funding is limited, centralised technology transfer capacities (in the largest university or linked to one of the agencies) can help perform this function for all research institutions. Rather than establishing incubators or constructing buildings to create science and technology parks, the government could use its resources more efficiently to support the best private sector initiatives in this area.

## SMEs in a green economy (Dimension 9)

With a score of 1.98, Albania is among the lowest performers in the WBT for this dimension, alongside Kosovo. Having scored 2.29 in 2016 (Figure 13.1), its performance has slightly deteriorated – however, due to the changes in the assessment methodology, the drop in score suggests this policy area has stagnated (Table 13.18).

**Table 13.18. Scores for Dimension 9: SMEs in a green economy**

Dimension	Sub-dimension	Thematic block	Albani a	WBT average	
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	3.40	3.81	
		Implementation	1.80	2.56	
		Monitoring and evaluation	1.50	2.12	
		<b>Weighted average</b>	<b>2.22</b>	<b>2.85</b>	
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	1.67	2.32	
		Implementation	2.17	2.76	
		Monitoring and evaluation	1.00	1.72	
		<b>Weighted average</b>	<b>1.78</b>	<b>2.42</b>	
	<b>Albania's overall score for Dimension 9</b>			<b>1.98</b>	<b>2.61</b>

### State of play and key developments

#### *Framework for environmental policies targeting SMEs*

In Albania, environmental policies for SMEs are included in the SME strategy – BIDS 2014-20. Resource efficiency, cleaner production and eco-innovation are at the core of the SME greening measures included in this strategy. In particular, it emphasises the need to increase the range of ecological products created through the effective use of resources for cleaner production. The main target in this area is to increase the percentage of companies applying cleaner production processes by 2020 to 3-5%. However, no concrete measures have yet been defined or implemented to achieve this goal.

The one concrete measure related to SME greening in the BIDS is awareness raising about the further development of eco-products and services, eco-labelling, recycling and eco-certification. However, there is no evidence that these activities have ever been carried out.

Even though the government has not expressly prioritised a green economy, it did make some positive moves in this area during 2018. The new Environmental Cross-cutting Strategy (2018-2022) was adopted, albeit after a two-year delay after the previous strategy expired. It focuses on raising awareness on SME greening and increasing resource efficiency. The new waste management strategy (2018-33) also contains environmental policies for SMEs.

Even though Albania's green SME policies are mostly well designed, they rarely translate into concrete actions. This is in part due to restricted government funding earmarked for the implementation of greening measures, meaning international agencies and donor agencies are regularly approached to explore co-financing possibilities. Eventually, the volatility of allocated funds causes frequent interruptions and delays in programme implementation, and hampers overall performance.

The National Agency of Environment of Albania, established in 2014, is the main national body for environmental monitoring, assessment and environmental reporting. It provides information and advice on how to enhance environmental performance, but these activities target the general public rather than enterprises.

### *Incentives and instruments for SME greening*

During the reference period, Albania did not establish any mechanisms to provide financial incentives to encourage SME greening. The same applies to regulatory instruments and green public procurement policies, which continue to be unused in Albania.

### ***The way forward for Dimension 9***

Some measures related to SME greening are being introduced but their implementation remains limited. The government is recommended to focus on the following measures:

- **Ensure the effective implementation of the planned SME greening measures.** Although environmental policies specifically designed for SMEs have become part of the SME strategy for the first time, these stated objectives should be transformed into concrete actions through regular implementation. The government is recommended to identify, or create, a government unit whose main responsibility would be to ensure that these activities are actually being undertaken. This task could be entrusted to AIDA, which is already in charge of SME policy implementation.
- **Step up efforts to raise awareness of the benefits of greening activities among SMEs,** such as cost savings and increased productivity. Such activities have already been introduced in the SME strategy but have not been implemented. The government is therefore recommended to organise workshops and training, distribute successful case studies, and disseminate guidance on how to improve environmental performance. The National Agency of Environment of Albania, which already conducts some of these activities for the general public, could also devise tailored guidelines and organise specific activities directed at SMEs. An interesting example on how to go about these measures effectively is offered by Ireland's Environmental Protection Agency (Box 13.7).

#### **Box 13.7. Green Business Ireland: Raising awareness of greening advantages to SMEs and enhancing resource efficiency**

In 2011 the Environmental Protection Agency of Ireland formed the Green Business Programme under its National Waste Prevention Programme. Its aim was to deliver substantive resource efficiency improvements and cost savings through waste prevention and reductions in water and energy consumption. The programme is managed by the Clean Technology Centre (CTC) at the Cork Institute of Technology. The CTC, established in 1994, has a team of experts in resource efficiency and waste prevention.

The Green Business Programme provides a range of services to help SMEs increase their resource efficiency: site visits, guidance documents, online tools, seminars and community networking. By registering at [www.greenbusiness.ie](http://www.greenbusiness.ie) and using the online audit tools, users can start to measure their resource use and identify where savings could

be made. Businesses can request a site visit, during which a Green Business Advisor will visit their premises and identify free and low-cost measures that will lead to cost savings. The service is free of charge, and operated by the CTC on behalf of the Environmental Protection Agency.

To date, with an annual budget of EUR 350 000, the Green Business Programme has visited 270 enterprises from a range of sectors (food processing, banking, public sector, small retailers) and identified an estimated EUR 10 million of savings for its member enterprises (EUR 6.2 million in energy, EUR 2.7 million in waste and EUR 1.2 million in water). The individual savings identified ranged from EUR 2 000 to EUR 200 000.

Some of the lessons learned from the experience of Green Business is that SMEs are not monitoring their utility costs and are unaware of the extent of waste. In addition, they are unaware of the opportunities to reduce waste at no cost or low cost as well as the opportunities to improve their bottom line and enhance their image. They often also have no awareness of the assistance available to improve their environmental performance.

The example of Green Business demonstrates how a cost-efficient and effective support mechanism can be designed, involving co-operation between the government and academia, which brings various benefits just by identifying potential savings that businesses are usually unaware of. The model underlines the importance of providing advice and guidance to SMEs to “go green”.

*Sources:* Green Business Programme (2017<sup>[37]</sup>), *GreenBusiness website*, <http://greenbusiness.ie/>; EPA (2018<sup>[38]</sup>), *Green Business Initiative*, [www.epa.ie/waste/nwpp/gbi/](http://www.epa.ie/waste/nwpp/gbi/), EPA (2018<sup>[39]</sup>), *National Waste Prevention Programme*, [www.epa.ie/waste/nwpp/](http://www.epa.ie/waste/nwpp/).

- **Use efforts to promote and support innovation to also target eco-innovation.** The promotion of eco-innovation is one of the key SME greening measures in the BIDS. In parallel, the government has also strongly emphasised promoting innovation more widely, and building a system that would provide financial support to innovative SMEs through the introduction of voucher schemes. Linking these efforts and introducing eco-innovation in the government innovation portfolio would be highly advantageous both for SMEs and society as a whole. Eco-innovative enterprises could benefit from both financial and non-financial support schemes, and there would be no additional cost to the government.

## Internationalisation of SMEs (Dimension 10)

Albania has fallen considerably behind the other WBT economies in this dimension. Its score substantially decreased over the assessed period, from 3.23 to 2.68 (see Figure 13.1). The initiatives it does have are weakly supported with few programmes in place.

**Table 13.19. Scores for Dimension 10: Internationalisation of SMEs**

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	5.00	4.86
		Implementation	4.29	4.24
		Monitoring and evaluation	3.71	3.01
		<b>Weighted average</b>	<b>4.39</b>	<b>4.18</b>
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	1.40	3.58
		Implementation	1.00	3.08
		Monitoring and evaluation	1.00	1.76
		<b>Weighted average</b>	<b>1.12</b>	<b>2.97</b>
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	3.29	3.45
		Implementation	1.00	2.26
		Monitoring and evaluation	1.00	1.36
		<b>Weighted average</b>	<b>1.69</b>	<b>2.44</b>
<b>Albania's overall score for Dimension 10</b>			<b>2.68</b>	<b>3.43</b>

### State of play and key developments

The cost of border compliance increased for both imports (from USD 52 to USD 77) and exports (from USD 30 to USD 55) over the period 2014-17 (World Bank, 2017<sub>[40]</sub>). Albania increased both the time and costs needed for border compliance in 2017, when it made trading across borders more difficult by introducing mandatory scanning inspections for exports and imports (World Bank, 2018<sub>[41]</sub>).

However, SMEs have improved their trade performance, increasing their share of exports from 47.1% to 61.2% over the period 2014-17.

### Export promotion

The BIDS, which was developed through formal consultation with the private sector, outlines Albania's export promotion programmes.<sup>14</sup> AIDA has been implementing export promotion activities since 2010. Despite having operational autonomy to carry out its activities, AIDA has relatively limited funds and only five employees dedicated to export promotion. It has a fully government-funded annual budget of EUR 95 000 for export promotion. It also provides technical support, covering the provision of market information, assistance in drafting marketing plans, and identifying SMEs' needs and training deficiencies.

Since 2007, export promotion activities have been financed by the Albanian Competitiveness Fund, managed by AIDA. In 2017, 77 SMEs benefitted from financial support for export promotion through the fund. Support to SMEs included covering 70% of export costs related to product improvements (e.g. packaging, product conformity and certification), international trade fair participation and promotional materials.

AIDA's Board of Directors and the Ministry of Finance and Economy regularly monitor its activities for effectiveness in achieving exports, and an independent evaluation of the funds used by AIDA has been carried out (see Box 13.5).

Albania also provides support for the exports of goods and services through Export Credit Guarantee Funds. SMEs are increasingly using trade finance, as all major banks and some non-bank financial institutions provide trade finance loans, guarantees and letters of credit.

### *Integration of SMEs into global value chains*

Albania does not yet have an official government programme in place to support SMEs' integration into global value chains. Albania's BIDS foresees support for industrial cluster development, although there have not yet been any tangible results and AIDA has not made any financial support for clusters available so far.<sup>15</sup> AIDA has held workshops on the theme of cluster development. It also provides services for foreign investors seeking partnerships with enterprises by actively encouraging SME participation in cluster matchmaking events.<sup>16</sup>

In the meantime, the perception of cluster development in Albania improved between 2014 and 2018, according to the World Economic Forum's *Global Competitiveness Index*. However, Albania still had the lowest perceived level of cluster development of all WBT for which data was available in 2018 (WEF, 2017<sup>[42]</sup>).

To boost links among SMEs, Albania has created an online business-to-business (B2B) platform to help SMEs identify and connect with potential partners, and share information on trade fairs and activities.

Despite the lack of continuous government programmes, a variety of export-oriented activities have been carried out by different entities. During European SME week, the Ministry of Finance and Economy, in co-operation with the Albanian Institute of SMEs, organised the Speed Up to Europe event, which also covered the topic of quality standards for Albanian products. The event relayed key support services to over 60 representatives from the private sector. The EBRD has been co-operating with the Albanian Consulting Network to implement an EU-funded advisory project to help Albanian SMEs access capacity building and know-how by establishing links to local and international consultancy services firms.

The Italian-Albanian Programme for Private Sector Development in Albania has been carried out with support from both governments. The programme provides financial and non-financial tools to assist beneficiary SMEs to invest in improving the quality of their manufacturing processes.

### *Promoting the use of e-commerce*

Albania is one of the WBT economies furthest behind in its promotion of e-commerce. It has no institution responsible for promoting for e-commerce, nor any centralised website providing easily accessible information about it. The B2B platform it has established could help promote e-commerce and the Competitiveness Fund offers financial assistance to SMEs for the design of web pages, the development and promotion of e-commerce, and the design and publication of promotional materials.

The current Digital Agenda of Albania 2015-2020 (see Section Operational environment for SMEs (Dimension 4)) does contain an ambitious e-commerce strategic target of

increasing the share of businesses using e-commerce to 50%, but there are not yet any concrete programmes in place to meet it.

Albania has offered financial support programmes for e-commerce and e-business in the past but the programmes largely failed due to the relatively low amount of money offered per applicant (OECD, 2016<sup>[14]</sup>). Currently, there are no mechanisms to inform SMEs about e-commerce or support them in implementing it. Although they can apply for funds for e-commerce investment through the Competitiveness Fund, no funds have been disbursed to SMEs for this purpose during the assessment period.

Albania's current law on e-commerce was adopted in 2008; the authorities are revising the law, and a draft is currently undergoing consultation. Meanwhile, the legislative framework on e-signature complies with the EU framework (OECD, 2016<sup>[14]</sup>). It has also adopted a consumer protection strategy, although its implementation has been deemed weak (OECD, 2016<sup>[14]</sup>).

### *The way forward for Dimension 10*

Albania could strengthen its support for the internationalisation of SMEs through the following measures:

- **Centralise information on exiting efforts to boost SME exports** by leveraging the government's networking capacity. Current efforts to provide support services for SME internationalisation are fragmented and carried out by a range of actors. AIDA could use its website, and particularly its B2B platform, to ensure the open and constant flow of information to SMEs.
- **Develop a holistic approach to supporting SME integration into global value chains** through programmes that promote supplier development and cluster linkages for SMEs. Albania could build upon its provision of information to provide targeted support for coaching and mentoring SMEs in key areas such as design and production engineering to reach the standards of their target markets. This may include sending in technical teams to advise on upgrading as well as helping SMEs to develop their capacity to negotiate with multinational enterprises (MNEs) to establish and improve their supplier development programmes (UNCTAD, 2010<sup>[43]</sup>; OECD, 2008<sup>[44]</sup>). In particular, matchmaking services between SMEs and MNEs based on MNE needs and SME competences could facilitate the formation of MNE-SME linkages. The comprehensive supplier development programme implemented by the Czech Republic represents a very successful example of strengthening linkages between MNEs and SMEs, and enhancing SMEs' capacities to export (Box 13.8).
- **Ensure a sound legal and operational environment to support e-commerce** by further harmonising the laws on e-commerce with the EU framework and by promoting ICT coverage and adoption among SMEs as envisioned under Albania's Digital Agenda. Albania should bolster the initiatives it has proposed with a solid action plan that sets out clear measures and steps to be taken, with corresponding impact indicators

### **Box 13.8. The Czech Republic's Supplier Development Programme**

The Czech Supplier Development Programme in Electronics and Automotive was implemented by CzechInvest between 2000 and 2002. The programme aimed at improving the competitiveness of Czech SMEs to the level required to enter global value chains by becoming suppliers to MNEs. A related objective was to develop a local world-class supplier base.

A dozen MNEs were involved throughout the project and 45 SMEs received targeted training based on needs discovered during business reviews. The MNEs were closely involved from the outset. They were asked to nominate companies for the programme, although other sources were also used to identify companies with potential which had had no or little contact to date with MNEs. In total, 200 companies were reviewed in detail, of which 73 were invited to participate.

A two-day business review was undertaken in each of the 45 companies. This was based on the European Foundation for Quality Management model and looked at the whole business. In addition to focusing on the most important areas of performance to meet MNE requirements, the aim was to get participation and buy-in from company management and convince them of the value of a process, which would require a major commitment of management time if it was to be worthwhile.

The main output of the business review was a short-term (six months) self-improvement action plan. This was essentially about helping companies to help themselves, working with company management to benchmark them against MNEs' international standards and competitive requirements, and to review the way forward for their business. To help the companies implement their short-term action plans, a series of general workshops was held, focusing on the key areas for improvement identified in the first round of business reviews. These tended to be in softer management skills and awareness rather than technical skills; the two broad themes of the workshops were strategy and change, and operational efficiency.

At the end of the six months, a second round of one-day business reviews was undertaken, solely by the external assessors, to gather the information needed to select 20 companies for the final intensive support phase. The project established a selection system that was as objective and transparent as possible, balancing companies' current performance and capability, and their commitment and capacity for improvement demonstrated between the two business reviews.

This final phase was the crucial stage in developing the companies to meet internationally competitive standards. It provided individually tailored and targeted one-to-one support, as opposed to the more general support given up to that point. This was delivered by an individual mentoring team for each company, consisting of an EU expert lead mentor and a Czech independent consultant (thus ensuring the transfer of skills and experience for future programmes, as well as giving the advantages of local knowledge and language). This phase lasted six months within the formal pilot, but continued thereafter.

All the business reviews and other support were free, but companies joining this stage of the programme were charged a small standard fee of CZK 50 000 (Czech koruna, about USD 1 600 at the time), to establish the principle of charging in line with best EU practice – where similar support was normally provided on a matched funding basis. All

companies in the programme continued to receive general support.

The Czech Supplier Development Programme succeeded in strengthening local companies' skills and enhancing the benefits of FDI to the local economy. Suppliers have upgraded their processes and products. The business reviews showed an increase in company performance in the areas required to meet MNE requirements. An evaluation 18 months after the end the programme surveyed all 45 companies participating in the pilot. It found that 15 companies had gained new business which they attributed to the programme, with contracts worth a total of USD 46 million for the period 2000-03. Four companies had also found new customers abroad, and three had obtained contracts for higher value-added content. The share of components sourced from Czech companies by the MNEs participating in the programme increased from a range of 0%-5% at the start to 2.5%-30% by 2004.

Source: WEF (2016<sup>[45]</sup>), *Manufacturing our Future: Cases on the Future of Manufacturing*, [www3.weforum.org/docs/GAC16 The Future of Manufacturing report.pdf](http://www3.weforum.org/docs/GAC16/The_Future_of_Manufacturing_report.pdf).

## Conclusions

Albania's implementation of the Small Business Act has progressed moderately since the publication of the *SME Policy Index 2016: Western Balkans and Turkey*. It currently fares worse than its regional peers in the majority of the policy dimensions.

Implementation of its SME strategy has slowed down, and little has changed in terms of financial and technical support. Despite this stagnation, Albania still boasts one of the most efficient delivery of public services for businesses, creating an environment in which SMEs can thrive. It has embraced digitalisation to reduce administrative burdens and in many areas the legal framework has been strengthened and brought closer to the *EU acquis*.

In the future, Albania needs to revisit its blanket financial schemes designed to foster SMEs competitiveness, and target them towards the most pressing challenges experienced by Albanian SMEs

## Notes

<sup>1</sup> The first eight months of 2017.

<sup>2</sup> The WBT region refers to the six pre-accession Western Balkan economies (Albania, Bosnia and Herzegovina, North Macedonia, Kosovo, Montenegro, and Serbia) and Turkey. Unless otherwise specified, reference to the "region" in this publication implies these seven economies.

<sup>3</sup> The *Corruption Perceptions Index* ranks countries and territories "by their perceived levels of corruption, according to experts and businesspeople. It uses a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean" (Transparency International, 2019<sup>[12]</sup>).

<sup>4</sup> According to INSTAT, investments during the reference period covered those goods, whether bought from third parties or produced for own use, with a useful life of more than one year, including non-produced tangible goods such as land.

<sup>5</sup> Tirana and Durrës districts have the highest percentage of value added in almost all sectors of economic activity. However, the mining and quarrying sector has the highest share of value added,

at 57.4%, in Fier district. In electricity, gas, water supply and waste management, Tirana and Fier districts have the highest share of value added at 37.4% and 11.2% respectively.

<sup>6</sup> In EU countries, SME envoys are appointed by the national government to report on the uptake of the SBA and to promote SMEs' interests through government bodies. The pre-accession countries do not have such SME envoys.

<sup>7</sup> The law provides three sale options: 1) sale of business as a going concern; 2) sale of independent business units; and 3) piecemeal sale of assets.

<sup>8</sup> The administration in charge of company registration and licences and permits – for more information see Section 0.

<sup>9</sup> These standards cover several important areas including 1) the reporting standards, which will provide transparency to the proceedings; 2) the sale of assets from the bankrupt estate (currently there is no rule for the sale of a business as a going concern or of independent business units and no provision for electronic auctions); 3) the liquidation valuation standard for assessing assets from the bankrupt estate, in order to allow the special automatic rules for approval of reorganisation plan voting to be triggered; 4) the monitoring standard; 5) the auditing standard; 6) the licensing/delicensing standard; 7) the disciplinary sanctions standard; 8) third-parties' liability insurance; and 9) the fees and awards of the bankruptcy administrator, custodian, expert etc.

<sup>10</sup> S&P's Financial Literacy Survey covers more than 140 countries asking the population about four basic financial concepts. Further information can be found here: <http://gflec.org/initiatives/sp-global-finlit-survey/>

<sup>11</sup> Eurocodes are the European Standards for the design of buildings. They cover the most common materials and structures, including bridges.

<sup>12</sup> Smart specialisation originated in the EU as a concept for stimulating innovation driven regional growth. Smart specialisation strategies are about enabling regions to turn their assets, strengths and competitive advantages into marketable goods and services, and, finally, economic growth. Human capital, knowledge dissemination and transfer, as well as support to entrepreneurship are all key elements in successful implementation of smart specialisation strategies. For more information, please see Chapter 12 on enterprise skills and Box 13.1 in Chapter 13 on innovation policy for SMEs.

<sup>13</sup> The Triple Helix model encompasses trilateral relationships among industry, government and universities in the process of knowledge capitalisation (Etzkowitz, 2002<sub>[50]</sub>).

<sup>14</sup> This was covered in the previous assessment (OECD, 2016<sub>[51]</sub>).

<sup>15</sup> In the past, AIDA was a project partner of the Nucleus Cluster POLISEE (SEE), a European project that aims to develop and increase the capacity of clusters of enterprises in South East Europe. The project is financed by the European Commission through the SEE Programme, and was extended from May 2012 to October 2014. AIDA was the Albanian partner in this ambitious two-year project bringing together 25 partners from 11 countries.

<sup>16</sup> Most recently, AIDA promoted awareness at the Cluster Matchmaking Conference on 21-22 September 2018, held in Stuttgart, Germany; and the EU-Western Balkans Cluster Policy Learning and Matchmaking Event in Zagreb, 22 and 23 November 2018, held in Croatia.

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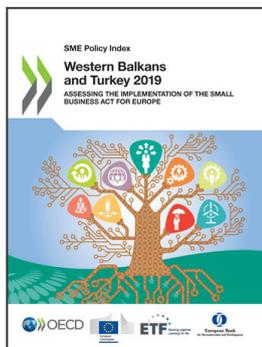
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